

ACC 211/212: Double Entry Logs

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Journal Entries:

- Credits are always indented (account name and value).
- The sum of debits will always equal the sum of credits.
- The month name is required only for the first entry of the month and the first entry of a page.
- A user can insert a comment (in parenthesis or italics) below an entry; documentation is extremely important for tracking account transactions.
- Account names and PR numbers are linked. Make sure account names agree with PR numbers.
- Create balance based T-accounts to track account balance (see following page).

Assets	=	Liabilities	+	Owner's Equity			
Assets DR↑ CR↓	=	Liabilities DR↓ CR↑	+	Capital DR↓ CR↑	- Withdrawals DR↑ CR↓	+ Revenues DR↓ CR↑	- Expenses DR↑ CR↓

Merchandising:

- ***Merchandise Inventory represents the cost of the goods.***
- There are two entries when goods are sold: a revenue adjustment and an inventory adjustment.
- Discount terms example: 2/10, n/30. Buyer receives a 2% discount if paid within 10 days, or they can pay full (net cost) within 30 days.
- If company pays a bill in a discount period, adjust Merchandise Inventory to accurately record the cost of the goods purchased.
- When selling goods, what inventory method is being used?
 - LIFO, FIFO, Weighted Average, or Specific Identification
- When working with Returns and Allowances, consider:
 - Are goods being returned? Are they reusable?

Tips for Official Statements:

- Header – no abbreviations and capitalize in same fashion as a title.
 - Pay attention to the period of a statement.
- Only the first and last amount of a column receives a dollar symbol.
- The final value of a document receives a double underline.
- Negative values are represented in parenthesis.
- If a section of a statement has multiple applicable accounts, use a separate column to calculate a total instead of using each value individually.
- Income Summary → Statement of Owner's Equity → Balance Sheet

Balance Column Format

Cash		PR - 101			
Date	Explanation	PR	Debit	Credit	Balance
1-Mar	Initial Investment		20000		20000
1-Mar	Rent Payment			4800	15200
2-Mar	Purchase of Supplies			250	14950
5-Mar	Pay Workers			500	14450
8-Mar	Sale of Goods		3000		17450
9-Mar	Purchase of Insurance			4800	12650
10-Mar	Collection of Receivables		2500		15150
11-Mar	Payment for Goods			3430	11720
12-Mar	Collection of Receivables		8000		19720
12-Mar	Withdrawal by Owner			500	19220

PROS:
-Balance per entry

CONS:
-Does not differentiate between DR and CR balance

Balancing T-Account Format

Cash		
Debit	Credit	
1-Mar 20000		
	4800	2-Mar
15200		
	250	2-Mar
14950		
	500	5-Mar
14450		
8-Mar 3000		
17450		
	4800	9-Mar
12650		
10-Mar 2500		
15150		
	3430	11-Mar
11720		
12-Mar 8000		
19720		
	500	12-Mar
19220		

T - Account Method

Cash	
Debits	Credits
20000	4800
3000	250
2500	500
8000	4800
	3430
	500
Balance:	19,220

PROS:
-Balance per entry
-displays DR/CR balance

CONS:
-More time consuming

PROS:
-Fast and simple method to find final balance

CONS:
-No balance per entry

Adjusting Journal Entries:

- Adjusting entries will never involve the cash account.
- Adjusting entries are used to record changes in accounts that have not been previously acknowledged (depreciation, inventory adjustments after an audit, etc.).
- **TIP:** Consider the *original* entry for prepaid expenses and unearned revenues.
 - Example: DR-Prepaid Expenses (asset) and CR-Cash for the purchase.
- There are four categories of adjustment entries:

Prepaid Expenses - These entries are used to record the usage of prepaid expenses/assets. For example, XYZ Inc. purchased a one year insurance policy for \$1200 effective Aug 1st. Calculate the dollar equivalent of the policy that has expired. The entry as of Dec 31 is:

$$(5 \text{ months}) \times (\$1200 / 12 \text{ months}) = 5 \text{ mo} \times \$100/\text{month} = \$500.$$

Dec. 31	Insurance Expense	500	
	Prepaid Insurance		500

Unearned Revenue – These entries are used to record the transition of pre-collected funds to earned revenue. For example, XYZ Inc. sells 12-issue a year magazine subscriptions. A distributor purchased 1000 subscriptions for \$48,000 effective May 1st. The entry as of Dec 31 is:

$$(8 \text{ months}) \times (\$48,000 / 12 \text{ months}) = 8 \text{ mo} \times \$4,000/\text{mo} = \$32,000$$

Dec. 31	Unearned Subscription Fees	32,000	
	Subscription Fees Earned		32,000

Accrued Revenue – These entries are used to record revenue that has not been billed or recorded. For example, XYZ Service Inc. performs an emergency repair for a client over holiday break. The job has been performed but will not be billed until the holidays are over. The entry as of Dec 31 is:

Dec. 31	Accounts Receivable – Client	1,500	
	Service Revenue		1,500

Accrued Expense – These entries are used to record expenses that occurred within the fiscal year, but will not be paid until after the fiscal year’s end. For example, XYZ Inc. has three employees with a combined flat salary rate of \$4,200 every two weeks (includes weekends). The pay period was from Dec 23 to Jan 3. Even with 9 days falling in the past fiscal year, the workers will not be paid until Jan 9. The entry as of Dec 31 is:

$$(9 \text{ days}) \times (\$4,200 / 14 \text{ days}) = 9 \text{ days} \times \$300/\text{day} = \$2,700$$

Dec. 31	Salaries Expense	2,700	
	Salaries Payable		2,700

Closing Entries:

- Perform closing entries *after* all adjusting entries have been recorded.
 - Use Adjusted Trial Balance/Pre-Closing Trial Balance.
- Revenue, Expenses, and Owner Withdrawals are temporary accounts; they do not “roll over” to the next year.
- Revenues have a normal credit balance. Debit the revenue account to empty the balance. Expenses have a normal debit balance and must be credited for closing.
- The Income Summary has a normal credit balance with a net gain and a debit balance with a net loss—the third entry may not always have capital as a credit.

1. Close revenue accounts to income summary (Debit Revenues)

Dec. 31	Sales	50,000	
	Service Revenue	12,000	
	Interest Earned	3,000	
	Income Summary		65,000

2. Close expense accounts to income summary (Credit Expenses)

Dec. 31	Income Summary	65,000	
	Cost of Goods Sold		35,750
	Rent Expense		12,000
	Utilities Expense		2,250
	Wages Expense		15,000

3. Close income summary to owner’s capital

Dec. 31	Income Summary	5,000	
	Owner’s Capital		5,000

4. Close withdrawals to owner’s capital

Dec. 31	Owner’s Withdrawals	1,200	
	Owner’s Capital		1,200

Note: These are fabricated figures; use the figures off of an Adjusted/Pre-closing Trial Balance.

Example Problem:

Part I

C. J. Sparrow created a retail store, Deep Treasures, that specializes in pirate merchandise. The following statements are business transactions within the first two weeks. Prepare journal entries for the transactions.

- Mar. 1 - C.J. Sparrow invested \$20,000 cash and merchandise with a total cost of \$5,000 into his new business, Deep Treasures Inc.
- Mar. 1 - C.J. Sparrow paid \$4800 for 12 months rent.
- Mar. 2 - C.J. purchases office supplies for \$250 cash.
- Mar. 3 - Deep Treasures Inc. purchased merchandise with a cost of \$3,500 on credit terms 2/10, n/30.
- Mar. 4 - Receipts show that the company sold goods for \$2,500 that had a total cost of \$1,250 to be paid within 30 days.
- Mar. 5 - C.J. paid his co-worker \$500 for a week of work.
- Mar. 8 - Deep Treasures Inc. sold goods with a cost of \$1,500 for \$3,000 cash.
- Mar. 9 - C.J. Sparrow purchased a 2-year insurance policy for \$4,800 cash.
- Mar. 10 - Deep Treasures Inc. sold \$4,550 worth of goods for \$8,000 to be paid within 30 days.
- Mar. 11 - Deep Treasures received full payment for the goods sold on March 4th.
- Mar. 12 - Deep Treasures paid for the goods purchased on March 3rd (note: credit terms).
- Mar. 12 - Deep Treasures received cash for the sale made on March 10th.
- Mar. 12 - C. J. Sparrow withdrawals \$500 for personal use.

Part II

C.J. Sparrow disappears and the business does not make any more transactions for the rest of the year. An internal inventory audit reveals that there is only \$780 of merchandise available for sale. Perform adjusting and closing entries for the year end. Also, prepare an income statement, statement of owner's equity and trial balances where appropriate.

Solution to Example:

Date	Account Title	PR	Debit	Credit
Mar. 1	Cash Merchandise Inventory Capital - C.J. Sparrow <i>(to record the initial investment of owner)</i>	101 120 300	20000 5000	25000
1	Prepaid Rent Cash <i>(to record payment of yearly rent)</i>	195 101	4800	4800
2	Office Supplies Cash <i>(to record purchase of office supplies)</i>	110 101	250	250
3	Merchandise Inventory Accounts Payable <i>(to record purchase of goods with terms 2/10, n/30)</i>	120 201	3500	3500
4	Accounts Receivable Sales <i>(to record revenue of sales transaction)</i>	150 400	2500	2500
4	Cost of Goods Sold Merchandise Inventory <i>(to record inventory adj. of sales transaction)</i>	501 120	1250	1250
5	Wages Expense Cash <i>(to record payment to weekly workers)</i>	510 101	500	500
8	Cash Sales <i>(to record revenue of sales transaction)</i>	101 400	3000	3000
8	Cost of Goods Sold Merchandise Inventory <i>(to record inventory adj. of sales transaction)</i>	501 120	1500	1500
9	Prepaid Insurance Cash <i>(to record purchase of 2-year insurance policy)</i>	190 101	4800	4800

<i>Date</i>	Account Title	PR	Debit	Credit
<i>Mar. 10</i>	Accounts Receivable Sales <i>(to record revenue of sales transaction)</i>	150 400	8000	8000
<i>10</i>	Cost of Goods Sold Merchandise Inventory <i>(to record inventory adj. of sales transaction)</i>	501 120	4550	4550
<i>11</i>	Cash Accounts Receivable <i>(to record collection of Mar. 4 sale)</i>	101 150	2500	2500
<i>12</i>	Accounts Payable Cash Merchandise Inventory <i>(to record payment of purchase minus discount)</i>	201 101 120	3500	3430 70
<i>12</i>	Cash Accounts Receivable <i>(to record collection of Mar. 10 sale)</i>	101 150	8000	8000
<i>12</i>	Withdrawals - C.J. Sparrow Cash <i>(to record withdrawal of cash by owner)</i>	301 101	500	500

<i>Date</i>	Account Title	PR	Debit	Credit
<i>Dec. 31</i>	Cost of Goods Sold Merchandise Inventory <i>(to record the difference in inventory)</i> <i>(calc: 1130 - 780 = 350)</i>	501 120	350	350
<i>31</i>	Rent Expense Prepaid Rent <i>(to record the usage of prepaid rent)</i> <i>(calc: \$4800 / 12 = \$400/mo * 10 months)</i>	520 195	4000	4000
<i>31</i>	Insurance Expense Prepaid Insurance <i>(to record the usage of prepaid insurance)</i> <i>(calc: \$4800 / 24 = \$200/mo * 10 months)</i>	530 190	2000	2000

<i>Date</i>	Account Title	PR	Debit	Credit
<i>Dec. 31</i>	Sales	400	13500	
	Income Summary	900		13500
	<i>(to record the closing of revenue accounts)</i>			
<i>31</i>	Income Summary	900	14150	
	Cost of Goods Sold	501		7650
	Rent Expense	520		4000
	Insurance Expense	530		2000
	Wages Expense	510		500
	<i>(to record the closing of expense accounts)</i>			
<i>31</i>	Capital-C. J. Sparrow	300	650	
	Income Summary	900		650
	<i>(to record the net loss to capital)</i>			
<i>31</i>	Capital - C. J. Sparrow	300	500	
	Withdrawals - C.J. Sparrow	301		500
	<i>(to record the closing of withdrawal account)</i>			

Deep Treasures Inc.			
Pre-Adjusted Trial Balance			
December 31, 2007			
Account Name	PR	Debit	Credit
Cash	101	19220	
Office Supplies	110	250	
Merchandise Inventory	120	1130	
Accounts Receivable	150	0	
Prepaid Insurance	190	4800	
Prepaid Rent	195	4800	
Accounts Payable	201		0
Capital - C. J. Sparrow	300		25000
Withdrawals - C. J. Sparrow	301	500	
Sales	400		13500
Cost of Goods Sold	501	7300	
Wages Expense	510	500	
Rent Expense	520	0	
Insurance Expense	530	0	
Totals:		<u>\$38,500</u>	<u>\$38,500</u>

Deep Treasures Inc. Adjusted Trial Balance December 31, 2007			
Account Name	PR	Debit	Credit
Cash	101	19220	
Office Supplies	110	250	
Merchandise Inventory	120	780	
Accounts Receivable	150	0	
Prepaid Insurance	190	2800	
Prepaid Rent	195	800	
Accounts Payable	201		0
Capital - C. J. Sparrow	300		25000
Withdrawals - C.J. Sparrow	301	500	
Sales	400		13500
Cost of Goods Sold	501	7650	
Wages Expense	510	500	
Rent Expense	520	4000	
Insurance Expense	530	2000	
Totals:		<u>\$38,500</u>	<u>\$38,500</u>

Deep Treasures Inc. Post-Closing Trial Balance December 31, 2007			
Account Name	PR	Debit	Credit
Cash	101	19220	
Office Supplies	110	250	
Merchandise Inventory	120	780	
Accounts Receivable	150	0	
Prepaid Insurance	190	2800	
Prepaid Rent	195	800	
Accounts Payable	201		0
Capital - C. J. Sparrow	300		23850
Withdrawals - C.J. Sparrow	301	0	
Sales	400		0
Cost of Goods Sold	501	0	
Wages Expense	510	0	
Rent Expense	520	0	
Insurance Expense	530	0	
Totals:		<u>\$23,850</u>	<u>\$23,850</u>

Deep Treasures Inc. Income Statement For Period Ending December 31, 2007		
Revenues:		
Sales	\$ 13,500	
Total Revenues		\$ 13,500
Expenses:		
Cost of Goods Sold	7650	
Wages Expense	500	
Insurance Expense	2000	
Rent Expense	4000	
Total Expenses		(14,150)
Net Income before taxes:		<u>\$ (650)</u>

Deep Treasures Inc. Statement of Owner's Equity For Period Ending December 31, 2007		
Beginning Capital March 1, 2007		\$0
Plus:		
Initial Investments:	\$ 25,000	
Net Income	(650)	\$ 24,350
Less:		
Withdrawals - C.J. Sparrow		500
Ending Capital March 12, 2007		<u>\$ 23,850</u>

Deep Treasures Inc. Balance Sheet (Post Closing) December 31, 2007			
Assets		Liabilities	
Cash	\$ 19,220	Accounts Payable	-
Office Supplies	250		
Merchandise Inventory	780		
Accounts Receivable	-		
Prepaid Insurance	2,800	Owner's Equity	
Prepaid Rent	800	C.J. Sparrow Capital	\$ 23,850
Total Assets:	\$ 23,850	Total Liabilities & Equity:	\$ 23,850