

BOOKS OF ACCOUNTS

Learning Objective

- To identify the uses of the two books of accounts: journals and ledgers

Key Understanding

- Knowledge on the uses of the two books of accounts, journals and ledgers, is significant in the accounting process

Key Question

- What are the uses of journals and ledgers?

Journals

- A *journal* is a chronological record of all company's transactions listed by date. It is often referred to as the *book of original entry*. This is because the business transaction is first recorded in this book. The recording of financial information into the journal is known as the process of *journalizing*.
- General Journal.** The general journal typically displays the transaction's date, account titles and explanations, references, and respective amounts of corresponding accounts. A sample format of a journal is shown as follows.

Date	Account Titles and Explanation	Ref	Debit	Credit
①	②	③	④	⑤
2016	Cash	101	200000	
January 1	Shayne, Capital <i>Owner's investment of cash in the business</i>	301		200000
January 2	Property, Plant & Equipment Shayne, Capital <i>Owner's investment of equipment in the business</i>	140 301	50000	50000
January 3	Inventory Cash <i>Purchase of inventories from supplier through cash</i>	121 101	20500	20500
January 4	Accounts Receivable Sales <i>Sale of inventories to customer on account</i>	111 400	50000	50000
	Cost of Goods Sold Inventory <i>Sale of inventories to customer</i>	500 121	15000	15000

- Date.** The date at which the transaction occurred.
- Account Titles and Explanation.** The account to be debited and the account to be credited is recorded. The account titles are referenced to the Chart of Accounts as discussed in the previous chapter. Correct and proper usage of the account titles are necessary for a clear and accurate presentation of amounts in the financial statements. In the given illustration, account titles used are (1) Cash, (2) Property, Plant & Equipment, (3) Shayne, Capital, (4) Inventories, etc. Notice that accounts credited are indented. Also, a brief explanation of the business transaction is described. In the March 1 journal entry, a brief explanation was stated as follows: Owner's investment of cash and property in the business.

- 3 **Reference Number.** Reference number of each account journalized. The Ref column is left blank during the journalizing process and is filled out during the posting process.
- 4 **Debit.** Corresponding amount of the account debited is entered. In the March 1 journal entry, the accounts Cash and Property, Plant & Equipment are debited for 30 000 and 20 000, respectively.
- 5 **Credit.** Corresponding amount of the account credited is entered. In the March 1 journal entry, the account Shayne, Capital is credited for 50 000.

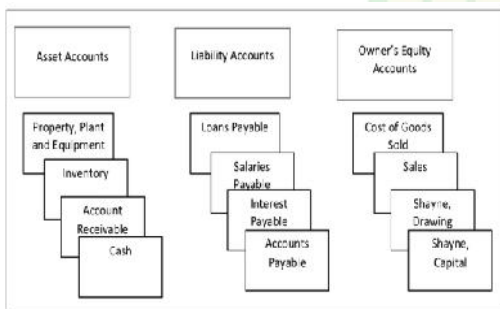
- First, it shows a chronological record of the company's transactions. Through the journal, companies can easily detect if there are missing or unrecorded transactions. Like a person's diary, the journal narrates the different business dealings of the company by date of occurrence.
- Next, it discloses the full effect of each of the transaction per entry. Like in the first journal entry of the given illustration, we can easily identify that the transaction has an effect on the company's assets (Cash and Property, Plant & Equipment) and equity (Shayne, Capital).
- Lastly, the journal serves as a check-and-balance tool of the company. It provides the transaction's corresponding debits and credits. We know from the preceding chapters that the debits should always equal the credits of each entry. As such, each entry in the journal helps prevent and locate errors as the debits and credits can be easily compared.

Ledgers

- After journalizing the business transactions in the general journal and special journals, the company will now proceed to the process of *posting*.
- Posting involves the transferring of journal entries to the ledger accounts to bring together the effect of the transactions to the individual accounts of the company.
- The ledger is the grouping of all accounts of a company showing its respective outstanding balances. It is also called the *book of final entry* of accounting transactions. It presents the changes in specific account balances like cash, accounts receivable, accounts payable, etc. All account balances presented in the financial reports of the company are derived from the ledger. The two kinds of ledgers are the *general ledger* and the *subsidiary ledgers*.

Ledgers

- **General Ledger.** It contains all the asset, liability, and owner's equity accounts of the company. Unlike journals that are arranged chronologically (regardless of the accounts), the ledgers are usually grouped according to their chart of accounts and arranged according to the order on how they appear on the financial statements, starting from the asset accounts, followed by the liability accounts, and finally, the equity accounts including the revenues and expenses accounts as shown in the figure. Each account is numbered based on the chart of accounts for easier and faster reference. The general ledger shows the amount outstanding on each of the company's accounts as of a certain date.



- Using the information from the sample general journal, a sample format of a general ledger is illustrated as follows.

CASH						NO. 101	
Date	Explanation	Ref	Debit	Credit	Balance		
2-28	Investment of P. Shayne by owner	JL	20,000		20,000		
3	Purchase of merchandise from supplier	JL	10,000	10,000	10,000		
3	Sale of merchandise to customer	JL	50,000		60,000		
4	Collection of customer's accounts receivable	JL	2,500		57,500		
25	Payment of accounts payable to supplier	JL		10,000	47,500		
30	Withdrawal of cash from the business	JL	5,000		42,500		
31	Full sales tax expenses for the month	JL	5,000		37,500		
	Balance				37,500		

ACCOUNTS RECEIVABLE						NO. 102	
Date	Explanation	Ref	Debit	Credit	Balance		
2-28	Sale of merchandise to customer on account	JL	10,000		10,000		
3	Payment of merchandise accounts receivable	JL		10,000			
3	Sale of merchandise from customer	JL	5,000		15,000		
31	Balance				15,000		

INVENTORY						NO. 103	
Date	Explanation	Ref	Debit	Credit	Balance		
2-28	Purchase of merchandise from supplier	JL	10,000		10,000		
3	Sale of merchandise to customer	JL		15,000	5,000		
3	Purchase of merchandise from supplier on account	JL	40,000		45,000		
27	Sale of merchandise to customer	JL		10,000	35,000		
31	Balance				35,000		

PROPERTY, PLANT & EQUIPMENT						NO. 140
Date	Explanation	Ref	Debit	Credit	Balance	
2015						
Jan 2	Owner's investment of equipment in the business	J1	50 000		50 000	
31	Balance				50 000	

ACCOUNTS PAYABLE						NO. 101
Date	Explanation	Ref	Debit	Credit	Balance	
2015						
Jan 8	Purchase of inventories from supplier on account	J1	20 000		20 000	
25	Payment of accounts payable to supplier	J1	30 000		10 000	
31	Balance				10 000	

SHAYNE, CAPITAL						NO. 303
Date	Explanation	Ref	Debit	Credit	Balance	
2015						
Jan 1	Investment of cash by owner	J1	250 000		250 000	
2	Owner's investment of materials	J1	50 000		300 000	
31	Balance				300 000	

SHAYNE, DRAWINGS						NO. 302
Date	Explanation	Ref	Debit	Credit	Balance	
2015						
Jan 20	Withdrawal of cash from the business	J1	5 000		5 000	
31	Balance				5 000	

SALES						NO. 400
Date	Explanation	Ref	Debit	Credit	Balance	
2015						
Jan 4	Sale of inventories to customer on account	J1	50 000		50 000	
22	Sale of inventories to customer	J1	52 000		102 000	
31	Balance				102 000	

SALES RETURN						NO. 401
Date	Explanation	Ref	Debit	Credit	Balance	
2015						
15	Return of merchandise from customer	J1	5 000		5 000	
31	Balance				5 000	

COST OF GOODS SOLD						NO. 500
Date	Explanation	Ref	Debit	Credit	Balance	
2015						
4	Sale of inventories to customer	J1	15 000		15 000	
22	Sale of inventories to customer	J1	18 000		33 000	
25	Return of merchandise from customer	J1		2 500	30 500	
31	Balance				30 500	

SALARIES EXPENSE						NO. 505
Date	Explanation	Ref	Debit	Credit	Balance	
2015						
Jan 31	Paid salaries to employees for the month	J1	5 000		5 000	
31	Balance				5 000	

- Account Title.** The general ledger contains all of the company's accounts and its balances. Each T-account is labeled with its corresponding account title (e.g., Cash, Accounts Receivable, Accounts Payable, Retained Earnings, etc.)
- Ledger Account Reference Number.** With reference to the company's Chart of Accounts, each of the account titles corresponds to a reference number. In the above example, the Cash account is assigned a Reference Number 101 while the Accounts Receivable account corresponds to Reference Number 102.
- Date.** The date of the transaction is also entered in reference to the journal.

- Explanation.** A brief description of the business transaction is defined. This is sometimes omitted since the entries on the journal already provide an explanation of the transaction.
- Reference.** This column displays the journal page number from which the transaction was posted.
- Debit.** Amounts debited to the account are inputted.
- Credit.** Amounts credited to the account are entered.

- Balance.** What distinguished a ledger from the journal is the running outstanding balances provided by the ledger. After every transaction, the balances of each of the accounts are known without the need for further computations. On year end, these balances will be the basis of the amounts presented in the financial statements of the company.

With the illustration, it will be easier for the company to determine the balances of each of its accounts. These are as follows:

Assets	
• Cash	246 500
• Accounts Receivable	21 000
• Inventory	29 000
• Property, Plant and Equipment	50 000
Liabilities	
• Accounts Payable	30 000
Equity	
• Shayne, Capital	250 000
• Shayne, Drawing	2 000
• Sales	110 000
• Sales Return	5 000
• Cost of Goods Sold	31 500
• Salaries Expense	5 000

- The general ledger aids in knowing the balances of each of the accounts at any given time. Unlike the journal, the general ledger classifies the transactions into accounts and provides the outstanding balances of each. Additionally, the general ledger, together with the subsidiary ledgers, serves as a control account to check for errors and misstatements in posting. At month-end or year-end, the company reconciles the balances of its general ledger and subsidiary ledgers.

