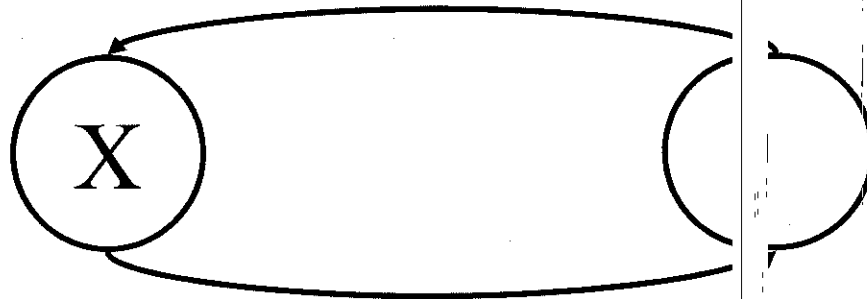


# **UNDERSTANDING JOURNAL ENTRIES**

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# TRANSACTION



**To buy, sell, borrow, lend, or invest,  
an entity must engage in transactions.**

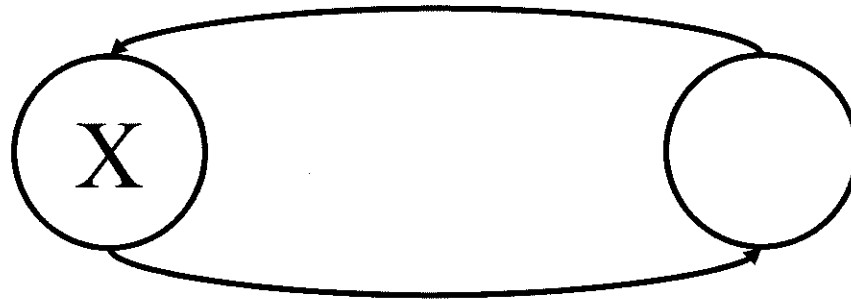
**Transactions are reciprocal, e.g., an entity  
can buy only if another entity sells.**

**In each transaction, an entity receives  
something and gives something.**

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# Figure 1

## TRANSACTION



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## Figure 2

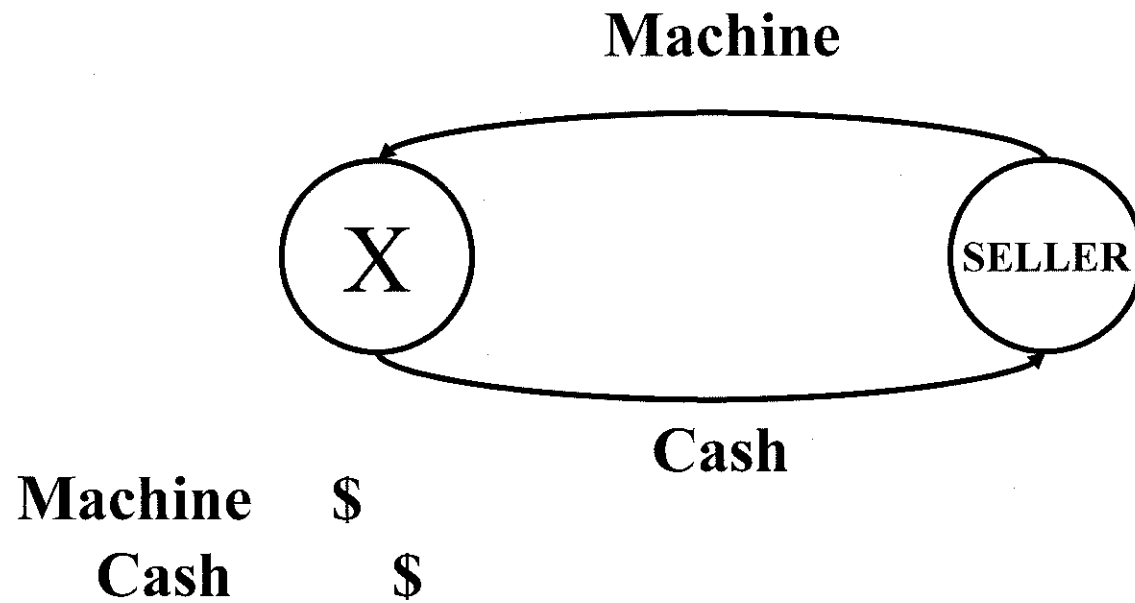
<b>ACCOUNT</b>	<b>TO BE INITIALLY RECORDED, ITEM IS</b>	<b>INITIALLY RECORDED AS</b>
<b>Asset</b>	<b>Received</b>	<b>Dr</b>
<b>Equity [Liab+OE]</b>	<b>Given</b>	<b>Cr</b>
<b>Revenue</b>	<b>Given</b>	<b>Cr</b>
<b>Expense</b>	<b>Received</b>	<b>Dr</b>

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## Figure 3

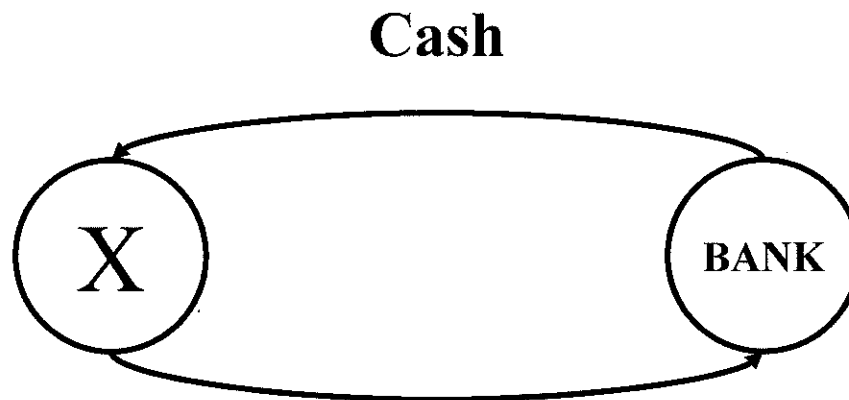
**ASSET: Received**  
**Purchase a Machine**



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## Figure 4

**EQUITY [Liability]: Given**  
**Borrow Cash**



**Promise**

**\* Pay Back Amount**

**\* Pay Interest**

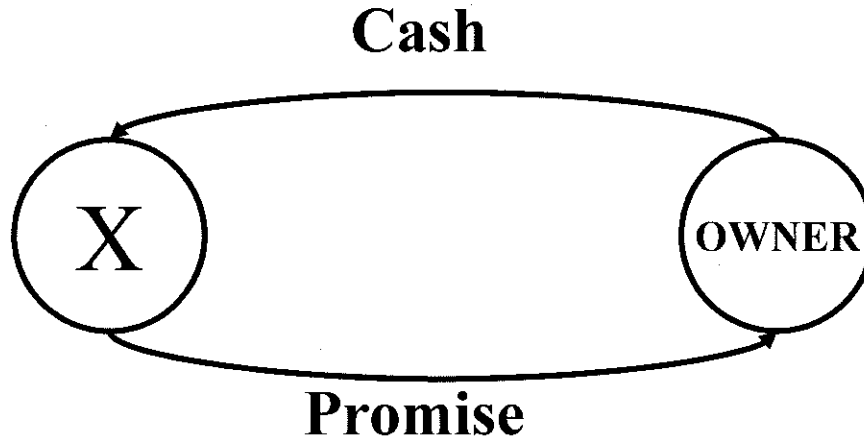
<b>Cash</b>	<b>\$</b>
<b>Note Payable</b>	<b>\$</b>



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## Figure 5

**EQUITY [Owner Equity]: Given**  
**Receive Cash from Owner**



**\* Pay Back Amount**

**\* Pay Net Income or Net Loss**

**Cash**                    **\$**

**Capital**                    **\$**

---

**EXPENSE** =  
services received  
up in creating

**Figure 6**

= **Goods and**  
**services delivered to**

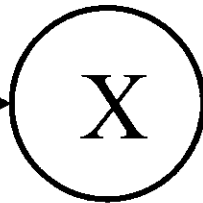
**IN**

**Goods and**  
**services received and used**  
**Revenue**

**REVENUE**  
**services delivered to**  
**customers**

**OUT**

**INPUTS**



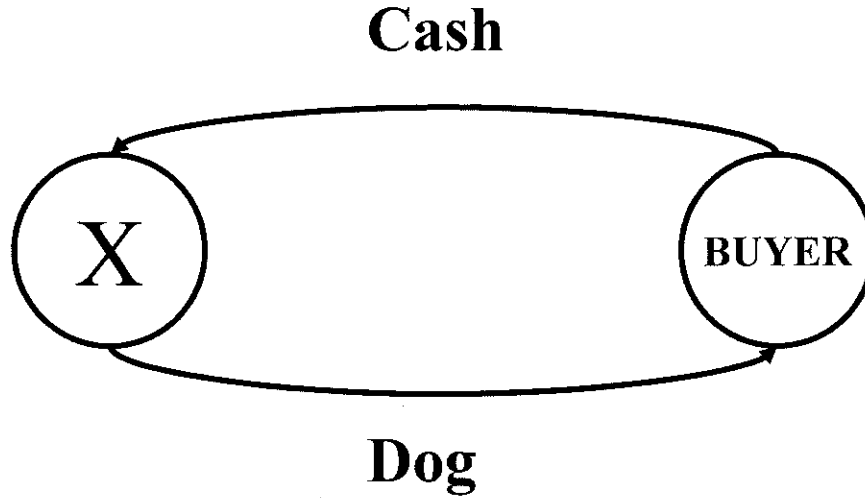
**OUTPUTS**



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# Figure 7

**REVENUE: Given**  
**Sell a Dog**



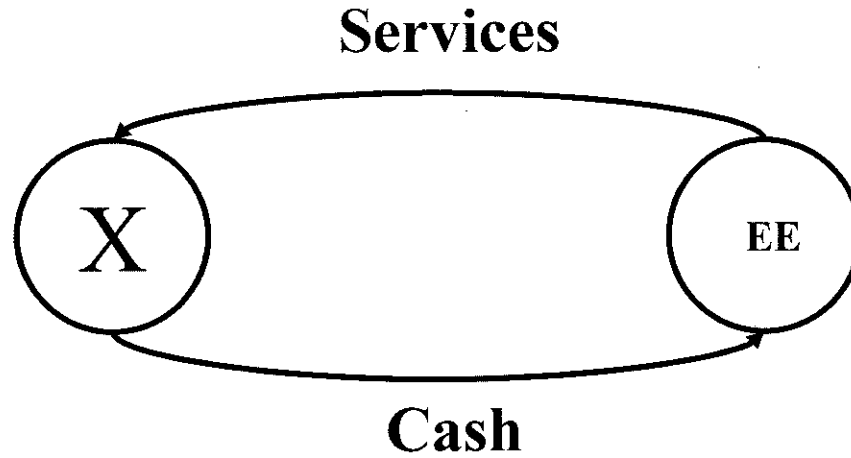
Cash                    \$  
Dog [Dog Sales]       \$

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## Figure 8

**EXPENSE: Received**  
**Pay Employee [EE]**



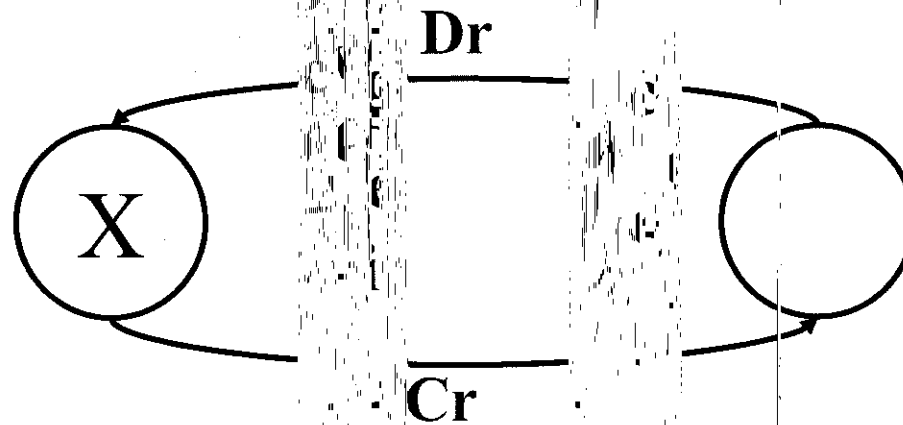
**Salary Expense**     \$  
**Cash**                     \$

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---

## Figure 9

Per the analysis above, recording a transaction red



Any item received is recorded as a Debit.  
Any item given is recorded as a Credit.

To record any transaction, the accountant should identify:

- \* the consideration received [Dr], and
  - \* the consideration given [Cr].
-

**COSTS**

**Figure 10**

**Services**

**\$**

**Goods and Services**

**COSTS**

**Costs**

**Received**

**nowhere.**

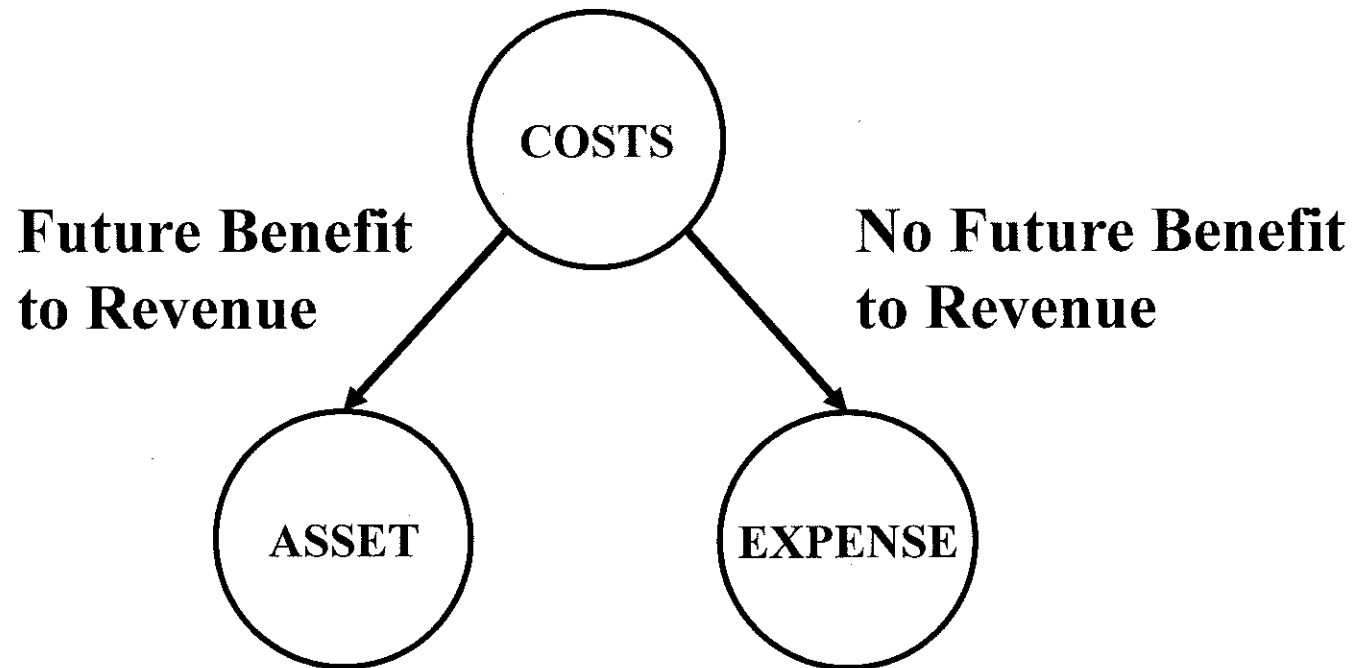
**Costs = Goods and services received  
in a transaction.**

**Costs received! So it will be "Debited" some**

---

## Figure 11

### COSTS

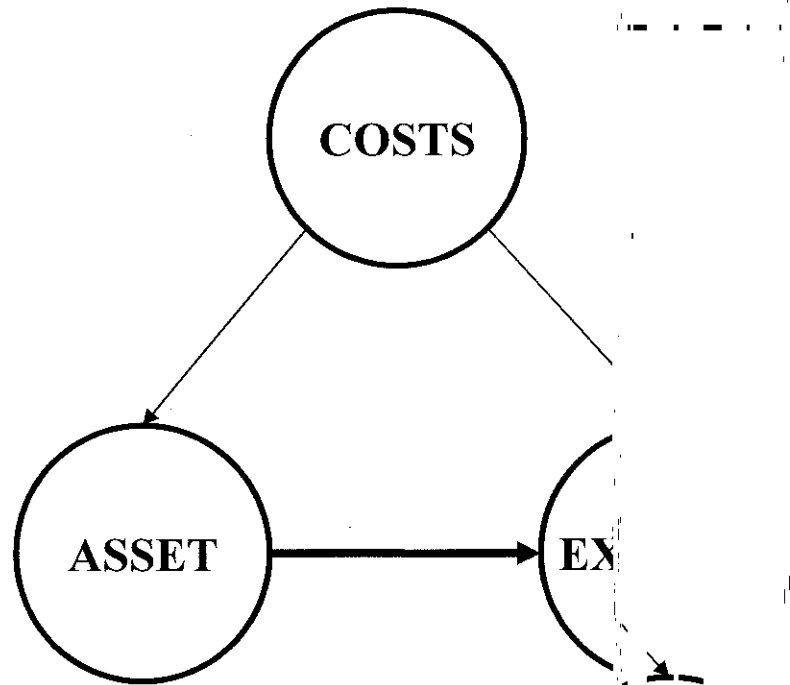


**So, depending on what is benefited, i.e., future or present:  
debit either asset or expense**

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**Figure 12**

**COSTS**



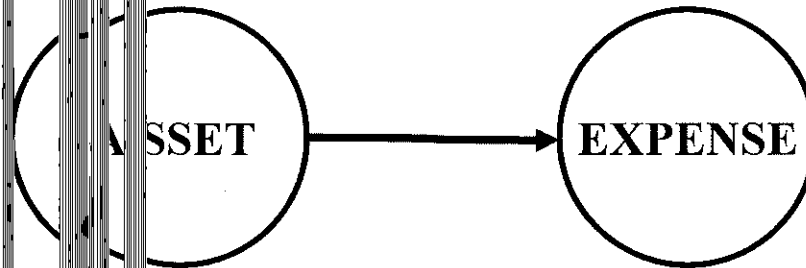
**Assets are Reclassified to Expense as they are used up, consumed, or expire**

EXPENSE

expense  
for ex

# Figure 13

## COSTS-Reclassification



Assets are Reclassified to Expense by:

Expense                    \$  
 Asset                        \$

Example:  
 Depreciation Expense            \$  
     Accumulated Depreciation    \$

Think of the entry as moving costs:

To the Income Statement, i.e., the Inc. Stmt. receives [Dr.]

From the Balance Sheet, i.e., the Bal. Sh. gives up [Cr.]