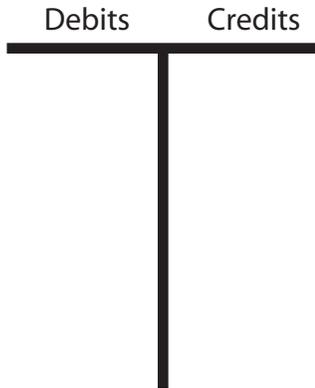


Using T Accounts to post journal entries



This is a T account which is used to analyze posting of double entry accounting

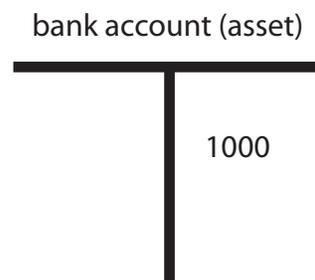
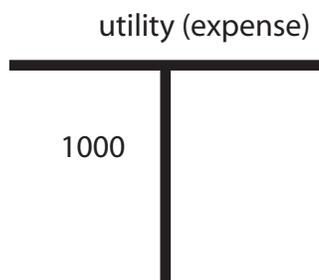
Both the right hand column T and the left **must have** equal totals.

The left side is for Debits and the right side is for Credits.

You use sets of T accounts to figure out how to post a general journal entry. Use the chart below to determine what should be a debit and what should be a credit.

	Increase	Decrease
Assets	Debits	Credits
Liabilities	Credits	Debits
Income	Credits	Debits
Expenses	Debits	Credits

1. When you write a \$1000 check to pay a utility bill the following accounts are affected.



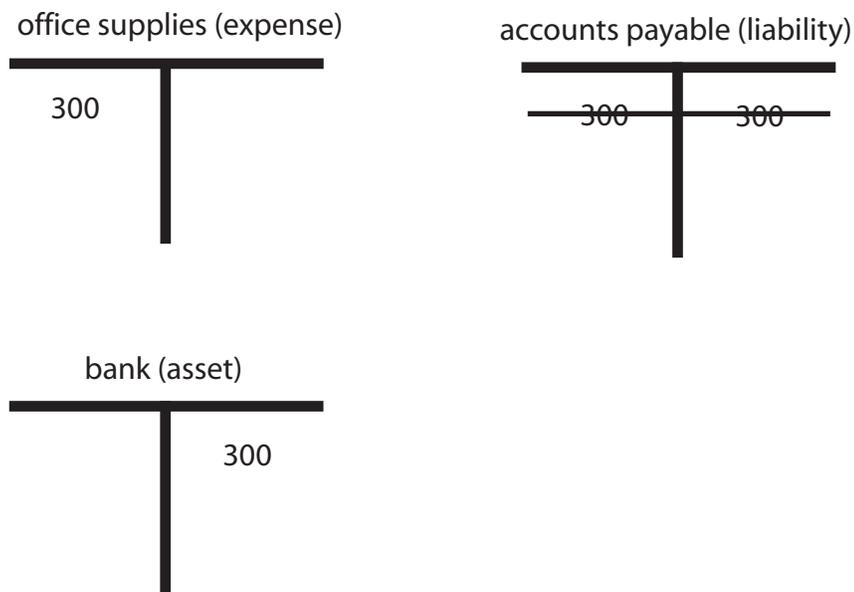
The debit to the expense account will cause the expense account to increase. The credit to the asset will cause the bank account to decrease

Posting a Bill - Paying the Bill

1. In this step we will determine the accounts affected when a bill is posted:



2. In this step we will pay the bill with a check and edit our T accounts from step 1 above:



Typically to help analyze transactions, one crosses through the T account amounts with matching debits and credits. The above T accounts tell you that the bank decreased by \$300 when the check was written, there is no longer a liability of \$300 and the company has recorded an expense of \$300 for office supplies. The end results are equal debits and credits.

Purchase Orders - Item Receipts - Inventory - Bills - Invoices

Next we will follow the purchasing of a \$1000 inventory part through its sale to a customer and finally the payment of the invoice by the customer. Sales tax will be ignored in this example

- ° Create a purchase order for a \$1000 part
- ° Receive the item on the purchase order
- ° Turn the item receipt into a bill
- ° Pay the bill
- ° Invoice the customer for the part. Sales price is \$2200
- ° Receive the customers' payment and deposit in the bank

1. A purchase order is a non posting transaction. It sets up items to be received into inventory and bill posted to accounts payable. **Step 2 is when your books start getting affected**
2. When \$1000 of items are received on a purchase order the following accounts are affected. Until the item receipt is turned into a bill the AP accounts lists the transaction as an item receipt.

inventory	accounts payable
1000	1000

3. When the item receipt is turned into a bill, the AP register will convert the item receipt to a bill and it will show up with the other bills to be paid. There is a box in the upper right of an item receipt which turns it into a bill. At any point after a purchase order is entered, one can:
 - a. receive items listed on the purchase order via the item receipt. **Vendors - receive items**
 - b. turn the item receipt into a bill. Check the box on a previous item receipt
 - c. receive the items and immediately turn it into a bill. All within the item receipt window

Note: if items are received and then a separate bill is entered under Vendors - Enter Bill you will overstate your inventory (double) or AP (double) depending how you post the bill.

Purchase Orders - Item Receipts - Inventory - Bills - Invoices

4. When \$1000 bill is paid the following accounts are affected

accounts payable	
1000	

bank	
	1000

5. When \$1000 inventory item is sold for \$2200 and an invoice is created the following accounts are affected (have ignored sales tax)

cost of goods	
1000	

inventory	
	1000

accounts receivable	
2200	

sales	
	2200

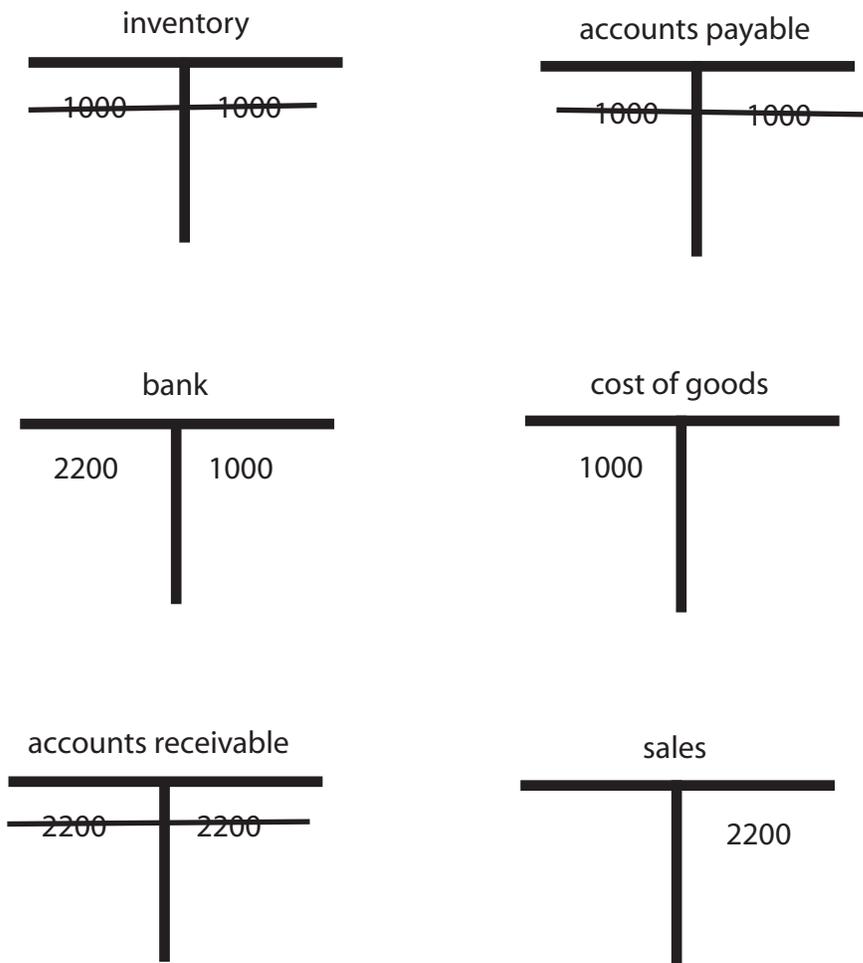
6. When invoice for \$2200 is paid the following accounts are affected (have ignored sales tax)

bank	
2200	

accounts receivable	
	2200

Purchase Orders - Item Receipts - Inventory - Bills - Invoices

7. This is what the entire process from purchase order - item receipt - bill - payment - invoicing - customer payment looks like.



8. Typically to help analyze transactions, one crosses through the T account amounts with matching debits and credits. The above T accounts tell you that the bank increased by 1200, sales recorded 2200 which is offset by 1000 in cost of goods, the inventory no longer has the item, the bill has been paid and the customer's invoice has been paid.