Glencoe Accounting

Sample chapter does not always represent final images.
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<td>Advanced Accounting Concepts</td>
<td>A-22</td>
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<td>A-27</td>
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<td>A-45</td>
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<td><strong>CAREER SKILLS HANDBOOK</strong></td>
<td></td>
<td>C-1</td>
</tr>
<tr>
<td><strong>GLOSSARY</strong></td>
<td></td>
<td>G-1</td>
</tr>
<tr>
<td><strong>INDEX A</strong></td>
<td></td>
<td>I-1</td>
</tr>
<tr>
<td><strong>INDEX B</strong></td>
<td>Real-World Applications and Connections</td>
<td>I-12</td>
</tr>
</tbody>
</table>
The Night Agency

Even advertising agencies need to advertise. New York City-based The Night Agency, founded by three Syracuse University graduates, enjoyed early success in 2004 on the streets and in the subways of New York with creative “guerilla-style” campaigns that earned plenty of media attention. Businesses called on The Night Agency for their digital advertising needs; the company has come through with innovative, award-winning campaigns.

Connect to the Business

Accountants for The Night Agency rely on the activities of the accounting cycle to keep accounting records accurate and in order. The records are kept for a certain period of time, usually a year. Just as most school years do not begin in January, the 12-month accounting cycle can begin in any month, depending on the business.

Analyze

If you were just starting an advertising agency, what types of financial information would you record?

FOCUS ON THE PHOTO

With numerous high-profile clients and projects, the daily financial transactions at a busy digital agency like The Night Agency can include everything from paying for advertising to hiring SEO specialists. Why is it important for any business to keep accurate records of daily transactions?
Before You Read

The Essential Question  How do businesses keep permanent records of transactions?

Main Idea
The accounting cycle is a series of steps done in each accounting period to keep records in an orderly fashion. You can use the general journal to record all of the transactions of a business.

Chapter Objectives

Concepts
C1 Explain the first three steps in the accounting cycle. (p. 135)
C2 Give and describe several examples of source documents. (p. 136)

Analysis
A3 Explain the purpose of journalizing. (p. 137)
A4 Apply information from source documents. (p. 139)

Procedures
P1 Describe the steps to make a general journal entry. (p. 140)
P2 Make general journal entries. (p. 140)
P3 Correct errors in general journal entries. (p. 151)
Section 6.1 The Accounting Cycle

In earlier chapters you learned to use the accounting equation and T accounts to analyze business transactions. In this chapter you will learn how to record business transactions in a journal.

The Steps of the Accounting Cycle

What Is the Accounting Cycle?

The accounting period of a business is separated into activities called the **accounting cycle**. These activities help the business keep its accounting records in an orderly fashion. Take a look at Figure 6–1, which describes accounting activities and their sequence.

In this chapter you will use Steps 1, 2, and 3 of the accounting cycle:

1. Collect and verify source documents.
2. Analyze each transaction.
3. Journalize each transaction.

After studying Chapters 3 through 10, you will have covered the entire accounting cycle for a service business organized as a sole proprietorship.
The First Step in the Accounting Cycle: Collecting and Verifying Source Documents

Most business transactions take place during the daily operations of a business. In the course of one day, a business may pay its rent, place an ad in a local newspaper, contract to have a Web site created, pay its employees, sell products, and purchase new equipment. When a business transaction occurs, a paper is prepared as evidence of that transaction. This paper is a source document.

There are several types of source documents that can be prepared by hand, by computer, or by a machine. The type of source document prepared depends on the nature of the transaction. Figure 6–2 describes and illustrates commonly used source documents.

### Invoice
The invoice lists specific information about a business transaction involving the buying or selling of an item on account. The invoice contains the date of the transaction; the quantity, description, and cost of each item; and the payment terms.

### Receipt
A receipt is a record of cash received by a business. It indicates the date the payment was received, the name of the person or business from whom the payment was received, and the amount of the payment.

### Memorandum
A memorandum is a brief written message that describes a transaction that takes place within a business. A memorandum is often used if no other source document exists for the business transaction.

### Check Stub
The check stub lists the same information that appears on a check: the date written, the person or business to whom the check was written, and the amount of the check. The check stub also shows the balance in the checking account before and after each check is written.

---

**Figure 6–2** Source Documents
The business owner, accountant, or accounting clerk (depending on the size of the business) uses source documents generated by business transactions to keep the records of the business. The accounting cycle starts by collecting and verifying the accuracy of source documents.

**The Second Step in the Accounting Cycle: Analyzing Business Transactions**

After collecting and verifying source documents, the second step in the accounting cycle can begin—analyzing information on the source documents to determine the debit and credit parts of each transaction.

You have already learned how to analyze business transactions using the rules of debit and credit. When you learned to analyze transactions, you were given a description of each transaction, such as: Zip Delivery Service bought a computer system from Info-Systems Inc. for $3,000 and issued Check 101 in payment. On the job you will not get a description of the transaction. Instead, you must examine a source document to determine what occurred during a business transaction.

**The Third Step in the Accounting Cycle: Recording Business Transactions in a Journal**

You are now ready to apply information from source documents. The third step in the accounting cycle is to record the debit and credit parts of each business transaction in a journal. A journal is a record of the transactions of a business. Journals are kept in chronological order, that is, the order in which the transactions occur. The process of recording business transactions in a journal is called journalizing. Keeping a journal can be compared to keeping a diary in which all important events are written. A journal is the only place where complete details of a transaction, including both the debit and credit parts, are recorded. The journal is sometimes called the book of original entry because it is where transactions are first entered in the accounting system.

**Reading Check**

Why are source documents necessary to a business?

**The Accounting Period**

*What Are the Two Types of Accounting Periods?*

As discussed in Chapter 2, accounting records are summarized for a certain period of time, called an accounting period. An accounting period may be for any designated length of time, such as a month, a quarter, or a year. Most businesses use a year as their accounting period. An accounting period of 12 months is called a fiscal year. If the fiscal year for a business begins on January 1 and ends on December 31, it is called a calendar year accounting period. Many businesses start their accounting periods in months other than January. For example, department stores often have fiscal years that begin on February 1 and end on January 31 of the following year. School districts usually have fiscal years that begin on July 1 and end on June 30.
Math for Accounting

Glen’s Catering received an invoice from Conover Restaurant Suppliers for the following supplies:

- 6 cartons of napkins at $4.88 per carton
- 3 boxes of salt packets at $3.19 per box
- 3 boxes of paper plates at $7.28 per box
- 4 boxes of medium paper cups at $8.24 per box

Calculate the total for each item on the invoice. Then calculate the total for all items.

In Section 6.1, we organize business records by taking the first three steps of the accounting cycle. Let’s see how this helps.

### Reinforce the Main Idea

Create a table to describe how the first three steps help organize business records.

<table>
<thead>
<tr>
<th>Step Number</th>
<th>Step Description</th>
<th>How This Step Helps Organize Business Records</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Problem 6–1

**Analyzing a Source Document**

Analyze the invoice shown below and answer the following questions.

**INVOICE NO. 479**

**DATE:** Apr. 9, 20--

**TO:** Darioís Accounting Services

**5821 Gulf Blvd.**

**Naples, FL 33940**

**ORDER NO.:**

**SHIPPED BY:**

**TERMS:** Payable in 30 days

<table>
<thead>
<tr>
<th>QTY.</th>
<th>ITEM</th>
<th>UNIT PRICE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fax Machine</td>
<td>$299.00</td>
<td>$299.00</td>
</tr>
</tbody>
</table>

1. What is the name of the company providing the service or merchandise?
2. What is the name of the business receiving the service or merchandise?
3. What is the date of the invoice?
4. What is the invoice number?
5. What item was sold?
6. What is the price for this item?
7. What are the payment terms?
In Section 6.1 you learned about the first three steps in the accounting cycle. Let’s apply these steps to business transactions for Zip Delivery Service.

**Recording a General Journal Entry**

**How Do You Record a General Journal Entry?**

Many kinds of accounting journals are used in business. One of the most common is the general journal. As its name suggests, the *general journal* is an all-purpose journal in which all of the transactions of a business may be recorded. Figure 6–3 shows the general journal you will be using throughout the accounting cycle for Zip Delivery Service. The general journal has two amount columns. The first amount column, the amount column on the left, is used to record debit amounts. (Remember that debit means left.) The second amount column, the amount column on the right, is used to record credit amounts. (Remember that credit means right.) Look at Figure 6–3 to find where each component of a general journal entry appears.

| 1 | Date of the transaction |
| 2 | Name of the account debited |
| 3 | Amount of the debit |
| 4 | Name of the account credited |
| 5 | Amount of the credit |
| 6 | Source document reference or an explanation |

In Chapters 4 and 5, you learned a step-by-step method for analyzing business transactions. In this chapter you will learn to complete the journal entry for a business transaction in the same manner. Review the following steps before you continue.
## Business Transaction

**BUSINESS TRANSACTION ANALYSIS: Steps to Success**

| ANALYSIS | Identify Classify +/- | 1. Identify the accounts affected. |
|          |                      | 2. Classify the accounts affected. |
|          |                      | 3. Determine the amount of increase or decrease for each account affected. |

| DEBIT-CREDIT RULE | 4. Which account is debited? For what amount? |
|                  | 5. Which account is credited? For what amount? |

| T ACCOUNTS | 6. What is the complete entry in T-account form? |

| JOURNAL ENTRY | 7. What is the complete entry in general journal form? |

---

Use these steps to determine the debit and credit parts of each journal entry. Remember, it is always helpful to use T accounts to analyze transactions. After analyzing many transactions, you will find that you need these tools less and less to determine the debit and credit parts of a journal entry. After the complete entry is recorded, verify that the total debits and total credits are equal.

Now, let’s examine business transactions and their analysis for Zip Delivery Service.

### Business Transaction 1

**MEMORANDUM 1**

**TO:** Accounting Clerk  
**FROM:** Crista Vargas  
**DATE:** October 1, 20--  
**SUBJECT:** Contributed personal funds to the business

I have contributed $25,000 from my personal savings for a deposit to the business, Roadrunner Delivery Service.

**Zip Delivery Service**  
155 Gateway Blvd  
Sacramento, CA 94230

**Accounting Clerk**  
**Crista Vargas**  
**October 1, 20--**  
Contributed personal funds to the business

**TO:** Accounting Clerk  
**FROM:** Crista Vargas  
**DATE:** October 1, 20--  
**SUBJECT:** Contributed personal funds to the business

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**DATE:** October 1, 20--  
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**TO:** Accounting Clerk  
**FROM:** Crista Vargas  
**DATE:** October 1, 20--  
**SUBJECT:** Contributed personal funds to the business

I have contributed $25,000 from my personal savings for a deposit to the business, Roadrunner Delivery Service.
Look again at the general journal entry shown above. Notice that in the upper right-hand corner there is a line for the page number. Journal pages are numbered in consecutive order; that is, 1, 2, 3, and so on. When you fill one page with journal entries, go on to the next page. Be sure to properly number each new page.

**Business Transaction 2**

On October 2 Crista Vargas took two telephones valued at $200 each from her home and transferred them to the business as office equipment, Memorandum 2.

**ANALYSIS**

1. The accounts **Office Equipment** and **Crista Vargas, Capital** are affected.
2. **Office Equipment** is an asset account. **Crista Vargas, Capital** is an owner’s equity account.
3. **Office Equipment** is increased by $400. **Crista Vargas, Capital** is increased by $400.

**DEBIT-CREDIT RULE**

4. Increases in asset accounts are recorded as debits. Debit **Office Equipment** for $400.
5. Increases in owner’s capital accounts are recorded as credits. Credit **Crista Vargas, Capital** for $400.

**T ACCOUNTS**

6. **Office Equipment**
   - Debit + 400
   - Credit -

   **Crista Vargas, Capital**
   - Debit -
   - Credit + 400
### Business Transaction 3

On October 4 Zip issued Check 101 for $3,000 to buy a computer system.

### ANALYSIS

**Identify**

1. The accounts **Computer Equipment** and **Cash in Bank** are affected.

**Classify**

2. **Computer Equipment** and **Cash in Bank** are asset accounts.

**+/−**

3. **Computer Equipment** is increased by $3,000. **Cash in Bank** is decreased by $3,000.

### DEBIT-CREDIT RULE

4. Increases in asset accounts are recorded as debits. Debit **Computer Equipment** for $3,000.

5. Decreases in asset accounts are recorded as credits. Credit **Cash in Bank** for $3,000.

### T ACCOUNTS

6. 

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ 3,000</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>+</td>
<td>3,000</td>
</tr>
</tbody>
</table>

### JOURNAL ENTRY

7.

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>4 Computer Equipment</td>
<td></td>
<td>3,000.00</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Cash in Bank</td>
<td></td>
<td>3,000.00</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Check 101</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Business Transaction 4

On October 9 Zip bought a used truck on account from Coast to Coast Auto for $12,000, Invoice 200.

1. The accounts Delivery Equipment and Accounts Payable—Coast to Coast Auto are affected.
2. Delivery Equipment is an asset account. Accounts Payable—Coast to Coast Auto is a liability account.
3. Delivery Equipment is increased by $12,000. Accounts Payable—Coast to Coast Auto is increased by $12,000.

4. Increases in asset accounts are recorded as debits. Debit Delivery Equipment for $12,000.
5. Increases in liability accounts are recorded as credits. Credit Accounts Payable—Coast to Coast Auto for $12,000.

To separate the amounts to be paid to individual creditors, Zip uses a different account name for each creditor. The account name consists of Accounts Payable followed by the name of the creditor. You may have to abbreviate the name to fit it on one line of the journal. An acceptable abbreviation in the preceding journal entry is Accts. Pay.—Coast to Coast Auto.

Zip uses the same naming system for the amounts to be paid by individual customers. The account name consists of Accounts Receivable followed by the customer’s name.
Business Transaction 5

On October 11 Zip sold one telephone on account to Green Company for $200, Memorandum 3.

1. The accounts Accounts Receivable—Green Company and Office Equipment are affected.
2. Both accounts are asset accounts.
3. Accounts Receivable—Green Company is increased by $200. Office Equipment is decreased by $200.

DEBIT-CREDIT RULE
5. Credit Office Equipment for $200.

T ACCOUNTS
6. Accounts Receivable—Green Company
   Debit
   Credit
   + 200
   −

Office Equipment
   Debit
   Credit
   +
   − 200

JOURNAL ENTRY
7. GENERAL JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Accts. Rec.—Green Company</td>
<td>350.00</td>
<td>20000</td>
<td>14</td>
</tr>
<tr>
<td>15</td>
<td>Office Equipment</td>
<td>20000</td>
<td>20000</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Memorandum 3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Business Transaction 6

On October 12 Zip mailed Check 102 for $350 as the first installment on the truck purchased from Coast to Coast Auto on October 9.

1. The accounts Accounts Payable—Coast to Coast Auto and Cash in Bank are affected.
2. Accounts Payable—Coast to Coast Auto is a liability account. Cash in Bank is an asset account.
3. Both accounts are decreased by $350.

Identify

Classify

+/−

ANALYSIS
### DEBIT-CREDIT RULE

4. Debit Accounts Payable—Coast to Coast Auto for $350.
5. Credit Cash in Bank for $350.

### T ACCOUNTS

6. Accounts Payable—Coast to Coast Auto

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>−</td>
<td>+</td>
</tr>
<tr>
<td>350</td>
<td></td>
<td>350</td>
</tr>
</tbody>
</table>

Cash in Bank

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+</td>
<td>−</td>
</tr>
<tr>
<td>350</td>
<td></td>
<td>350</td>
</tr>
</tbody>
</table>

### JOURNAL ENTRY

#### GENERAL JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>12 Accts. Pay.—Coast to Coast Auto</td>
<td></td>
<td>350.00</td>
<td>0.00</td>
</tr>
<tr>
<td>18</td>
<td>Cash in Bank</td>
<td></td>
<td>0.00</td>
<td>350.00</td>
</tr>
<tr>
<td>19</td>
<td>Check 102</td>
<td></td>
<td>0.00</td>
<td>350.00</td>
</tr>
<tr>
<td>20</td>
<td></td>
<td></td>
<td>0.00</td>
<td>350.00</td>
</tr>
</tbody>
</table>

### Business Transaction 7

On October 14 Zip received and deposited a check for $200 from Green Company, Receipt 1. The check is full payment for the telephone sold on account to Green on October 11.

#### ANALYSIS

1. The accounts Cash in Bank and Accounts Receivable—Green Company are affected.
2. Cash in Bank is an asset account. Accounts Receivable—Green Company is an asset account.
3. Cash in Bank is increased by $200. Accounts Receivable—Green Company is decreased by $200.

#### DEBIT-CREDIT RULE


#### T ACCOUNTS

6. Cash in Bank

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+</td>
<td>−</td>
</tr>
<tr>
<td>200</td>
<td></td>
<td>200</td>
</tr>
</tbody>
</table>

Accounts Receivable—Green Company

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+</td>
<td>−</td>
</tr>
<tr>
<td>200</td>
<td></td>
<td>200</td>
</tr>
</tbody>
</table>
### Business Transaction 8

On October 15 Zip provided delivery services for Sims Corporation. A check for $1,200 was received in full payment, Receipt 2.

#### Analysis

1. **Identify**
   - The accounts **Cash in Bank** and **Delivery Revenue** are affected.

2. **Classify**
   - **Cash in Bank** is an asset account. **Delivery Revenue** is a revenue account.

3. **+/-**
   - **Cash in Bank** is increased by $1,200. **Delivery Revenue** is increased by $1,200.

#### Debit-Credit Rule

4. Increases in asset accounts are recorded as debits. Debit **Cash in Bank** for $1,200.

5. Increases in revenue accounts are recorded as credits. Credit **Delivery Revenue** for $1,200.

#### T Accounts

6. **Cash in Bank**
   - Debit + 1,200
   - Credit -

   **Delivery Revenue**
   - Debit -
   - Credit + 1,200

### Journal Entry

7. **General Journal**

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Post Ref.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Cash in Bank</td>
<td>20000</td>
<td>20</td>
<td>20000</td>
</tr>
<tr>
<td>21</td>
<td>Accts. Rec.—Green Company Receipt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Receipt 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Cash in Bank</td>
<td>20000</td>
<td>20</td>
<td>20000</td>
</tr>
<tr>
<td>15</td>
<td>Cash in Bank</td>
<td>12000</td>
<td>12</td>
<td>12000</td>
</tr>
<tr>
<td>24</td>
<td>Delivery Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Receipt 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1. The accounts Rent Expense and Cash in Bank are affected.
2. Rent Expense is an expense. Cash in Bank is an asset.
3. Rent Expense is increased by $700. Cash in Bank is decreased by $700.

**DEBIT-CREDIT RULE**

4. Increases in expense accounts are recorded as debits. Debit Rent Expense for $700.
5. Decreases in asset accounts are recorded as credits. Credit Cash in Bank for $700.

**T ACCOUNTS**

6. Rent Expense
   
   Debit | Credit
   +-----|-----
   $700  |

   Cash in Bank
   
   Debit | Credit
   +-----|-----
   $700  |

**JOURNAL ENTRY**

7. GENERAL JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>Rent Expense</td>
<td>70000</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash in Bank</td>
<td>70000</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Check 103</td>
<td></td>
<td>28</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>29</td>
<td></td>
</tr>
</tbody>
</table>

**Business Transaction 10**

On October 18 Rockport Advertising prepared an advertisement for Zip. Zip will pay Rockport’s $75 fee later, Invoice 129.

**ANALYSIS**

1. The accounts Advertising Expense and Accounts Payable—Rockport Advertising are affected.
2. Advertising Expense is an expense account. Accounts Payable—Rockport Advertising is a liability account.
3. Advertising Expense is increased by $75. Accounts Payable—Rockport Advertising is increased by $75.
7. **JOURNAL ENTRY**

**GENERAL JOURNAL**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>18 Advertising Expense</td>
<td></td>
<td>7500</td>
<td>7500</td>
</tr>
<tr>
<td>30</td>
<td>Accts. Pay.—Rockport Adv.</td>
<td>Invoice 129</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Business Transaction 11**
On October 20 Zip provided delivery services for a customer, City News. Zip billed City News $1,450, Sales Invoice 1.

**ANALYSIS**

1. The accounts **Accounts Receivable—City News** and **Delivery Revenue** are affected.
2. **Accounts Receivable—City News** is an asset account. **Delivery Revenue** is a revenue account.
3. **Accounts Receivable—City News** is increased by $1,450. **Delivery Revenue** is increased by $1,450.

**DEBIT-CREDIT RULE**

4. Increases in asset accounts are recorded as debits. Debit **Accounts Receivable—City News** for $1,450.
5. Increases in revenue accounts are recorded as credits. Credit **Delivery Revenue** for $1,450.
1. The accounts Utilities Expense and Cash in Bank are affected.

2. Utilities Expense is an expense account. Cash in Bank is an asset account.

3. Utilities Expense is increased by $125. Cash in Bank is decreased by $125.

4. Increases in expense accounts are recorded as debits. Debit Utilities Expense for $125.

5. Decreases in asset accounts are recorded as credits. Credit Cash in Bank for $125.

6. Utilities Expense
   - Debit + 125
   - Credit −

   Cash in Bank
   - Debit − 125
   - Credit +

7. GENERAL JOURNAL
   - Date: 28
   - Description: Utilities Expense
   - Debit: 125
   - Credit: 125

   Date: 30
   - Description: Cash in Bank
   - Debit: 125
   - Credit: 125

   Date: 37
   - Description: Check 104
   - Debit: 125
   - Credit: 125
Business Transaction 13

On October 29 Zip wrote Check 105 for $600 to have the office repainted.

1. The accounts Maintenance Expense and Cash in Bank are affected.
2. Maintenance Expense is an expense account. Cash in Bank is an asset account.
3. Maintenance Expense is increased by $600. Cash in Bank is decreased by $600.

DEBIT-CREDIT RULE

4. Increases in expense accounts are recorded as debits. Debit Maintenance Expense for $600.
5. Decreases in asset accounts are recorded as credits. Credit Cash in Bank for $600.

T ACCOUNTS

6. Maintenance Expense
   | Debit + 600 | Credit - |
   Cash in Bank
   | Debit +     | Credit - 600 |

JOURNAL ENTRY

7. GENERAL JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>29 Maintenance</td>
<td></td>
<td>600 00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Expense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>Cash in Bank</td>
<td></td>
<td>600 00</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Check 105</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>41</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Business Transaction 14

On October 31 Crista Vargas wrote Check 106 to withdraw $500 cash for personal use.

1. The accounts Crista Vargas, Withdrawals and Cash in Bank are affected.
2. Crista Vargas, Withdrawals is an owner’s equity account. Cash in Bank is an asset account.
3. Crista Vargas, Withdrawals is increased by $500. Cash in Bank is decreased by $500.
DEBIT-CREDIT RULE

4. Increases in the owner's withdrawals account are recorded as debits. Debit Crista Vargas, Withdrawals for $500.
5. Decreases in asset accounts are recorded as credits. Credit Cash in Bank for $500.

T ACCOUNTS

6. Crista Vargas, Withdrawals

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>+500</td>
<td>-</td>
</tr>
</tbody>
</table>

Cash in Bank

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-500</td>
<td>+</td>
</tr>
</tbody>
</table>

JOURNAL ENTRY

7. GENERAL JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>41</td>
<td>31 Crista Vargas, Withdrawals</td>
<td></td>
<td>5000</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Cash in Bank</td>
<td></td>
<td>0</td>
<td>5000</td>
</tr>
<tr>
<td>43</td>
<td>Check 106</td>
<td></td>
<td>0</td>
<td>5000</td>
</tr>
<tr>
<td>44</td>
<td></td>
<td></td>
<td>0</td>
<td>5000</td>
</tr>
</tbody>
</table>

Correcting the General Journal

**How Do You Correct Errors in the General Journal?**

Occasionally, errors occur when journalizing transactions. When an error is discovered, it must be corrected.

In a manual system, an error should never be erased. An erasure looks suspicious. It might be seen as an attempt to cover up a mistake or, worse, to change the accounting records illegally. To correct errors, use a pen and a ruler to draw a horizontal line through the entire incorrect item and write the correct information above the crossed-out error. A correction for an erroneous amount is shown in the general journal as follows:

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oct. 1 Cash in Bank</td>
<td></td>
<td>250000</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>Crista Vargas, Capital Memorandum 1</td>
<td></td>
<td>0</td>
<td>250000</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td>0</td>
<td>250000</td>
</tr>
</tbody>
</table>

To correct for an erroneous account name, cross out the incorrect information and write the correct account name above.

**Common Mistakes**

**Writing too large** When entering data in the general journal, be sure not to write too large. You will leave little space to write in correct data if you have to cross out incorrect information. Account titles and amounts should be written no larger than 3/4 of the line space.

Section 6.2 Recording Transactions in the General Journal 151
After You Read

Reinforce the Main Idea
Think of three different types of business transactions you might have in the next month. Use a table similar to this one to describe the general journal entry for each transaction.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PROBLEM 6–2 Recording Business Transactions

INSTRUCTIONS The six steps for recording a business transaction in the general journal are shown below, out of order. In your working papers or on a blank sheet of paper, indicate the proper order of these steps.

A. Amount of the credit  
B. Name of the account credited  
C. Source document reference  
D. Date of the transaction  
E. Amount of the debit  
F. Name of the account debited

PROBLEM 6–3 Analyzing Transactions

Glenda Hohn recently started a day-care center. She uses the following accounts.

- General Ledger
  - Cash in Bank
  - Glenda Hohn, Capital
  - Accts. Rec.—Tiny Tots Nursery
  - Glenda Hohn, Withdrawals
  - Office Furniture
  - Day-Care Fees
  - Passenger Van
  - Utilities Expense
  - Accts. Pay.—Acme Bus Service
  - Van Expense

INSTRUCTIONS In your working papers or on a separate sheet of paper, for each transaction: Determine which accounts are affected. Classify each account. Determine whether the accounts are being increased or decreased. Indicate which account is debited and which account is credited.

TRANSACTIONS
1. Bought a passenger van for cash.
2. Paid the telephone bill for the month.
3. Received cash from customers for day-care services.
**Chapter 6 • VISUAL SUMMARY**

**Concepts**

Explain the first three steps in the accounting cycle.

- **Step 1**: Collect and verify source documents
- **Step 2**: Analyze each transaction
- **Step 3**: Journalize each transaction

**Analysis**

Describe the steps to make a general journal entry.

- **Step 1**: Write in the date of the transaction
- **Step 2**: Write in the account to debit
- **Step 3**: Write in the debit amount
- **Step 4**: Write in the account to credit
- **Step 5**: Write in the credit amount
- **Step 6**: Write in the source document reference

**Procedures**

Correct errors in general journal entries

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nov 2</td>
<td>Office Equipment</td>
<td></td>
<td>250.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Maintenance Expense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash in Bank</td>
<td></td>
<td></td>
<td>250.00</td>
</tr>
<tr>
<td></td>
<td>Check 110</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Chapter 6  Visual Summary  153
After You Read

Answering the Essential Question

1. How do businesses keep permanent records of transactions? Good record keeping in the form of journals make financial information readily available. Why might a business need to refer to a journal entry about a transaction?

Vocabulary Check

2. **Content Vocabulary** Arrange the vocabulary terms below into categories—groups of related words. Explain why you put the words together.
   - accounting cycle (p.135)
   - source document (p.136)
   - invoice (p.136)
   - receipt (p.136)
   - memorandum (p.136)
   - check stub (p.136)
   - journal (p.137)
   - journalizing (p.137)
   - fiscal year (p.137)
   - calendar year (p.137)
   - general journal (p.139)

3. **Academic Vocabulary** Use a dictionary to fill in the blanks below. Write a sentence for each word as it is defined by the filled-in statement.
   - *Occur* (p.136) is a verb that means ______________________.
   - *Affect* (p.140) is a verb that means ______________________.
   - *Affect* is a noun that means ______________________.
   - *Manual* (p.151) is an adjective that means ______________________.
   - *Manual* is a noun that means ______________________.

Concept Check

4. **Evaluate** List the first three steps of the accounting cycle. What would happen if you skipped Step 2?
5. **Describe** four source documents. Be sure to include how and when each is used.
6. **Analyze** Why is a journal sometimes called the book of first entry?
7. **How** do you determine the debit and credit parts of a journal entry?
8. **List**—in the order they are recorded—the six types of information needed in a general journal entry.
9. **Analyze** Describe the relationship between the amounts entered in both columns of the general journal. Why must the amounts have this relationship?
10. **What** procedure is used to correct a general journal entry error in a manual system?

Math

11. **On Sunday, Dawson’s flower shop sold 25 arrangements. The materials needed for 25 arrangements cost$250. If he sold each arrangement for$55, what was the net income?**

English Language Arts

12. **You’ve been chosen as the local Business Owner of the Year. Write a one-page press release describing your business and why you’ve been successful. Be sure to include the skills you use in running your business, and how you plan to continue being successful in the future.**
Multiple Choice

1. Which is the purpose of a source document?
   a. To describe a transaction that takes place within a business
   b. To supply the information for journalizing a transaction
   c. To serve as evidence of a transaction
   d. All of these

2. A fiscal year is an accounting period
   a. that begins on January 1 and ends on December 31.
   b. of any length other than 12 months.
   c. of 12 months which begins in the month the business chooses.
   d. that may be for any designated length of time.

3. Which is the correct journal entry for the following transaction: A business buys $300 of office supplies on account from A1 Office Supply on March 13?
   a. 3/13 Office Supplies $300.00
      A1 Office Supply $300.00
   b. 3/13 A1 Office Supply $300.00
      Office Supplies $300.00
   c. 3/13 Cash $300.00
      Office Supplies $300.00
   d. 3/13 Office Supplies $300.00
      Accts. Pay. –A1 Office Supply $300.00

True or False

4. The general journal is a record of all the transactions that occur for a single accounting period.

Short Answer

5. Explain why it is important **not** to use an eraser when correcting entries in the general journal.
## Recording General Journal Entries
### Making the Transition from a Manual to a Computerized System

<table>
<thead>
<tr>
<th>MANUAL METHODS</th>
<th>COMPUTERIZED METHODS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Analyze the source document to determine which accounts are affected.</td>
<td>• Analyze the source document to determine which accounts are affected.</td>
</tr>
<tr>
<td>• Using a general journal form, enter the details of the transaction.</td>
<td>• Enter the transaction details in the general journal using the account numbers for each ledger account.</td>
</tr>
<tr>
<td>• Check for equality of debits and credits.</td>
<td>• The software will calculate the equality of debits and credits.</td>
</tr>
</tbody>
</table>
PROBLEM 6–4 Recording General Journal Transactions

Ronald Hicks owns and operates Wilderness Rentals. The following accounts are needed to journalize the month’s transactions.

**General Ledger**
101 Cash in Bank 301 Ronald Hicks, Capital
105 Accts. Rec.—Helen Katz 305 Ronald Hicks, Withdrawals
110 Accts. Rec.—Polk and Co. 310 Income Summary
120 Office Equipment 401 Equipment Rental Revenue
125 Camping Equipment 501 Advertising Expense
201 Accts. Pay.—Adventure 505 Maintenance Expense
  Equipment Inc. 515 Rent Expense
203 Accts. Pay.—Digital Tech 520 Salaries Expense
  Computers 525 Utilities Expense
205 Accts. Pay.—Greg Mollaro

**INSTRUCTIONS** Record the following transactions on page 1 of the general journal in your working papers. For each transaction:
1. Enter the date. Use the current year.
2. Enter the name of the account debited.
3. Enter the amount of the debit.
4. Enter the name of the account credited.
5. Enter the amount of the credit.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>Wrote Check 310 for the part-time secretary’s salary, $270.</td>
</tr>
<tr>
<td></td>
<td>Bought $2,000 of camping equipment on account from Adventure Equipment Inc., Invoice 320.</td>
</tr>
<tr>
<td></td>
<td>Received $500 from a client for equipment rental, Receipt 150.</td>
</tr>
<tr>
<td></td>
<td>Wrote Check 311 to pay the electricity bill of $110.</td>
</tr>
<tr>
<td></td>
<td>Billed a client, Polk and Co., $1,700 for rental equipment, Sales Invoice 262.</td>
</tr>
<tr>
<td></td>
<td>Ronald Hicks withdrew $800 for personal use, Check 312.</td>
</tr>
<tr>
<td></td>
<td>Bought a $300 scanner for the office computer from Digital Tech Computers, on account, Invoice 270.</td>
</tr>
<tr>
<td></td>
<td>Wrote Check 313 for $1,000 as an installment payment toward the amount owed to Adventure Equipment Inc.</td>
</tr>
<tr>
<td></td>
<td>Received $1,700 from Polk and Co. in payment on their account, Receipt 151.</td>
</tr>
<tr>
<td></td>
<td>Paid Digital Tech Computers $300 for the amount owed, Check 314.</td>
</tr>
</tbody>
</table>

**Analyze** Calculate the amount of cash deducted from the Cash in Bank account in January.

**Chapter 6 Problems 157**
PROBLEM 6–5 Recording General Journal Transactions

Regina Delgado owns a business called Hot Suds Car Wash. She uses the following chart of accounts.

**General Ledger**
101 Cash in Bank 401 Wash Revenue
105 Accts. Rec.—Linda Brown 405 Wax Revenue
110 Accts. Rec.—Valley Auto 410 Interior Detailing Revenue
125 Office Equipment 501 Advertising Expense
130 Office Furniture 505 Equipment Rental Expense
135 Car Wash Equipment 510 Maintenance Expense
201 Accts. Pay.—Allen 520 Rent Expense
Vacuum Systems 525 Salaries Expense
205 Accts. Pay.—O’Brien’s 530 Utilities Expense
Office Supply
301 Regina Delgado, Capital
305 Regina Delgado, Withdrawals
310 Income Summary

**INSTRUCTIONS** Record the following transactions on page 1 of the general journal in your working papers.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>Regina Delgado invested $12,000 in the business, Memorandum 41.</td>
</tr>
<tr>
<td>5</td>
<td>Purchased $5,000 in desks, chairs, and cabinets from O’Brien’s Office Supply on account, Invoice 1632.</td>
</tr>
<tr>
<td>8</td>
<td>Deposited $1,600 for income received from car washes for the week, Receipt 101.</td>
</tr>
<tr>
<td>10</td>
<td>Paid the Village Bulletin $75 for running an ad, Check 301.</td>
</tr>
<tr>
<td>13</td>
<td>Regina Delgado withdrew $900 for personal use, Check 302.</td>
</tr>
<tr>
<td>17</td>
<td>Billed Valley Auto $400 for interior detailing, Sales Invoice 102.</td>
</tr>
<tr>
<td>18</td>
<td>Paid O’Brien’s Office Supply $2,500 as an installment payment on account, Check 303.</td>
</tr>
<tr>
<td>20</td>
<td>Regina Delgado transferred to the business an electronic calculator valued at $350, Memorandum 42.</td>
</tr>
<tr>
<td>22</td>
<td>Wrote Check 304 for $600 to Shadyside Realty for the office rent.</td>
</tr>
<tr>
<td>24</td>
<td>Purchased $1,500 in car wash equipment from Allen Vacuum Systems on account, Invoice 312.</td>
</tr>
<tr>
<td>26</td>
<td>Received a $400 check from Valley Auto in full payment of its account, Receipt 102.</td>
</tr>
<tr>
<td>30</td>
<td>Issued Check 305 for $2,500 to O’Brien’s Office Supply for the balance due on account.</td>
</tr>
</tbody>
</table>

**Analyze** Identify the revenue account that was not used in the month of January.
### PROBLEM 6–6  Recording General Journal Transactions

Abe Shultz owns and operates a pet grooming business called Kits & Pups Grooming. The following accounts are used to journalize transactions.

<table>
<thead>
<tr>
<th>General Ledger</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>101 Cash in Bank</td>
<td>207 Accts. Pay.—Pet Gourmet</td>
</tr>
<tr>
<td>105 Accts. Rec.—Juan Alvarez</td>
<td>301 Abe Shultz, Capital</td>
</tr>
<tr>
<td>110 Accts. Rec.—N. Carlsbad</td>
<td>305 Abe Shultz, Withdrawals</td>
</tr>
<tr>
<td>115 Accts. Rec.—Martha Giles</td>
<td>310 Income Summary</td>
</tr>
<tr>
<td>125 Office Equipment</td>
<td>401 Boarding Revenue</td>
</tr>
<tr>
<td>130 Office Furniture</td>
<td>405 Grooming Revenue</td>
</tr>
<tr>
<td>135 Computer Equipment</td>
<td>501 Advertising Expense</td>
</tr>
<tr>
<td>140 Grooming Equipment</td>
<td>505 Equipment Repair Expense</td>
</tr>
<tr>
<td>145 Kennel Equipment</td>
<td>510 Maintenance Expense</td>
</tr>
<tr>
<td>201 Accts. Pay.—Able Store</td>
<td>520 Rent Expense</td>
</tr>
<tr>
<td>205 Accts. Pay.—Dogs &amp; Cats Inc.</td>
<td>525 Salaries Expense</td>
</tr>
<tr>
<td>207 Accts. Pay.—Pet Gourmet</td>
<td>530 Utilities Expense</td>
</tr>
</tbody>
</table>

**Instructions** Record the following transactions on page 7 of the general journal in your working papers.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan.  1</td>
<td>Received $125 for boarding a client’s dog for one week, Receipt 300.</td>
</tr>
<tr>
<td>Jan.  3</td>
<td>Abe Shultz contributed to the business a computer valued at $2,500, Memorandum 33.</td>
</tr>
<tr>
<td>Jan.  5</td>
<td>Billed a client, Juan Alvarez, $80 for grooming his pets, Sales Invoice 212.</td>
</tr>
<tr>
<td>Jan.  9</td>
<td>Wrote Check 411 to Allegheny Power Co. for $150 in payment for the month’s electricity bill.</td>
</tr>
<tr>
<td>Jan. 11</td>
<td>Abe Shultz withdrew $700 for personal use, Check 412.</td>
</tr>
<tr>
<td>Jan. 14</td>
<td>Purchased kennel equipment for $2,600 from Dogs &amp; Cats Inc., on account, Invoice DC92.</td>
</tr>
<tr>
<td>Jan. 16</td>
<td>Paid the part-time receptionist’s salary of $400 by issuing Check 413.</td>
</tr>
<tr>
<td>Jan. 18</td>
<td>Abe Shultz took from the business for his personal use a ten-key adding machine valued at $65, Memorandum 34.</td>
</tr>
<tr>
<td>Jan. 23</td>
<td>Juan Alvarez sent a check for $80 in full payment of his account, Receipt 301.</td>
</tr>
<tr>
<td>Feb. 28</td>
<td>Purchased on credit $250 in grooming equipment from the Pet Gourmet, Invoice PG333.</td>
</tr>
<tr>
<td>Jan. 31</td>
<td>Issued Check 414 for $1,300 as an installment payment for the amount owed to Dogs &amp; Cats Inc.</td>
</tr>
</tbody>
</table>

**Analyze** Calculate the total of the Accounts Receivable accounts as of January 31.
PROBLEM 6–7  Recording General Journal Transactions

Juanita Ortega is the owner of Outback Guide Service. The following accounts are used to record the transactions of her business.

**General Ledger**
- 101 Cash in Bank
- 205 Accts. Pay. —Peak Equipment Inc.
- 105 Accts. Rec.—M. Johnson
- 207 Accts. Pay.—Premier Processors
- 110 Accts. Rec.—Feldman, 301 Juanita Ortega, Capital
- Jones & Ritter 302 Juanita Ortega, Withdrawals
- 115 Accts. Rec.—Podaski
- 310 Income Summary
- Systems Inc. 401 Guide Service Revenue
- 130 Office Equipment
- 501 Advertising Expense
- 135 Office Furniture
- 505 Maintenance Expense
- 140 Computer Equipment
- 515 Rent Expense
- 145 Hiking Equipment
- 520 Salaries Expense
- 150 Rafting Equipment
- 525 Utilities Expense
- 201 Accts. Pay.—A-1 Adventure Warehouse

**INSTRUCTIONS** Record the following transactions on page 1 of the general journal in your working papers.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>Juanita Ortega contributed the following assets to her business: cash, $1,500; hiking equipment, $2,000; rafting equipment, $2,500; and office furniture, $500; Memorandum 21.</td>
</tr>
<tr>
<td>2</td>
<td>Issued Check 515 to <em>Town News</em> for a $75 ad.</td>
</tr>
<tr>
<td>4</td>
<td>Purchased $3,000 in rafting equipment on account from A-1 Adventure Warehouse, Invoice AW45.</td>
</tr>
<tr>
<td>6</td>
<td>A group from Feldman, Jones &amp; Ritter went on a hiking trip. The group was billed $4,800 for guide services, Sales Invoice 300.</td>
</tr>
<tr>
<td>10</td>
<td>Paid $300 to Dunn’s Painting and Interior Co. for painting the office, Check 516.</td>
</tr>
<tr>
<td>13</td>
<td>Made a $1,000 payment to A-1 Adventure Warehouse toward the amount owed, Check 517.</td>
</tr>
<tr>
<td>15</td>
<td>Received a check for $4,800 from Feldman, Jones &amp; Ritter in payment of their account, Receipt 252.</td>
</tr>
<tr>
<td>18</td>
<td>Juanita Ortega paid herself $600 by issuing Check 518.</td>
</tr>
<tr>
<td>22</td>
<td>Billed a client, Mary Johnson, $1,200 for completing guide services on a hiking expedition, Sales Invoice 301.</td>
</tr>
<tr>
<td>25</td>
<td>Paid the monthly telephone bill for $175 by issuing Check 519.</td>
</tr>
<tr>
<td>30</td>
<td>Purchased a $3,600 computer system from Premier Processors. Made a down payment for $1,800 and agreed to pay the balance within 30 days, Check 520 and Invoice 749.</td>
</tr>
</tbody>
</table>

**Analyze** Generalize about Outback’s cash sales and credit sales.
PROBLEM 6–8  Recording General Journal Transactions

Greg Failla operates Showbiz Video. The following accounts are used to record business transactions.

General Ledger
101 Cash in Bank       207 Accts. Pay.—New Media Suppliers
110 Accts. Rec.—J. Coletti 301 Greg Failla, Capital
113 Accts. Rec.—S. Flannery 305 Greg Failla, Withdrawals
115 Accts. Rec.—Spring  310 Income Summary
Branch School District 401 DVD Rental Revenue
130 Office Equipment 405 HD projector Rental Revenue
135 Office Furniture 501 Advertising Expense
140 Computer Equipment 505 Equipment Repair Expense
145 Blu-ray discs 510 Maintenance Expense
150 Video Equipment 520 Rent Expense
201 Accts. Pay.—Broad Street 525 Salaries Expense
Office Supply 530 Utilities Expense
205 Accts. Pay.—Computer Horizons

INSTRUCTIONS  Record the following transactions on page 5 of the general journal in your working papers.

Date Transactions
Jan.  1 Deposited $3,400 in receipts. Of that amount, $1,900 was HD Projector rentals and $1,500 was DVD rentals, Receipt 435.
      3 Wrote Check 1250 for $325 of equipment repairs.
      5 Purchased $400 in Blu-ray discs from Palace Films on account, Invoice PF32.
      7 Bought from New Media Suppliers $2,600 in video equipment. Made a down payment of $600 and agreed to pay the balance in two installments, Check 1251 and Invoice NM101.
      10 Rented DVDs to Spring Branch School District. The school district agreed to pay $1,800 at a later date, Sales Invoice 1650.
      12 Issued Check 1252 for $750 to Computer Horizons for the amount owed to them.
      15 Deposited $5,600 in receipts. HD Projector rentals amounted to $4,400 and DVD rentals were $1,200, Receipt 436.
      18 Paid Clear Vue Window Cleaners $100 for monthly window cleaning, Check 1253.
      25 Made a $1,000 installment payment toward the amount owed to New Media Suppliers by issuing Check 1254.

Analyze  Calculate the total expenses incurred in January.

Chapter 6  Problems  161
CASE STUDY

Setting Up Accounting Records

Jasmine Lawrence recently purchased property (land and building) and opened Classic Auto Car Wash. The business provides a variety of services such as brushless automatic exterior car wash, interior shampooing, and detailing. Several workers have been hired to perform a variety of tasks. As Classic Auto’s accountant, you have been asked to offer advice in setting up the accounting records for the business.

ACTIVITY Write Jasmine a business letter in which you suggest how she can set up and maintain accurate accounting records for her business.

INSTRUCTIONS Determine what kind of accounts you will suggest for Classic Auto’s chart of accounts. What financial advice will you offer the owners?

Punctuality

People in different cultures have different ways of understanding and using time. This can be a challenge for businesses in the global workplace.

ACTIVITY Research cultural perceptions of time management and productivity in a country other than the United States. Summarize your findings in a one-page report.
Your Personal Finance Records

Your day-to-day source documents are personal financial records. Personal financial records also include documents that are not related to everyday transactions. Vehicle titles, birth certificates, and tax returns are all personal financial documents. You can store your financial documents in home files, a home safe, or a safe-deposit box. You can also keep some financial records on a home computer.

**Activity** Imagine a person your age who drives to a part-time job and has a credit card. Make a list of the types of records and documents such a person would probably have. Create a plan that describes which records and documents to store and where to store them.

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**Auditing General Journal Entries**

In the following transactions, find any errors in the general journal entries presented.

1. Compare the transactions given below with the entries recorded in the general journal.
2. If any part of the transaction has been recorded incorrectly, make the necessary corrections to the journal entries on a sheet of paper.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 2</td>
<td>Bought $2,000 in office equipment, Check 601.</td>
</tr>
<tr>
<td>4</td>
<td>Received $50 from a charge customer, Jack Lane, to apply to his account, Receipt 120.</td>
</tr>
</tbody>
</table>

<p>| General Journal |
|-----------------|-----------------|-----------------|-----------------|</p>
<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>POST. REF.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 2</td>
<td>Store Equipment</td>
<td>000000</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Cash in Bank</td>
<td>000000</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Check 601</td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Cash in Bank</td>
<td>50000</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Accts. Rec.—Jack Lane</td>
<td>50000</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Receipt 102</td>
<td>50000</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>