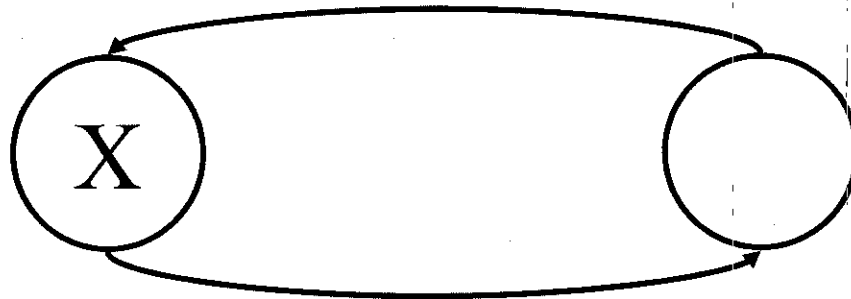


UNDERSTANDING JOURNAL ENTRIES

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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.**

Figure 1

TRANSACTION

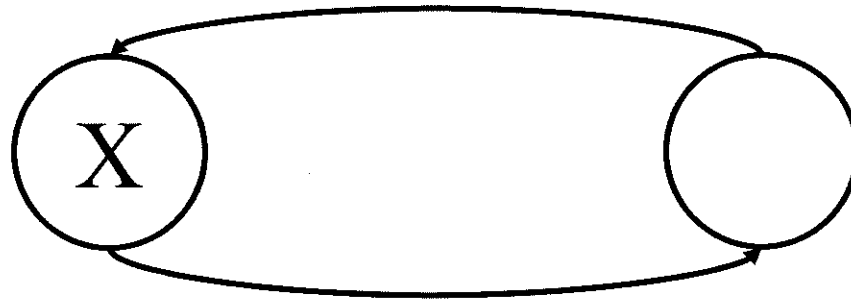


Figure 2

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

Figure 3

ASSET: Received
Purchase a Machine

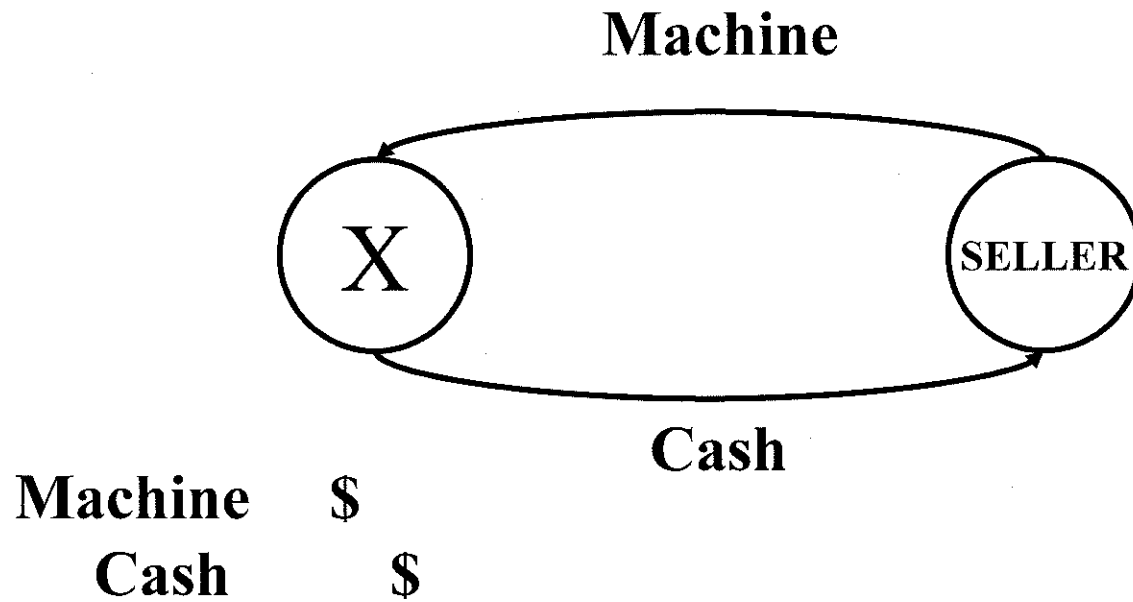
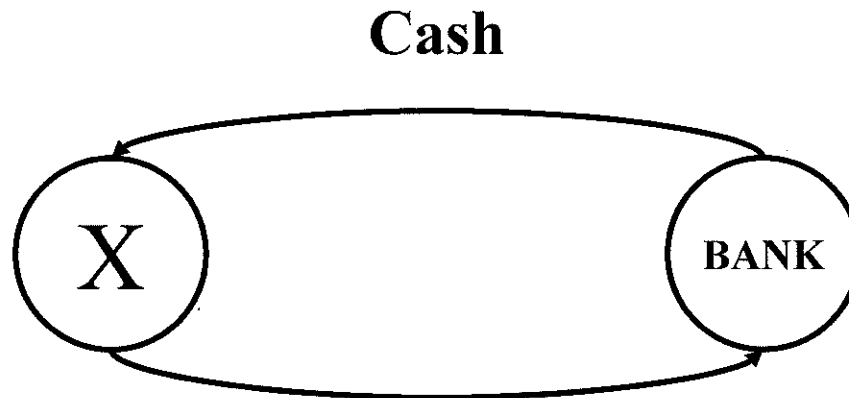


Figure 4

EQUITY [Liability]: Given
Borrow Cash



Promise

*** Pay Back Amount**

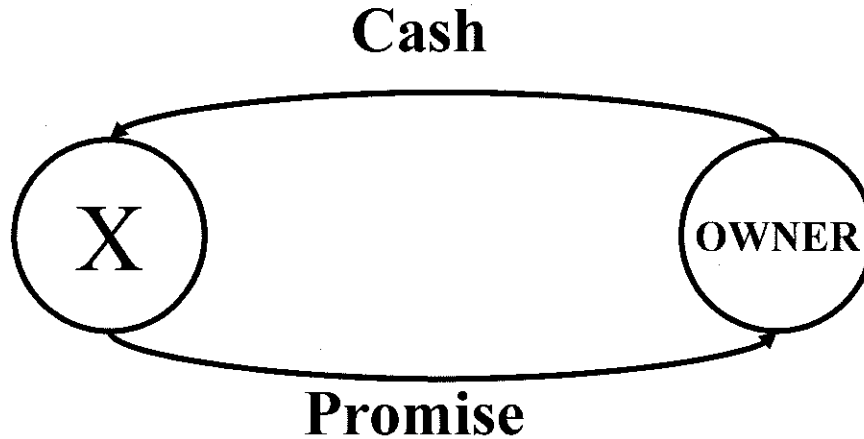
*** Pay Interest**

Cash **\$**

Note Payable **\$**

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

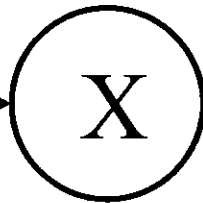
IN

Goods and
services received and used
Revenue

REVENUE
services delivered to
customers

OUT

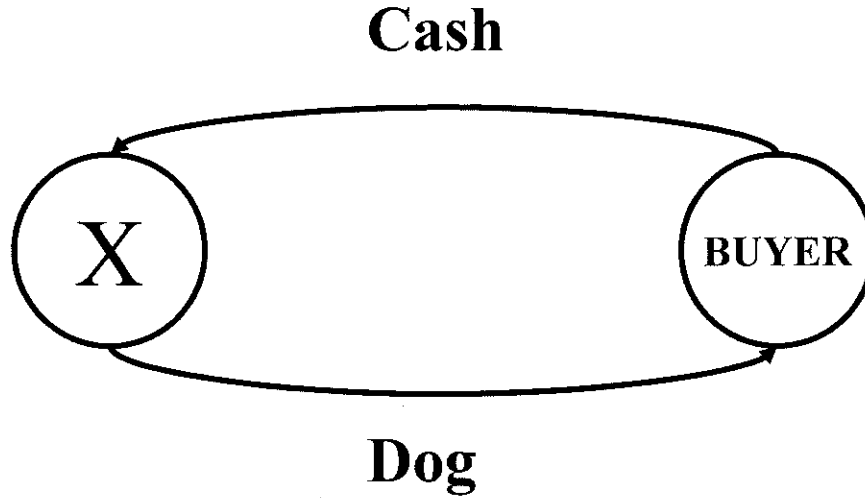
INPUTS



OUTPUTS

Figure 7

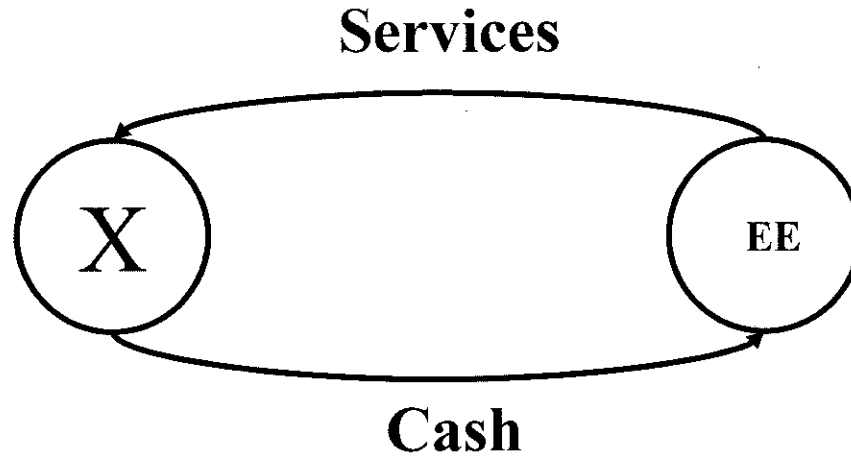
REVENUE: Given
Sell a Dog



Cash \$
Dog [Dog Sales] \$

Figure 8

EXPENSE: Received
Pay Employee [EE]

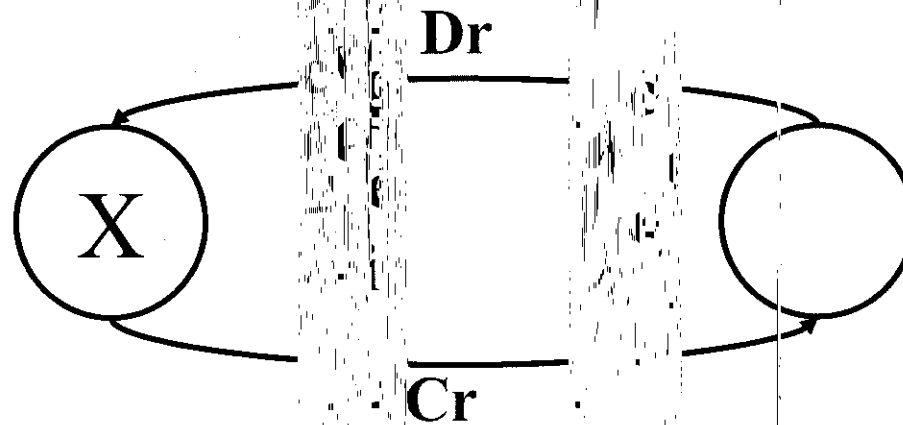


Salary Expense \$
Cash \$

Figure 9

Per the analysis above, recording a transaction red

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

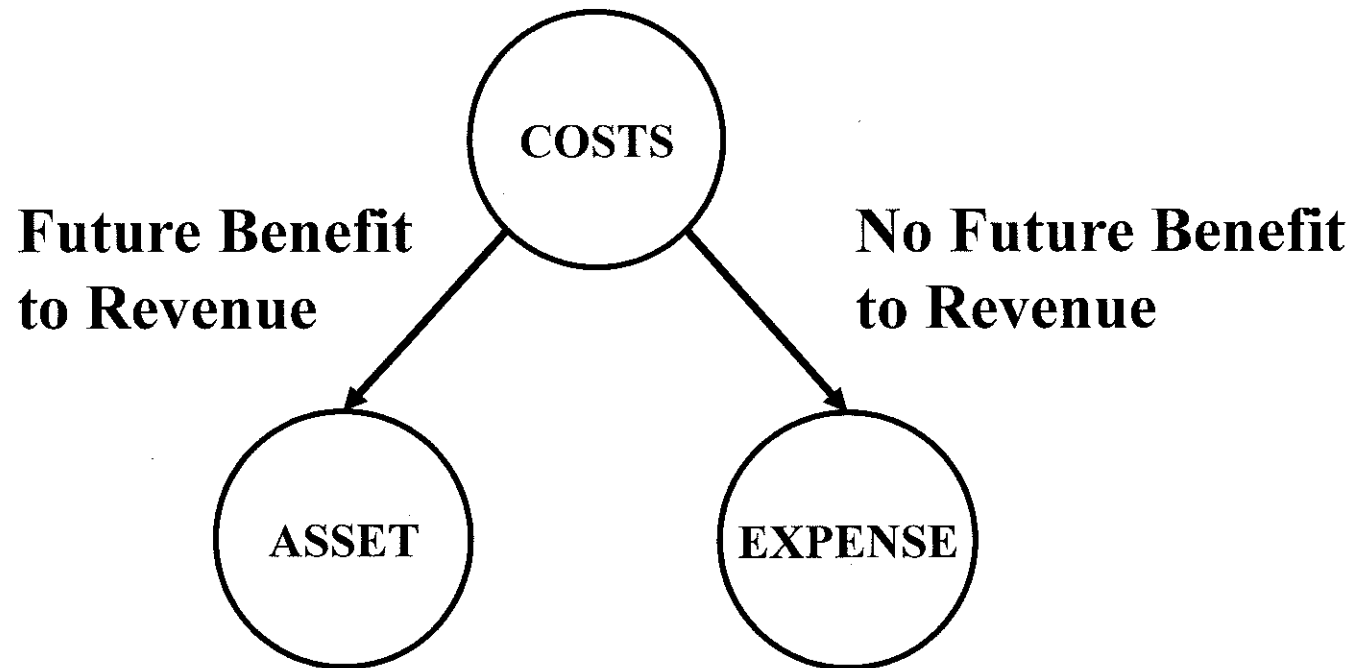
nowhere.

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

Costs received! So it will be "Debited" soon

Figure 11

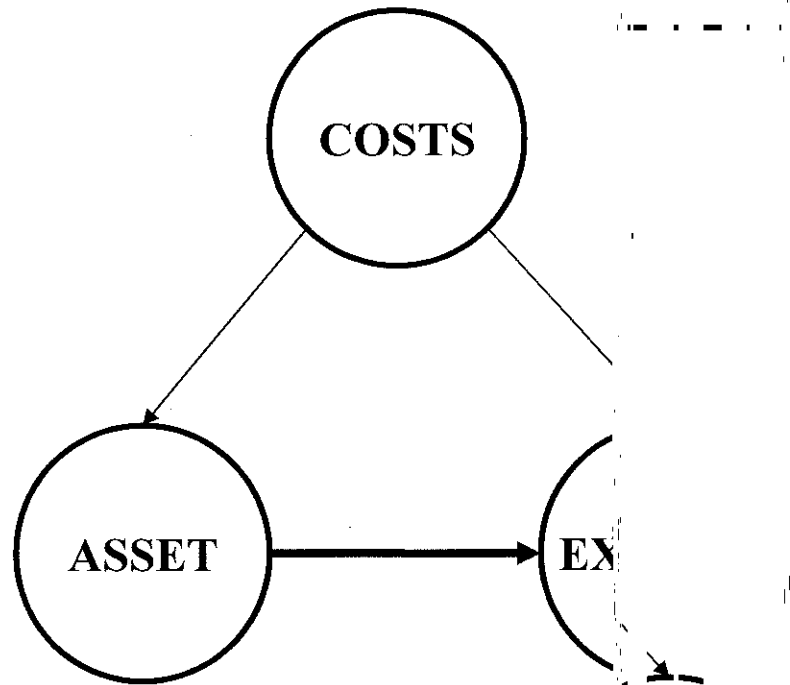
COSTS



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

Figure 12

COSTS

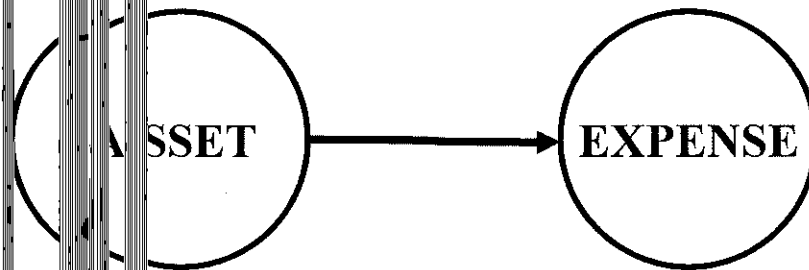


Assets are Reclassified to Expense as they are used up, consumed or expire

EXPENSE
EXPENSE
EXPENSE
EXPENSE

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.]