



So, you want to learn Bookkeeping!

by Bean Counter's Dave Marshall

Lesson 5

The General Ledger and Journals

Bean Counter

General Ledger

In Lesson 4 we used T-Accounts to record the transactions for ABC, the lawn mowing guys. What you didn't know at the time is that we were actually recording transactions in General Ledger Accounts. A General Ledger is just a formal set of T-Accounts. Each account that we want to track and keep up with has a separate page or pages maintained in a record book called the General Ledger. The book is organized into major sections just like the Accounting Equation that we studied in previous lessons. Do you have any idea what these sections might be? Come on this question is not that hard. The general ledger's major sections are Assets, Liabilities, Owner's Equity, Revenues, Expenses, and Draws.

For each item (account) in our General Ledger, we record the increases and decreases for a period (usually a month) and calculate its ending balance. The ending balance of the account is easily determined by adding the increases and subtracting the decreases from the account's beginning period balance.

Ending Account Balance = Beginning Balance + Increases - Decreases

If you noticed in my above equation I used the terms increases and decreases. If you also recall in our discussion about debits and credits in Lesson 3, I tried to stress the fact that when applied to bookkeeping these terms need to be **associated with the types of accounts**.

We also should know by now that the type of accounts have a normal balance that is either a debit or credit balance. So actually the above equation is stated in two ways. The equation is stated one way for debit balance accounts, and another way for credit balance accounts.

Using our bookkeeping terms debits and credits, we come up with the following equations:

Debit Balance Accounts Equation

- Ending Account Balance for Normal Debit Balance Accounts = Beginning Balance + Debits(Increases) - Credits(Decreases)

Credit Balance Accounts Equation

- Ending Account Balance for Normal Credit Balance Accounts = Beginning Balance + Credits(Increases) - Debits(Decreases)

Simply stated a General Ledger is just a book containing the **summarized** financial transactions and balances of the **accounts** for all of a business's assets, liabilities, equity, revenue, and expense accounts.

One other record that goes hand in hand with the general ledger and that we've touched on before and used in the prior lesson is **The Chart Of Accounts**. Remember The Chart Of Accounts is simply a listing of all the accounts in the general ledger that contains the account's name, a brief description of the account, and usually an account number assigned to aid in recording and tracking transactions.

It's chief purpose is to serve as an aid (reference) for looking up accounts and their associated account numbers.

For this lesson, we expanded our chart of accounts by adding account numbers and grouped the numbers into ranges that represent the major type of accounts.

Chart Of Accounts For ABC Mowing

Note:The charts of accounts used in this tutorial were purposely kept simple and used to illustrate what the chart of accounts is and how it's used. For those of you that are curious, I've provided a detailed list of the accounts you might encounter in the "real" world.

- [Balance Sheet Accounts](#)
- [Income Statement Accounts](#)

You might also want to check out my tutorial **So, you want to learn Bookkeeping! - Chart Of Accounts**.

Normally a numbering system is set up with a range of numbers for assets, liabilities, equity, revenue, and expense accounts. ABC Assets have a range from 100-199; Liabilities a range from 200-299; Equity a range from 300-399, Revenues a range from 400-499, and Expenses a range from 500-599.

Assets (100-199)

Account Name:Cash

Account Number:100

Description:Currency and checks and balance in bank

Account Name:Accounts Receivable

Account Number:110

Description: Amounts due from customer's for services rendered

Account Name:Inventory-Office Supplies

Account Number:115

Description:On hand supplies of such items as copier & computer paper, pens, pencils and other office supplies

Equity (300-399)

Account Name:Owner's Capital

Account Number:300

Description: Amounts invested by owner and earned by operations

Account Name:Owner's Draws

Account Number:310

Description: Amounts withdrawn by owner for personal expenses

Revenue (400-499)

Account Name: Mowing Revenues

Account Number:400

Description:Earnings from mowing yards

Expenses (500-699)

Account Name:Advertising Expense

Account Number:510

Account Name:Mowing Equipment
Account Number:150
Description:Mowers purchased

Description:Expenditures for TV, radio, newspaper,
and other promotions.

Liabilities (200-299)

Account Name:Accounts Payable
Account Number:200
Description:Amounts owed suppliers for business
purchases and expenses

Account Name:Mulch Expense
Account Number:520
Description:Expenditures for mulch used for yard
work

Account Name:Note Payable-Bank
Account Number:210
Description:Mortgages and loans owed to bank

Of course most businesses have many more than our eleven accounts we used for our sample ABC business. Can you think of some other accounts that we might need and want ? How about telephone, utilities, professional fees (that's me), salaries & wages, equipment rental, building rental, maintenance & repairs, contract labor, office equipment just to name a few.

Back To The General Ledger

What Information does a **General Ledger** Page contain ?

- Name of Account and Account Number
- Date of Posting
- Description-additional notes about the entry if needed
- Posting Reference-journals name (abbreviation) , page, and entry reference
- Amounts of the debits or credits transferred
- Current Balance of the Account

Sample of a General Ledger Page

The Posting Reference **GJ-1-1** refers to:

GJ-General Journal

1-Page 1

1-Entry Number 1

Click on the posting reference to see the journal entry

Account Name:Cash		Account Number:100			
Date	Description	Post Ref.	Debit Amount	Credit Amount	Balance
Jan 1, xxxx	Beg Bal				5000
Jan 5, xxxx		GJ-1-1		1000	4000
Jan 8, xxxx		GJ-1-2	200		4200
Jan 10, xxxx		GJ-1-3		400	3800

[Return To General Ledger Check](#)

Notice that the account has an amount column for debits (left side or first column) and an amount column for credits (right side or second column).

General Journal

Journals are preliminary records where business transactions are first entered into the accounting system. The journal is commonly referred to as the book of original entry. Specialized Journals-are journals used to initially record special types of transactions such as sales, cash disbursements, and cash receipts in their own journal.

The end result of double entry bookkeeping is having an up to date , in balance, and properly posted Ledger. In our prior lessons we recorded all our debits and credits (transactions) directly in the General Ledger. This would work for a small business that had very few transactions but would become unwieldy for most businesses with any volume of activity. By its very definition the General Ledger is supposed to be a **summary record** of a business's financial transactions.

It logically follows that since we only want summary amounts in our Ledger we need to record our detail entries some place else first. What record(s) do we use to do this ? You're right ! Journals are our preliminary records. All our transactions are first entered in a preliminary record called a journal or book of original entry. This process is called journalizing. After our business transactions have been entered in our journal(s), they are then periodically (usually monthly) summarized and totaled and then transferred (posted) to the General Ledger as summary entries.

What type of information is included in the **Journal Record** ?

- Entry Number
- Date of each transaction
- Names and/or the account numbers of the accounts to be debited or credited
- Amounts of the debits and credits
- Posting Reference-Account Number in the General Ledger
- Explanation or description of the entry

The journals contain all the chronological (by date) information necessary to record debit and credit amounts in the accounts of the General Ledger.

Sample of A General Journal Page

General Journal			Page 1		
Entry No	Date	Account Name	Post Ref.	Debit	Credit
GJ-1-1	Jan 5, xxxx	Supplies	502	1000	
		Cash	100		1000

Record Supplies Expense					
GJ-1-2	Jan 8, xxxx	Cash	<u>100</u>	200	
		Sales	300		200
Record Cash Sale					
GJ-1-3	Jan 10, xxxx	Advertising Expense	500	400	
		Cash	<u>100</u>		400
Record Advertising Expense					
GJ-1-4	Jan 20, xxxx	Utilities		650	
		Cash			650
Record Utilities Expense					

Click On the posting reference (account number) to see the entry posted in the sample General Ledger (only for posting reference Account No:100 Cash)

Do you notice anything odd about any of our entries in our General Journal ? Look at entry number 4 (GJ-1-4). It doesn't have a posting reference. Why not ? The answer is simple. Entry Number 4 has not yet been posted to the General Ledger. This is our way of keeping up with what entries have and have not been posted to the General Ledger.

Check me out to see if I'm telling the truth [General Ledger Check](#)

Remember ABC ? Yeah, it's the mowing guys.



Navigation:

Interactive Links are included in the following Beginning Balances Table.

- Click on the Underlined Dollar Amounts (Links) to see the Beginning Amounts recorded in the appropriate General Ledger Accounts.

ABC's Beginning Account Balances as of December 1, xxxx

Assets	Liabilities	Equity
Cash <u>\$5,500</u>	Accounts Payable (<u>\$2,000</u>)	Owner's Capital (<u>\$7,500</u>)
Accounts Receivable <u>\$1,600</u>		Mowing Revenue (<u>\$1,000</u>)
Mowing Equipment <u>\$2,500</u>		Advertising Expense <u>\$200</u>
		Mulch Expense <u>\$100</u>
		Owner Draws <u>\$600</u>

Note:Credit balances are indicated by using parentheses ().



ABC Transactions for December xxxx

Oh Shucks, those mowing guys again ! Notice that this time the check numbers, invoice numbers, and dates were added to the transaction descriptions.



Navigation:

Interactive Links are included in the following transaction list.

- Click on the Journal Entry Link to be taken to the Formal Journal Entry recorded for the transaction in the General Journal. The transaction will be the first one displayed in the Journal.

1. December 2, xxxx ABC mows a client's yard and receives a check # 484 from the customer for \$50 for the service provided.

[Journal Entry 1](#)

2. December 4, xxxx ABC purchases \$100 worth of office supplies and stores them in their storage room. The office supply store gives them an invoice # 983 that allows them to pay for them in 15 days (on account).

[Journal Entry 2](#)

3. December 8, xxxx ABC places an ad in the local newspaper receives the invoice from the supplier # 555 and writes a check # 900 for \$25 to the newspaper.

[Journal Entry 3](#)

4. December 10, xxxx ABC purchases five mowers for \$10,000 and finances them with a note from the local bank.

[Journal Entry 4](#)

5. December 15, xxxx ABC mows another customer's yard and sends their customer a \$75 bill (invoice # 1000) for the service they performed. They allow their customer ten (10) days to pay them for this service (on account).

[Journal Entry 5](#)

6. December 20, xxxx the owner of ABC needs a little money to pay some personal bills and writes himself a check # 901 for \$500.

[Journal Entry 6](#)

7. December 22, xxxx ABC pays the office supply company \$100 with a check # 902 for the office supplies that they charged (promised to pay invoice # 983).

[Journal Entry 7](#)

8. December 27, xxxx ABC receives a check # 55 from the customer who they billed (invoiced # 1000) \$75 for services and allowed 10 days to pay.

[Journal Entry 8](#)

9. December 29, xxxx ABC purchased some mulch for \$60 and received an invoice # 777 from their supplier with terms of 15 days. The mulch was used on a customer's yard.

[Journal Entry 9](#)

10. December 31, xxxx ABC bills (prepares an invoice # 1001) the customer \$80 for the mulch and mowing his yard and receives a check for \$80 # 555 from the customer.

[Journal Entry 10](#)

General Journal

The transactions for ABC are presented below in a formal General Journal. Review the entries and if you have any questions go back to Lesson 4 for detailed discussions for each of the transactions.

The reference numbers refer to General Journal, Entry Number, and Page Number. **GJ-1-1** means GJ (General Journal), Page 1, and Entry 1. The Posting Reference (Post Ref.) is the General Ledger Account Number taken from our Simple Chart Of Accounts.

Navigation:

Interactive Links are included in our following General Journal.



- Click on the Underlined Entry Number (GJ-1-1, etc.) to Return or be Taken To the Transaction Listing.
- Click on the Underlined Account Name Link or the Underlined Posting Reference (Account Number) Link to see the entry posted (transferred) from the General Journal to The General Ledger Account.

General Journal			Page 1		
Entry Number	Date	Account Name	Post Ref.	Debit	Credit
GJ-1-1	Dec 2, xxxx	Cash	100	50	
		Mowing Revenue	400		50
Record customer check # 484 and revenue from mowing job.					
GJ-1-2	Dec 4, xxxx	Inventory-Office Supplies	115	100	
		Accounts Payable	200		100
Record invoice # 983 for office supplies purchased on account.					
GJ-1-3	Dec 8, xxxx	Advertising Expense	510	25	
		Cash	100		25
Record check # 900 for advertising services					
GJ-1-4	Dec 10, xxxx	Mowing Equipment	150	10000	
		Note Payable-Bank	210		10000
Record purchase of mowing equipment financed by bank note.					
GJ-1-5	Dec 15, xxxx	Accounts Receivable	110	75	
		Mowing Revenue	400		75
Invoice (# 1000) customer on account for revenue earned from mowing yard.					
GJ-1-6	Dec 20, xxxx	Owner's Draw	310	500	
		Cash	100		500
Record owner's draw check # 901.					
GJ-1-7	Dec 22, xxxx	Accounts Payable	200	100	
		Cash	100		100
Record check # 902 paid to supplier for office supplies charged on account (invoice # 983).					
GJ-1-8	Dec 27, xxxx	Cash	100	75	
		Accounts Receivable	110		75
Record customer's check # 55 received from customer on account.					
GJ-1-9	Dec 29, xxxx	Mulch Expense	520	60	
		Accounts Payable	200		60
Record mulch purchase/expense (invoice # 777) with credit terms.					

Account Name: Mulch Expense					Account Number: 520
Date	Description	Post Ref.	Debit	Credit	Balance
Dec 1	Beg Bal.				100
Dec 29		GJ-1-9	60		160

Trial Balance

We used a Trial Balance at the end of Lesson 4 to check our postings. I just didn't tell you at the time. Let's review the formal definition. A Trial Balance is a listing of all the accounts appearing in the general ledger with the dollar amount of the debit or credit balance of each. It is used to make sure the books are "in balance" - total debits and credits are equal.

A trial balance is just a worksheet that bookkeeper's and accountants prepare from the General Ledger to check that the books (General Ledger) are in balance (Debit Account Balances = Credit Account Balances).

Let's prepare our trial balance for ABC at the end of December.



Navigation:

Interactive Links are included in our Trial Balance.

- Click on the Underlined Account Name Link to go to the Ending Balance in the General Ledger Accounts.

Account	Debit Balances	Credit Balances
Asset Accounts		
Cash	5080	
Accounts Receivable	1600	
Inventory-Office Supplies	100	
Mowing Equipment	12500	
Liability Accounts		
Accounts Payable		2060

Note Payable-Bank		10000
Equity Accounts		
Owner's Capital		7500
Owner's Draws	1100	
Revenue Accounts		
Mowing Revenue		1205
Expense Accounts		
Mulch Expense	160	
Advertising Expense	225	
Totals	20765	20765

Sure enough our debit balances equal our credit balances. How did we determine what account balances had a debit balance and what account balances had a credit balance ? It was easy because we used the parentheses () to denote that an account balance was a credit. Therefore, all the balances that **are not** enclosed in parentheses make up our **Debit Balance Accounts** and all the balances **enclosed in parentheses** make up our **Credit Balance Accounts**.

So you know !

We covered this earlier; but, it's worth repeating. In this lesson we used parentheses () to indicate credits. Remember that this is just one of the methods used for indicating debits and credits and whether an account's balance is a Debit or a Credit.

- Ways and symbols you might run across are:
- Dr for Debit and Cr for Credit
- + (Plus Sign) for Debit and - (Minus Sign) for Credit
- No Bracket for Debit and < > (Brackets) for Credit
- No Parentheses for Debit and () (Parentheses) for Credit

Symbol	Indicates a Debit	Indicates a Credit
Dr / Cr	Dr	Cr
+ / -	+	-
No Bracket / Bracket < >		< >
No Parentheses / Parentheses ()		()

Note: The plus (+) and minus (sign) are often used by accounting and bookkeeping programs to indicate debits and credits. Don't get confused and think that the plus sign means an increase or that the minus sign means a decrease. They **do not**. In this case, they are simply symbols that mean either a debit or a credit.

Normal Balances for the Types of Accounts

Just to keep you on your toes - do you recall what type of accounts normally have a debit or credit balance ?

- Assets, Expenses, and Draws normally have Debit Balances.
- Liabilities, Owner's Capital, and Revenue accounts normally have Credit Balances.

Need proof ?

Refer back to our preceding Trial Balance for ABC. The Trial Balance has a column for Debit Balance Accounts and a column for Credit Balance Accounts.

Sure enough, our Assets, Owner's Draws, and Expense Type of Accounts are listed in the Debit Balance Column. Likewise, our Liability, Owner's Capital, and Revenue Type of Accounts are listed in the Credit Balance Column.

How do you initially determine that an Account has a Debit or Credit Balance ? This is simply a matter of determining if the Account has more Debit Amounts Posted or More Credit Amounts Posted. If More Debits Than Credits have been posted to the Account, the Account will have a **Debit Balance**. Likewise, if More Credits Than Debits have been posted to the Account, the Account will have a **Credit Balance**.

You have now been introduced to some of bookkeeping and accounting's formal records, namely the General Ledger and General Journal. You could get by with just these two records, but if your business like most has many transactions instead of the few that ABC had you'd be spending a heck of a lot of time recording and posting. What's the solution to streamlining the recording and posting processes.

Remember when I introduced Journals in this lesson where I briefly mentioned Special Journals ? Well, they are the solution.

Some **Special Journals** a business will normally have are:

- Cash Receipts Journal
- Cash Disbursements Journal (Check Register)
- Payroll Journal
- Sales Journal
- Purchase Journal
- General Journal

All these journals are designed to record special types of business transactions and post the totals accumulated in these journals to the General Ledger periodically (usually once a month).

Instead of using just one journal to record all our business transactions we use many. Although this tutorial is not going to discuss the Special Journals I wanted to make you aware of them and the purpose they serve.

If you want to learn more about Special Journals, my **So, you want to learn Bookkeeping - Special Journals** tutorial covers this topic.

Before we move on to Lesson 6, since they say that a picture's worth a thousand words, let's use a picture to illustrate the flow of information (business transactions) into our bookkeeping records. You're right Financial Statements haven't been discussed, but guess what's coming in Lesson 6 ?

Source Documents

provides the initial data about business transactions.

<p>Journals</p> <p>use the information from the source documents to create a chronological listing of all business transactions and detailed information about each transaction.</p>
<p>General Ledger</p> <p>uses the information transferred from the journal(s) to summarize the data into individual accounts.</p>
<p>Trial Balance</p> <p>uses the information from the General Ledger to summarize the data to use for preparing the Financial Statements.</p>
<p>Financial Statements</p> <p>uses the summarized data contained in the Trial Balance to prepare the business's financial reports .</p>



Where's that darn light and quiz ? This reminds me of an ole American commercial about hamburgers with an ole lady driving up to a fast food window and after being served asking "Where's the beef ?". I do think you deserve a break; but, before we go get back under the light. Just a few questions and then you're free to take a break.

[Basic Bookkeeping-General Ledger and Journals](#)



We've been gradually climbing the ladder of bookkeeping knowledge. We're not at the top but we're getting there. Hang in there only a few more lessons left.

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