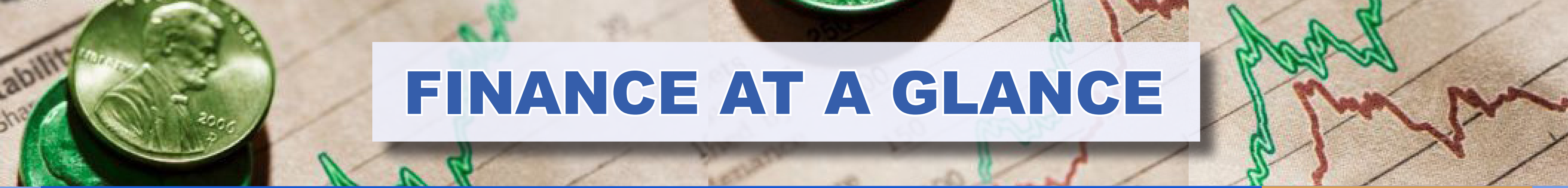

FINANCE AT A GLANCE

The Accounting Journal

Lesson 44

After analyzing the transactions, the accounting entries are written in a *journal*. A journal is like a “diary” of business transactions appearing in chronological order, and written in terms of accounting entries. The process of writing accounting entries is called *journalization*. The purpose of journalization is to provide some sort of documentation in case interested parties, at some point in the future, want to revisit the details of a transaction.

Widespread computerization of accounting has led to the disappearance of the journal in its tangible form. In computerized accounting environments, the journal is built into the software, and functions just like its old paper form. Thus, to appreciate the way the journal is used, we still describe its paper form in this lesson.

We shall be dealing with the following transactions:

1. January 3, 2010
   A business owner sets up his trading company by using $500,000 of his own funds as capital, and by securing a long-term debt of $400,000.
   No amount of the debt needs to be paid back in January.
2. January 7, 2010
   Using the start-up funds, he pays cash for office equipment worth $250,000.
3. January 12, 2010
   He also buys merchandise inventory worth $100,000. Of that amount, he pays off 50% upon delivery. The rest of the amount will not be due until the end of the following month.
4. January 18, 2010
   He sells $35,000 of the inventory for $50,000. The buyer promises to pay in the following month.
5. January 25, 2010
   He pays cash for salaries worth $5,000 and advertising expenses worth $2,500.
6. January 31, 2010
   The rent for the month is $2,000, and is due for payment within the the first week of the following month.

The first step in the process is to analyze the transactions, as we did in the last few lessons, and to write the accounting entries. For the first transaction, here are the analysis and the accounting entries:

Trans-action	Analysis	Account Affected	Account Type	Type of Change	Applicable Definition (See Lesson 43)	Accounting Entries
1	The business owner's money becomes the initial amount of *Capital stock*.	Capital stock	Equity	increase	5	Cr Capital stock 500,000
	The money from the bank becomes the initial amount of *Long-term debt*.	Long-term debt	Liability	increase	5	Cr Long-term debt 400,000
	The owner's money and borrowed funds go into the Company's *Cash*.	Cash	Asset	increase	1	Dr Cash 900,000

The next step is to record entries in the journal.

Date[a]	Description[b]	Posting Ref[c]	Debit[d]	Credit[e]
Jan. 3, 2010	Cash	1.01	900,000	
	Long-term debt	2.02		400,000
	Capital debt	3.01		500,000
	Initial investment and borrowing to launch the business.[f]			

The details that are covered by the journal, as designated by the superscripts are:

a. transaction date

b. accounting entries

c. posting reference

d. debit amount/s

e. credit amounts/s

f. explanation

All of the above must be clear by now, except for *posting reference*.

The posting reference is entered only when a particular entry is copied to the relevant ledger account. The posting reference is numerical designation of the ledger account to which the amount of the entry is copied. This will be discussed a shortly forthcoming lesson. For now, we shall proceed to journalize the rest of the transactions in the next lesson.