

7. The Journal

Most everyone is intimidated by new concepts and terminology (like debits, credits, journals, etc.). But, learning can be made quite simple by relating new concepts to preexisting notions that are already well understood. So, think: what do you know about a journal (not an accounting journal, just any journal)? It's just a log book, right? A place where you can record a history of transactions and events - usually in date (chronological) order. But, you knew that.

Likewise, an accounting journal is just a log book that contains a chronological listing of a company's transactions and events. However, rather than including a detailed narrative description of a company's transactions and events, the journal lists the items by a "form of shorthand notation." Specifically, the notation indicates the accounts involved, and whether each is debited or credited. Remember what was said at the beginning of the chapter: "The system must be sufficient to fuel the preparation of the financial statements, and be capable of maintaining retrievable documentation for each and every transaction. In other words, some transaction logging process must be in place." The journal satisfies the need for this logging process!

The general journal is sometimes called the book of original entry. This means that source documents are reviewed and interpreted as to the accounts involved. Then, they are documented in the journal via their debit/credit format. As such the general journal becomes a log book of the recordable transactions and events. The journal is not sufficient, by itself, to prepare financial statements. That objective is fulfilled by subsequent steps. But, maintaining the journal is the point of beginning toward that end objective.

7.1 Illustrating the Accounting Journal

The following illustration draws upon the facts for the Xao Corporation. Specifically it shows the journalizing process for Xao's transactions. You should review it carefully, specifically noting that it is in chronological order with each transaction of the business being reduced to the short-hand description of its debit/credit effects. You will also note that each transaction is followed by a brief narrative description; this is a good practice to provide further documentation. For each transaction, it is customary to list "debits" first (flush left), then the credits (indented right). Finally, notice that a transaction may involve more than two accounts (as in the January 28 transaction below); the corresponding journal entry for these complex transactions is called a "compound" entry.

As you review the general journal for Xao, note that it is only two pages long. An actual journal for a business might consume hundreds and thousands of pages to document its many transactions. As a result, some businesses may maintain the journal in electronic form only.

7.2 Special Journals

First, the illustrated journal was referred to as a "general" journal. All transactions and events can be recorded in the general journal. However, a business may sometimes use "special journals." Special journals are totally optional; they are typically employed when there are many redundant transactions. Thus, a company could have special journals for each of the following: cash receipts, cash payments, sales, purchases, and/or payroll. These special journals do not replace the general journal. Instead,

GENERAL JOURNAL			Page 1	
Date	Accounts		Debits	Credits
1-1-X3	Cash		25,000	
	Capital Stock			25,000
	<i>Issued stock to shareholders, in exchange for cash</i>			
1-4-X3	Advertising Expense		2,000	
	Cash			2,000
	<i>Paid advertising expense for initial advertising programs</i>			
1-8-X3	Cash		4,000	
	Service Revenue			4,000
	<i>Provided services to customers for cash</i>			

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GENERAL JOURNAL			Page 2	
Date	Accounts		Debits	Credits
1-15-X3	Utilities Expense		1,000	
	Accounts Payable			1,000
	<i>Received bill for utility costs incurred</i>			
1-17-X3	Accounts Receivable		8,000	
	Service Revenue			8,000
	<i>Provided services to customers on account</i>			
1-18-X3	Accounts Payable		500	
	Cash			500
	<i>Paid half of the amount due on the utility bill received on January 15</i>			
1-25-X3	Cash		4,800	
	Accounts Receivable			4,800
	<i>Received 60% of the amount due on the receivable that was established on January 17</i>			
1-28-X3	Land		15,000	
	Cash			5,000
	Notes Payable			10,000
	<i>Purchased land by giving \$5,000 cash, and promising to pay the remainder in 90 days</i>			

Now that you have reviewed the journal entries for January, consider a few more points.

they just strip out recurring type transactions and place them in their own separate journal. The transaction descriptions associated with each transaction found in the general journal are not normally needed in a special journal, given that each transaction is redundant in nature. Without special journals, you can well imagine how voluminous a general journal could become. But, for learning purposes, let's just rely on the general journal to accomplish our goals.

7.3 Page Numbering

Second, notice that the illustrated journal consisted of two pages (labeled page 1 and page 2). Although the journal is chronological, it is helpful to have the page number indexing for transaction cross referencing and working backward from financial statement amounts to individual transactions.

7.4 But, What are the Account Balances?

The general journal is a great tool to capture transaction and event details, but it certainly does nothing to tell a company about the balance in each specific account. For instance, how much cash does Xao Corporation have at the end of January? One could go through the journal and net the debits and credits to Cash ($\$25,000 - \$2,000 + \$4,000 - \$500 + \$4,800 - \$5,000 = \$26,300$). But, this is tedious and highly susceptible to error. It would become virtually impossible if the journal were hundreds of pages long. A better way is needed. This is where the general ledger comes into play.