UNDERSTANDING JOURNAL ENTRIES

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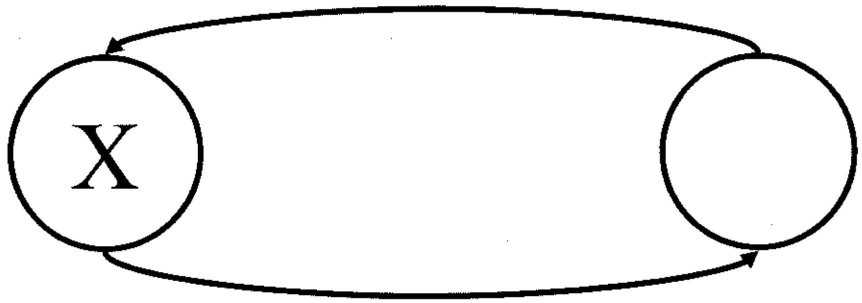
TRANSACTION



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

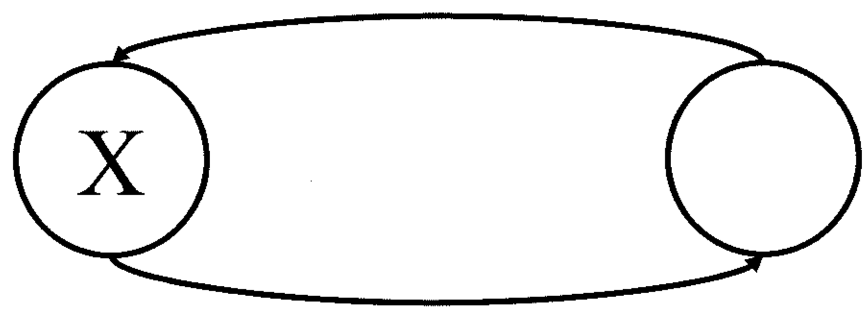


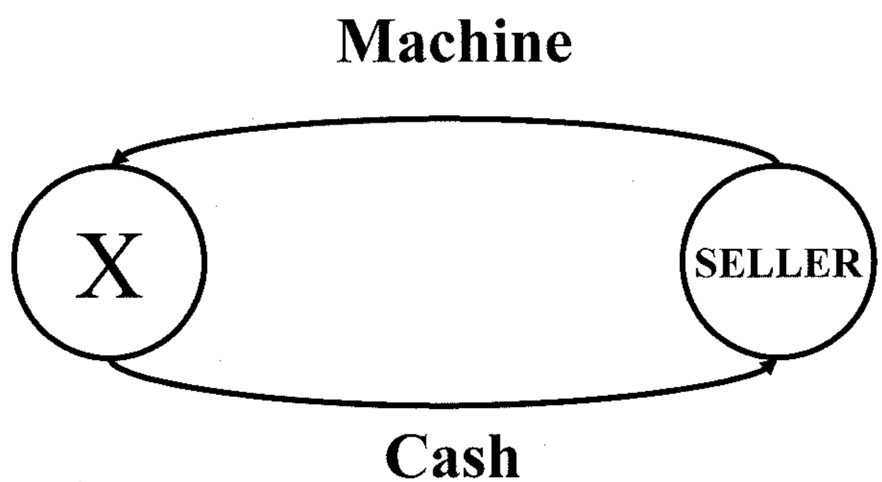
Figure 2

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



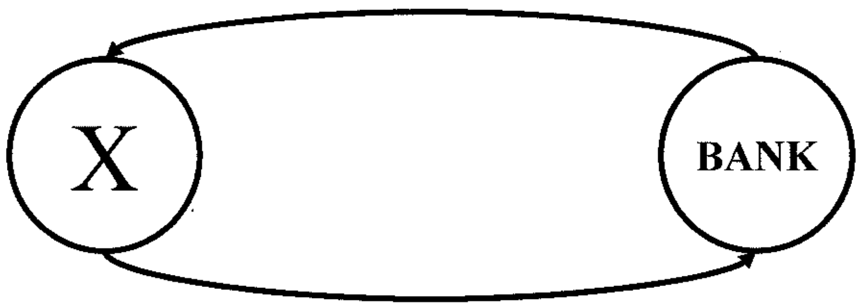
Machine	**$**
Cash	**$**

Figure 4

EQUITY [Liability]: Given

Borrow Cash

Cash



Promise

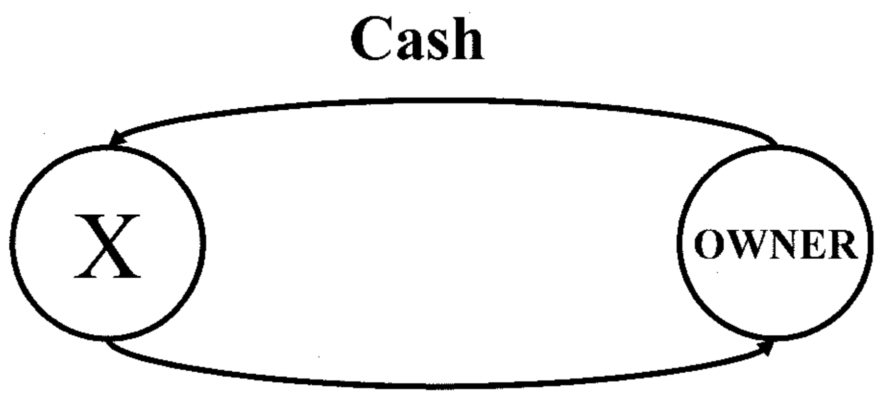
* Pay Back Amount
* Pay Interest

Cash	$	
Note Payable		$

Figure 5

EQUITY [Owner Equity]: Given

Receive Cash from Owner



Promise

* Pay Back Amount
* Pay Net Income or Net Loss

Cash	**$**	
Capital		**$**

Figure 6

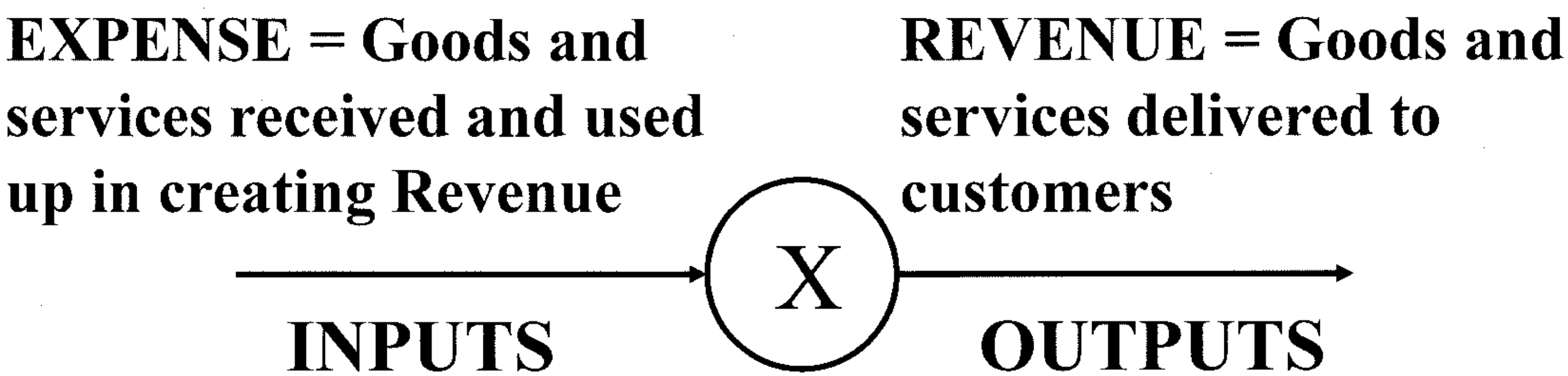
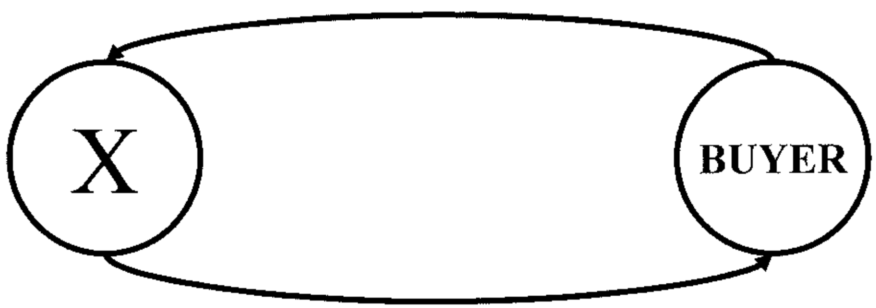

EXPENSE = Goods and services received and used up in creating Revenue
X
REVENUE = Goods and services delivered to customers
INPUTS
OUTPUTS

Figure 7

REVENUE: Given

Sell a Dog

Cash



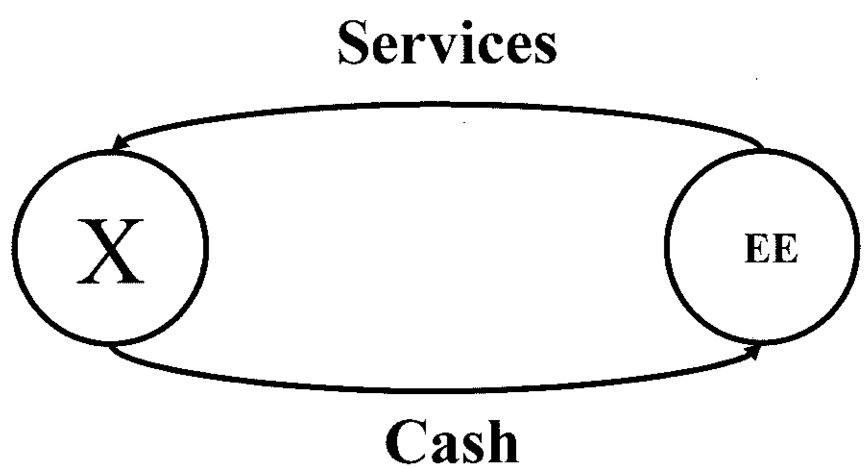
Dog

Cash	**$**	
Dog [Dog Sales]		**$**

Figure 8

EXPENSE: Received

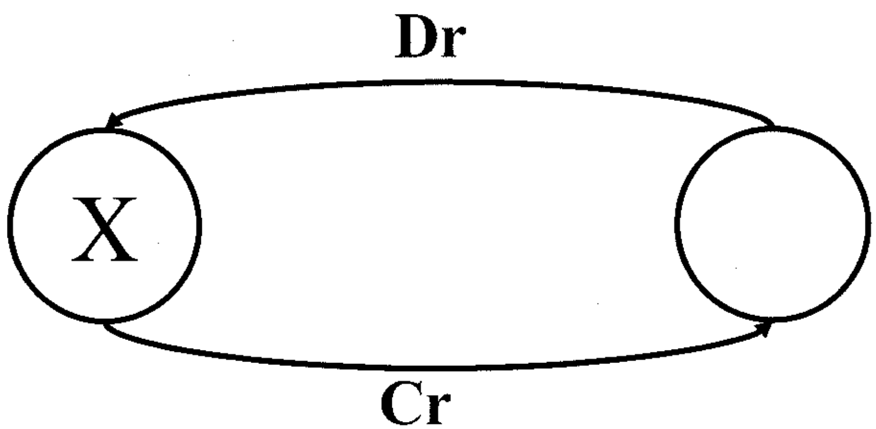
Pay Employee [EE]



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

Figure 9

Per the analysis above
Recording a transaction reduces to:

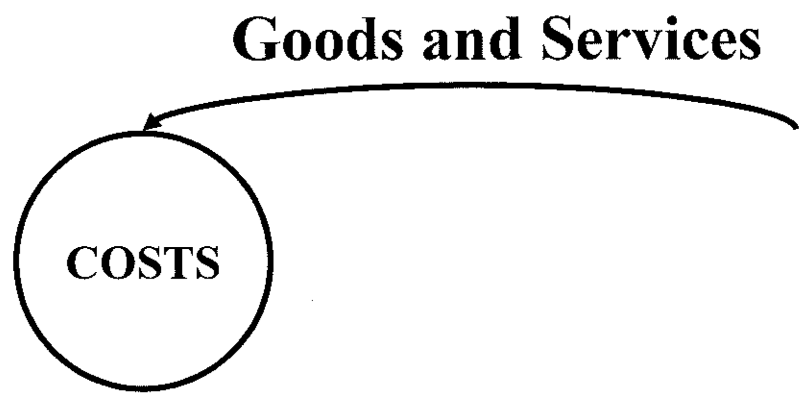


Any item received is recorded as a Debit.
Any item given is recorded as a Credit.

To record any transaction, then, identify:
*** the consideration received [Dr], and**
*** the consideration given [Cr].**

Figure 10

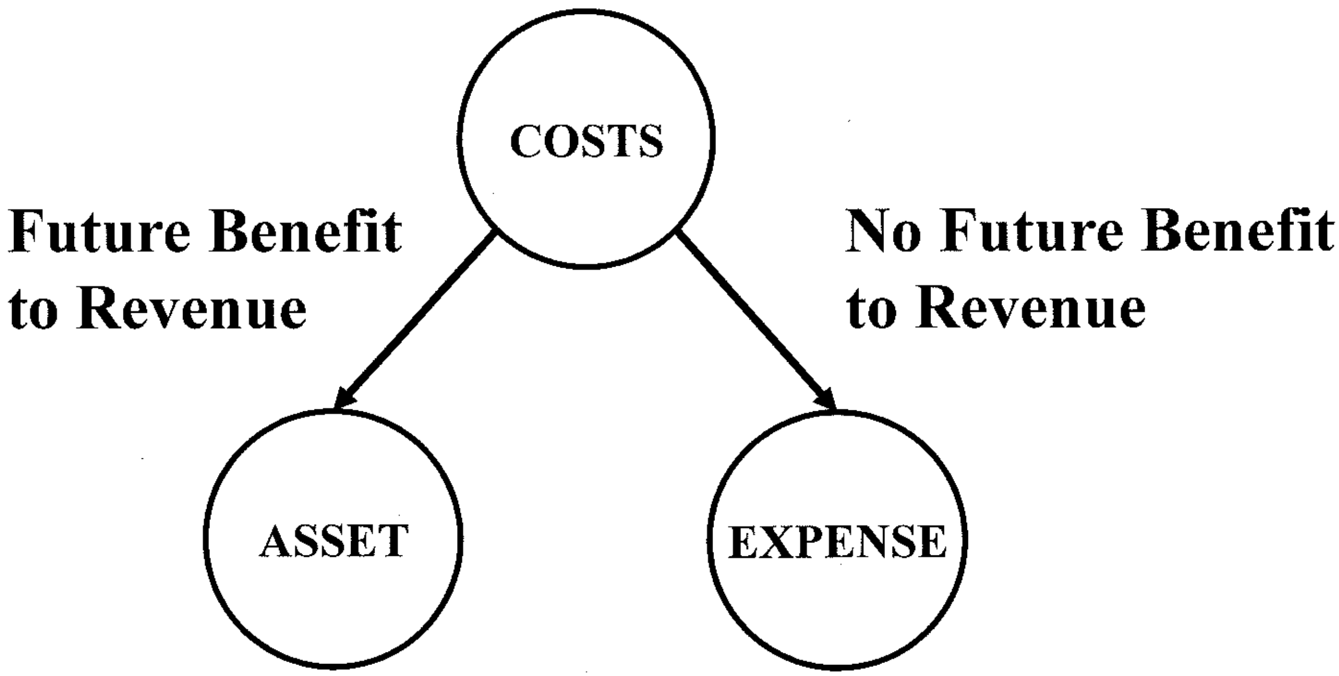
COSTS



Costs = Goods and services received in a transaction.
Received! So it will be "Debited" somewhere.

Figure 11

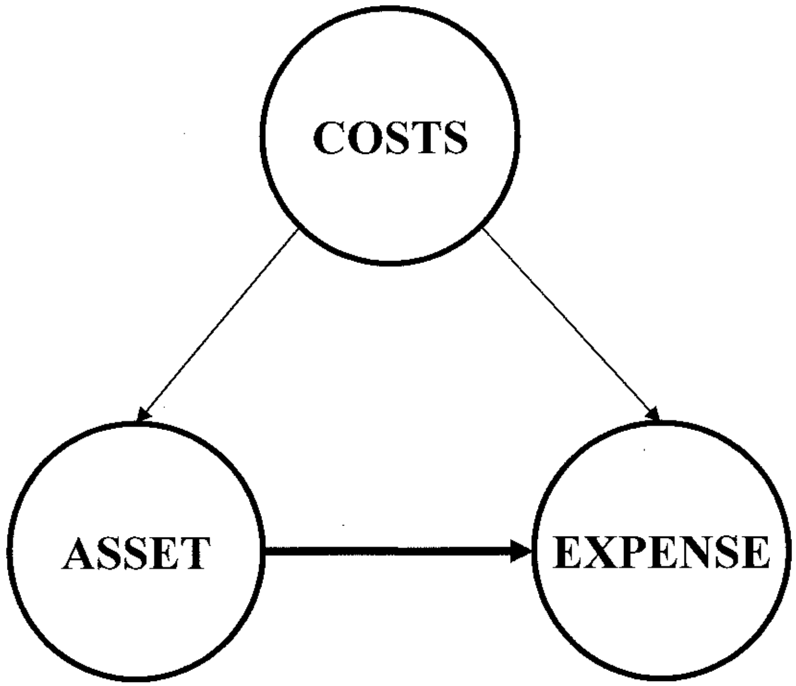
COSTS



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

Figure 12

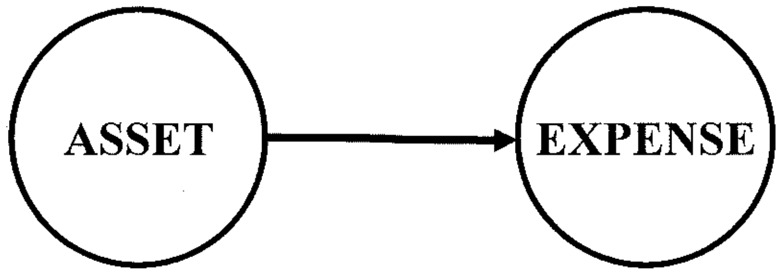
COSTS



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

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.]