UNDERSTANDING
JOURNAL ENTRIES

Elsie Ameen, Carl Brewer, Alice Ketchand
Sam Houston State University

March 2012
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.
Figure 1

TRANSACTION

X
<table>
<thead>
<tr>
<th>ACCOUNT</th>
<th>TO BE INITIALLY RECORDED, ITEM IS</th>
<th>INITIALLY RECORDED AS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset</td>
<td>Received</td>
<td>Dr</td>
</tr>
<tr>
<td>Equity [Liab+OE]</td>
<td>Given</td>
<td>Cr</td>
</tr>
<tr>
<td>Revenue</td>
<td>Given</td>
<td>Cr</td>
</tr>
<tr>
<td>Expense</td>
<td>Received</td>
<td>Dr</td>
</tr>
</tbody>
</table>
Figure 3

ASSET: Received
Purchase a Machine

Machine

X

SELLER

Cash

Machine $ 
Cash $
Figure 4

EQUITY [Liability]: Given
Borrow Cash

Cash

X

BANK

Promise
* Pay Back Amount
* Pay Interest

Cash $

Note Payable $


Figure 5

EQUITY [Owner Equity]: Given
Receive Cash from Owner

Cash

Promise
* Pay Back Amount
* Pay Net Income or Net Loss

Cash $ Capital $
Figure 6

EXPENSE = Goods and services received and used up in creating Revenue

REVENUE = Goods and services delivered to customers

INPUTS ← X → OUTPUTS
REVENUE: Given
Sell a Dog

Cash

X

BUYER

Dog

Cash $
Dog [Dog Sales] $
Figure 8

EXPENSE: Received
Pay Employee [EE]

Services

\[ \begin{align*}
X \quad & \quad EE \\
\quad & \quad \text{Cash}
\end{align*} \]

Salary Expense \$ 
Cash \$
Per the analysis above
Recording a transaction reduces to:

\[ \text{Dr} \]

\[ \text{Cr} \]

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

To record any transaction, then, identify:
* the consideration received [Dr], and
* the consideration given [Cr].
Costs = Goods and services received in a transaction. Received! So it will be “Debited” somewhere.
So, depending on what is benefited, i.e., future or present: debit either asset or expense
Assets are Reclassified to Expense as they are used up, consumed, or expire
Figure 13
COSTS-Reclassification

Assets are Reclassified to Expense by:

<table>
<thead>
<tr>
<th>Expense</th>
<th>$</th>
<th>Asset</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Depreciation Expense</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accumulated Depreciation</td>
<td>$</td>
</tr>
</tbody>
</table>

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.]