Prepare journal entries to record transactions

Finance

Journal Entries Journal Entries Double entry is a concept that was derived from the accounting equation, which says that asset must be equal to the liabilities and capital. Avery important rule to consider while entering the transactions in a T – format is that, every entry that is debited must be followed with a credit entry on another account. In accounting, every transaction has got two effects. If someone purchases bread on a local shop, he or she pays cash to the shop keeper, and the shop keeper on return gives him or her loaf of bread. From the perspective of both seller and the buyer, this transaction has two net effects. For the buyer, the cash balance will decrease or reduce by the amount he used to purchase that item, and on the other handing he will have acquired a loaf of bread. On the side of the seller, his amount of cash will increase by the price of the loaf of bread and while his stock of bread will reduce consequently (Price, Haddock, & Farina, 2012). Accounting tries to record both two events of the transaction, on the financial statement of the business. Without the concept of double entry and maintenance of these accounting records, the records of the business or the company, will just show a partial report on the business or the company state of affairs (Stickney, 2010).

Generally, the resulting effect of two entries is known as debit and credits. Accounting major principle is that for every debit entry, it must be followed by the subsequent credit entry. The debit entries are the ones that result from the increase in assets, and expenses and those which lead to the decrease in liabilities, equities and incomes. On the other hand, credit entries are the ones that lead to the decrease in expenses and assets, and those that leads to the increase in equity liabilities and income. A series of these entries must lead to the balancing of respective accounts.

These accounts may be posted to one general account that has columns of description, folio, debit side and credit side. After the entry of each transaction, a brief explanation is made. This description must accurately explain the traction which took place so that any person who sees it for the first time will be able to understand what happens on the respective entries. Each and every journal entered can also be matched with the supportive document, which is relevant to the entry made. These supportive documents could be a receipt or check stub by the use of folio or code number. These folio number or code, cross reference between different documents. Large business entities are difficult to track its entities using the T accounts, because large entities have got large number of daily transactions. These transactions involve checks, credit notes, invoices, requisitions among others (Price, Haddock, & Farina, 2012).

These transactions are analyzed on the effects on the final financial statement and then posted to the journal through a process called journalizing. Although some companies uses different journal for entering their specific transactions, most companies uses a one generalized journal to record all transactions (Price, Haddock, & Farina, 2012).

References:

Price, John E., Haddock, M . David, Farina, Michael J. (2012). College Accounting (13 ed.), New York: McGraw Hill.

Stickney, C. P. (2010). Financial accounting: An introduction to concepts, methods, and uses. Mason, OH: South-Western/Cengage Learning.