Chapter 6: The Journal and Source Documents

6.1 The Journal  Pages 176 - 184

Journal (Book of Original Entry)- a book in which accounting entries for all transactions are first recorded before they are recorded in ledger accounts.
- Keeps the entire entry in one location instead of in different locations as in a ledger.
- Easier to see that debits equal credits.
**Journal Entry** - an entry which consists of all the accounting changes for one transaction in the form in which they are written in the general journal.

**Journalizing** - the process of recording accounting entries in a journal.

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**Recording the Date when journalizing:**

**Year and Month** - only entered on the first line of each page unless the month changes.

**Day** - Recorded for each transaction.

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<table>
<thead>
<tr>
<th>DATE</th>
<th>PARTICULARS</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/9</td>
<td>Supplies</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bank</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Equipment</td>
<td>150.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A/P - World Wide Fibre Optics</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bank</td>
<td>20.00</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>A/P - Games Service Providers</td>
<td>25.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bank</td>
<td>5.00</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>A/R - W. H.</td>
<td>300.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fees Earned</td>
<td>300.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Service on account; Invoice No. 3997</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Bank</td>
<td>50.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bank Loan</td>
<td>50.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increase in bank loan; online confirmation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. 47923</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
** Note steps for journalizing on pages 169 - 170

**Steps to Record a Journal Entry:**

**Step 1** - Record the date.

**Step 2** - Record the debit accounts.

**Step 3** - Enter the credit accounts indented about 1.5 cm.

**Step 4** - Write a brief explanation for the entry.

**Benefits of a General Journal:**

- Provides a chronological listing of all the accounting entries.
- Each entry can easily be checked to see that it balances.
- Details of an transaction can easily be located and verified.
Opening Entry - the very first entry recorded in the books of a business.

- Figures for this entry are obtained from the beginning balance sheet.

Accounting process thus far:

Beginning Balance Sheet

Opening Entry

Transactions in a journal
Source Document - the original record of a transaction which provides all information needed when accounting for the transaction.
- Way in which the accounting department receives information to record a transaction properly.

Three purposes:
1. Reference, locating errors, etc.
2. Factual evidence to verify transactions.
3. Proof that accounting records have been prepared honestly.

Types of Source Documents:
-> Cash Sales Slip - a business form showing the details of a transaction in which goods or services are sold to a customer for cash.

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Journal Entry:
Bank Dr
Sales Cr
Sales Invoice - a business form showing the details of a transaction in which goods or services are sold on account.

Journal Entry:
A/R
Sales
Dr
Cr

Point of Sales Summaries - a business form providing sales information for a particular day.
- point of sale (pos) terminal - a computerized register that allows a business and its customers to exchange funds electronically. Two source documents are printed using this technology.

Host Reconciliation/Card Summary
- amount at bottom is compared with the monthly bank statement
Transaction log
- contains detailed information about each transaction.

Journal Entry:
Bank
Sales

Dr
Cr

-> Purchase Invoice - a business form representing a purchase of goods or services on account.

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Cheque Copies - a document supporting the accounting entry for a payment by cheque.
- Issued for many reasons.
- Payments on account are supported by purchase invoices. These invoices are summarized on the tear off portion on the cheque.
- Cash purchases are supported by a bill or a receipt.
Journal Entry:

Asset or Expense or A/P or Drawings      Dr
Bank                                      Cr

-> **Cash Receipts Daily Summary** - a business paper that lists all the money coming in from customers.
- Since cheques cannot be kept, need another supporting document.
- **remittance advice** - a form accompanying the cheque explaining the payment.
Journal Entry:

Bank Dr

A/R #1 Cr
A/R #2 Cr
A/R #3 Cr

-> Bank Advices- a bank document informing the business of an increase/decrease made to the account of the business.
**bank debit advice** - decreases a business' bank account

**Journal Entry:**
Bank charges or interest charges expense  
Bank  

**bank credit advice** - increases a business' bank account

**Journal Entry:**
Bank  
Interest earned/revenue  

**Note**
- summary Page 192
- additional supporting documents and vouchers
- number of copies of source documents depends upon how elaborate the accounting system is.

** The type of source document used indicates the accounting entry to be performed.
sales taxes - tax dollars generated from business transactions.
- Tax dollars collected are used to fund important services.
- Many rules and regulations which change whenever federal and provincial governments pass new tax laws.
- The basics of sales tax is simple. The following four basic principles listed on page 197 will help:

1. Tax dollars are charged to the buyer of goods.
2. The tax dollars are collected by the seller and recorded in a separate liability account.
3. The tax dollars rightfully belong to the government.
4. The seller sends the tax dollars to the government at appointed times.

retail sales tax (RST) (provincial sales tax (PST)) - a tax charged to the final consumers of goods and some services.

Example: $500 tablet was purchased/sold with a PST rate of 7%

**Journal Entry of Seller:**
Bank
Sales
PST Payable

**Journal Entry of Purchaser:**
Computer Equipment
Bank

** NO SALES TAX**
remittance - a sum of money sent.

- In the case of PST Payable, the seller must send the amount collected in this account to the government by the 15th of the following month.

Journal Entry of Remittance:
PST Payable Dr
Bank Cr

Value-added Sales Taxes - tax charged to both goods and a wider variety of services as they pass through the different stages of production and delivery.

- Tax revenue is received steadily in smaller portions.

Note Figure 6.12 on page 199
- Canada has two value added taxes: GST and HST
- Prior to HST, both PST and GST were charged; GST was remitted to the federal gov't and PST was remitted to the provincial gov't.
- With HST, only one tax is charged on the sale and remitted to Canada Revenue Agency (CRA) who distributes to each province their share.
- This text will account for a value added tax. Accounting procedure for HST and GST are the same except for the per cent of tax charged. HST will now higher since it combined GST with PST. GST will always be 5% unless changed by the gov't.

The four basic principles on page 197 for retail sales tax can be used for value added tax with the following two exceptions:

#1 If a business purchases goods and/or services, it has to keep track of that HST in a separate account. (HST Recoverable)

#2 When it is time to remit HST, the amount collected on purchases (HST Recoverable) is subtracted from the amount collected on sales (HST Payable) and only the difference is remitted to the government.
Example:

**Part I** - Brookswood Driving School sold lessons for cash totaling $20,000 in the month of August with an HST rate of 13%.

*Journal Entry:*
Bank

Lesson Revenue

HST Payable

<table>
<thead>
<tr>
<th>Bank</th>
<th>Lesson Revenue</th>
<th>HST Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr</td>
<td>22,600</td>
<td>Dr 20,000</td>
</tr>
<tr>
<td>Cr</td>
<td></td>
<td>Dr 2,600</td>
</tr>
</tbody>
</table>

**Part II** - Brookswood Driving School prepares to remit August's HST. Records indicate they have purchased $5,000 worth of various goods and services.

*Journal Entry:*

Purchases
HST Recoverable
Bank or Accounts Payable

HST Recoverable

All Purchases in August

HST Payable

Bank or Accounts Payable

<table>
<thead>
<tr>
<th>All Purchases in August</th>
<th>HST Payable</th>
<th>Bank or Accounts Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr 5,000</td>
<td>Dr 650</td>
<td>Dr 5,650</td>
</tr>
<tr>
<td>Cr</td>
<td>Cr</td>
<td>Cr</td>
</tr>
</tbody>
</table>
Part III - Brookswood Driving School prepares remittance for August. (HST Payable - HST Recoverable)

Journal Entry:
HST Payable  
HST Recoverable  
Bank

<table>
<thead>
<tr>
<th></th>
<th>HST Payable</th>
<th>HST Recoverable</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr</td>
<td>2,600</td>
<td>650</td>
<td>1,950</td>
</tr>
<tr>
<td>Cr</td>
<td>0</td>
<td>650</td>
<td></td>
</tr>
</tbody>
</table>

Liabilities Section of Balance Sheet Revisited

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BROOKSWOOD DRIVING SCHOOL
BALANCE SHEET
SEPTEMBER 30, 20-

Liabilities
Accounts Payable $5,000
HST Payable $2,600
Less: HST Recoverable (650)
HST Owed 1,950
Bank Loan 12,000
Total Liabilities $18,950
contra account - an account that reduces or offsets the balance of a closely related account.

Example: HST recoverable (liability even though it has a debit balance)

clearing an account balance - bringing an account balance to zero.

Example: Remitting HST clears the account balances for HST Payable and HST Recoverable.

Summary of Typical Journal Entries:

<table>
<thead>
<tr>
<th>DATE</th>
<th>PARTICULARS</th>
<th>P/R</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A) A typical purchase on account with 13% HST</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supplies</td>
<td>450</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>HST Recoverable</td>
<td>50</td>
<td>850</td>
<td>50850</td>
</tr>
<tr>
<td></td>
<td>Accounts Payable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>B) A typical purchase for cash with 13% HST</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Maintenance Expense</td>
<td>330</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>HST Recoverable</td>
<td>4290</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bank</td>
<td></td>
<td>37290</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C) A typical sale on account with 13% HST</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accounts Receivable</td>
<td>1017</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fees Earned</td>
<td>900</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>HST Payable</td>
<td></td>
<td>117</td>
<td></td>
</tr>
<tr>
<td></td>
<td>D) A typical sale for cash with 13% HST</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bank</td>
<td>5630</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fees Earned</td>
<td>5000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>HST Payable</td>
<td></td>
<td>650</td>
<td></td>
</tr>
</tbody>
</table>
### E) A typical sale on account with 5% GST and 7% PST

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>8960</td>
</tr>
<tr>
<td>Fees Earned</td>
<td>8000</td>
</tr>
<tr>
<td>GST Payable</td>
<td>400</td>
</tr>
<tr>
<td>PST Payable</td>
<td>560</td>
</tr>
</tbody>
</table>

(Note: In this example, both the PST and GST rates use $8000 as the base amount.)

### F) A typical HST Remittance

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>HST Payable</td>
<td>8250</td>
</tr>
<tr>
<td>HST Recoverable</td>
<td>1100</td>
</tr>
<tr>
<td>Bank</td>
<td>7150</td>
</tr>
</tbody>
</table>

(Note: The structure of this entry also applies to GST.)