

Chapter (3): Transaction Analysis & Accounting Cycle

Second: Preparing Journal Entries (Journalizing):

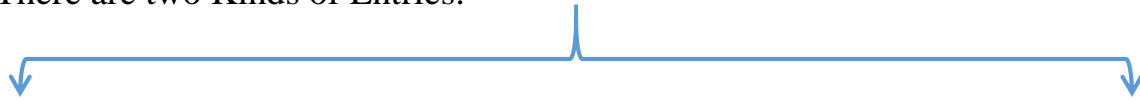
**What is the "General Journal"?

Journal: is " The Primary record of all business transactions.

It is also known as: " **The Book of Original Entries**".

**Types of Entries:

There are two Kinds of Entries:



Simple Entry:

It consists of:

- One Debit side,
- One Credit side.

Compound Entry:

It consists of:

- One (or) more Debit sides,
- One (or) more Credit sides.

** Determining the (Debit/Credit) Parties of Journal Entries:

Primarily, we should determine the nature of main Accounts:

Debit Accounts:

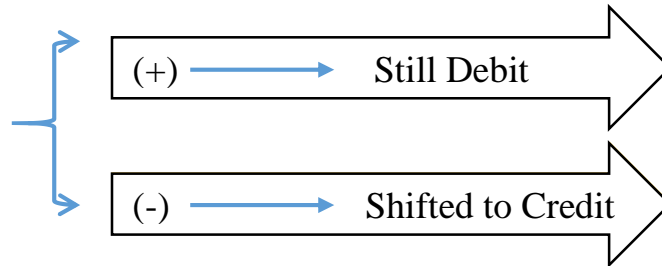
- Assets.
- Expenses.

Credit Accounts:

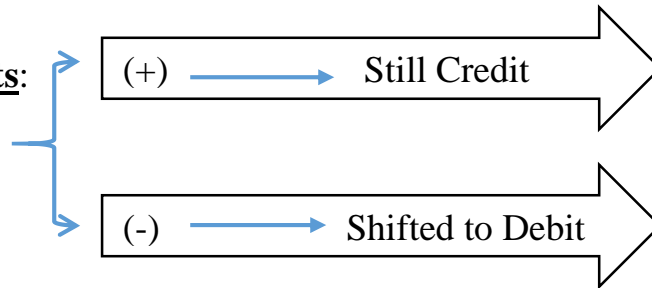
- Liabilities
- Owner's Equity
- Revenues.

Then, let's remember (+/-) rule:

Debit Accounts:



Credits Accounts:



Third: Posting to The Ledger:

What is the Ledger?

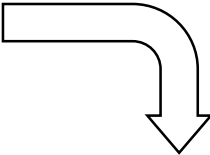
Ledger: is a collection of all accounts of the organization's information system.

- The company's size and diversity of operations determine the number of accounts needed.

- The (T account) ledger is: a tool, used to understand the effect of one or more transactions.

T Account
(Account title)

Left side		Right side	
Debit party		Credit party	
Date of transaction	amount	Date of transaction	amount

Let's Practice 

Example (1): Maha started its business for travel agency on April 1, The following transactions occurred during April:

- * Apr,1: Maha invested 40,000\$ cash in the Business.
- * Apr,4: Purchased land, Costing 30,000\$ for cash.
- * Apr,8: Incurred advertising expense of 1800\$ on account.
- * Apr,11: Paid Salaries to employees 500\$.
- * Apr,12: Hired a manager at a salary of 4000\$ per month. Effective on May 1.
- * Apr,13: Paid 1500\$ cash for a monthly insurance expenses.
- * Apr,17: Withdrew 1000\$ cash for personal use.
- * Apr,24: Received 5700\$ in cash for services rendered.
- * Apr,30: Paid 900\$ of balance owed for advertising incurred on April 8.

Required: Journalize April transactions, then post transactions to the ledger accounts.

Solution:

Date	Description	Posting.R ef	Debit	Credit
1/4	Cash Maha capital (Investment by Owner).		40.000	40.000
4/4	Land Cash (Purchasing land in cash).		30.000	30.000
8/4	Advertising expense Accounts Payable (Incur Advertising expense on account).		1.800	1.800
11/4	Salaries expense Cash (Paying salaries expense).		500	500
12/4	No Effect			
13/4	Insurance expense Cash (Paid cash for insurance expenses).		1.500	1.500
17/4	Withdrawals Cash (Withdrawals by owner)		1000	1000
24/4	Cash Services revenue (receiving services revenue in cash).		5.700	5.700
30/4	Accounts Payable Cash (paying 900\$ of Accounts payable).		900	900

Cash Account

Debit		Credit	
1/4	40.000	4/4	30.000
24/4	5700	11/4	500
		13/4	1500
		17/4	1000
		30/4	900
		Debit Balance	11.800
	45700		45700

Capital Account:

Debit		Credit	
		1/4	40.000
Credit balance	40.000		
	40.000		40.000

Land Account:

Debit		Credit	
4/4	30.000		
		Debit Balance	30.000
	30.000		30.000

Advertising expense Account:

Debit		Credit	
8/4	1800		
		Debit Balance	1800
	1800		1800

Accounts Payable Account:

Debit		Credit	
30/4	900	8/4	1800
Credit balance	900		
	1800		1800

Salaries expense Account:

Debit		Credit	
11/4	500		
		Debit Balance	500
	500		500

Insurance expense Account:

Debit		Credit	
13/4	1500		
		Debit Balance	1500
	1500		1500

Withdrawals Account:

Debit		Credit	
17/4	1000		
		Debit Balance	1000
	1000		1000

Services revenue Account:

Debit		Credit	
		24/4	5700
Credit Balance	5700		
	5700		5700

Example (2): Record the following transactions in the general journal of Ghazi Company, then post entries to the ledger:

Jan 1: Started business with 500.000 \$ cash.

Jan 2: Purchased office equipment of 30.000 \$.

Jan 10: Bought machinery 20.000 \$ on account from the Egyptian company.

Jan 20: Paid the amount owing to the Egyptian company cash.

Jan 25: Drew 2000 cash for the owner's personal use.

Solution:

Date:	Description	Posting. Ref.	D.	C.
Jan 1:	Cash Capital (Investment by owner)		500.000	500.000
Jan 2:	Office equipment Cash (purchase office equipment in cash)		30.000	30.000
Jan 10:	Machinery Accounts payable (Egypt. Com.) (purchase machines on account)		20.000	20.000
Jan 20:	Accounts payable (Egypt. Com.) Cash (paying the balance owed to Egypt. Com)		20.000	20.000
Jan 25:	Withdrawals Cash (Personal withdrawals)		2.000	2.000

Cash Account:

Debit		Credit	
1/1	500.000	2/1	30.000
		20/1	20.000
		25/1	2000
		Debit Balance	448.000
	500.000		500.000

Office equipment Account:

Debit		Credit	
1/2	30.000		
		Debit Balance	30.000
	30.000		30.000

Accounts Payables (Egyptian Co.):

Debit		Credit	
10/1	20.000	20/1	20.000
	20.000		20.000

Capital Account:

Debit		Credit	
		1/1	500.000
Credit balance	500.000		
	500.000		500.000

Machinery Account:

Debit		Credit	
10/1	20.000		
		Debit Balance	20.000
	20.000		20.000

Withdrawals Account:

Debit		Credit	
25/1	2000		
		Debit Balance	2000
	2000		2000

Terminology:

General Journal	دفتر اليومية
Entry	قيد يومية
Primary Record	الدفتـر (السجل المحاسبي) الأساسي
Simple Entry	قيد بسيط
Compound Entry	قيد مركب
Still	يبقى - يظل
Shifted to	يتحول إلى
Ledger	دفتر الأستاذ
Collection of accounts	مجموعة من الحسابات
Diversity of operations	تنوع عمليات المنشأة
Determine	يحدد
Hire = employee	يوظف - يعين
Owe to/for	مستحق لـ

Example Three: Prepare the trial balance for example 1/2:

Trial Balance Example (1):

Accounts	Debit	Credit
Cash	11.800	
Capital		40.000
Land	30.000	
Advertising expense	1800	
Accounts Payable		900
Salaries expense	500	
Insurance expense	1500	
Withdrawals	1000	
Services revenue		5700
	46.600	46.600

Trial Balance Example (2):

Accounts	Debit	Credit
Cash	448.000	
Capital		500.000
Office equipment	30.000	
Accounts Payable (Egyptian Co.)	00	00
Machinery	20.000	
Withdrawals	2000	
	500.000	500.000