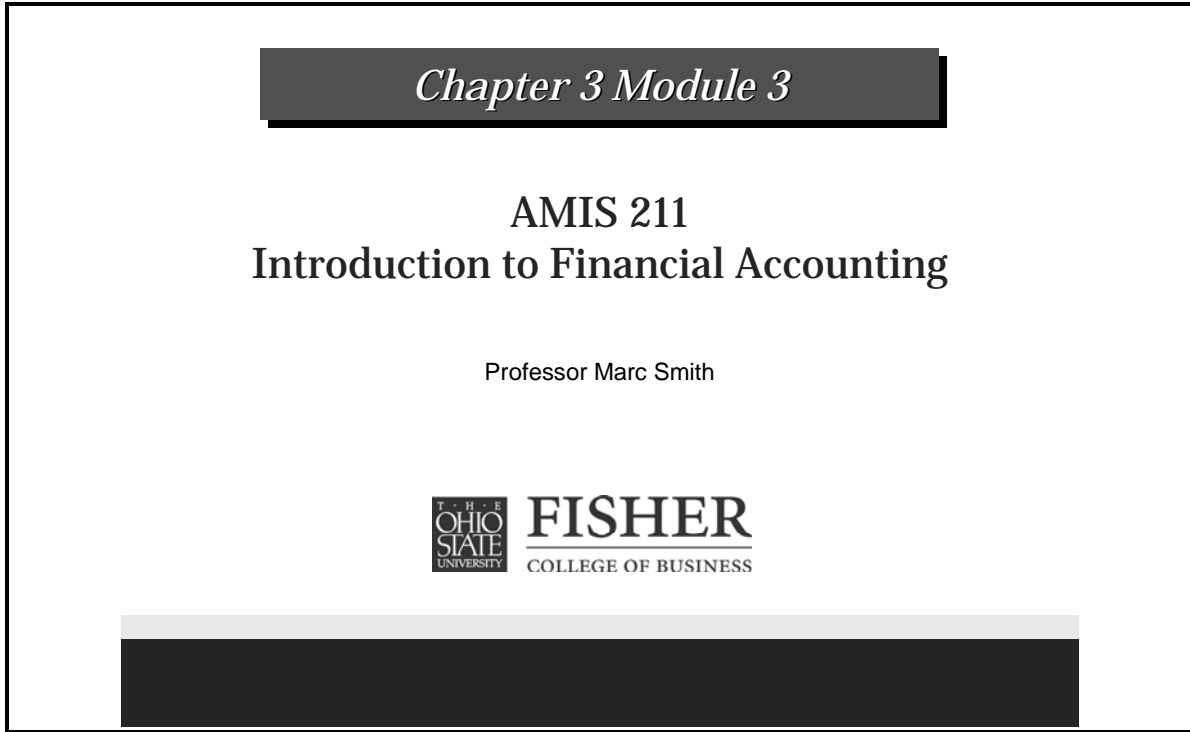


**Chapter 3, Module 3 – Terminology:  
Ledger, Journal, and Journal Entry**

**Slide 1**

A rectangular box with a black border containing the slide content. At the top, a dark grey bar contains the text "Chapter 3 Module 3" in white italicized font. Below this, the text "AMIS 211" and "Introduction to Financial Accounting" is centered in a bold serif font. Underneath, "Professor Marc Smith" is centered in a smaller serif font. The logo for The Ohio State University Fisher College of Business is centered below the text. At the bottom of the box, there is a light grey bar and a dark grey bar, both partially obscured by a black rectangle.

*Chapter 3 Module 3*

**AMIS 211  
Introduction to Financial Accounting**

Professor Marc Smith



Hi everyone. Welcome back.

Now, that we know about T-Accounts, let's take that knowledge and let's take it just a little bit further.

Let's go ahead and jump right in to it.

And, let's go to the first slide.

Slide 2

*Chapter 3 Module 3: Terminology*

**Ledger** - all accounts of the company taken together (think of the ledger as all the T-accounts of the company)

**Journal** - the place where all transactions are initially recorded

**Journal Entry** - the means used to record transactions in the journal

And, we need to start with some basic terminology—some basic definitions that are used in Accounting.

The first one is what is called: a Ledger.

The Ledger simply refers to all of the accounts of the company taken together.

Think of the Ledger as say maybe a big chalkboard and we drew all of the different T-Accounts up on that chalkboard. That chalkboard would then be the company's Ledger—all of the accounts of the company taken together.

We also have what is called: a Journal.

And, a Journal is the place where all transactions are initially recorded.

So, when transactions occur, they are first recorded in this Journal.

And, the way in which we record transactions in the Journal is using something called: a Journal Entry.

So, that last definition there (on Slide 2) is something that we will see a lot of.

A Journal Entry is the means by which we record transactions in the Journal.

So, we want to be pretty good at these Journal Entries.

Go to the next slide with me.

**Slide 3**

*Chapter 3 Module 3: Journal Entry*

**Example of a journal entry:**

<b>Cash .....</b>	<b>100,000</b>	
<b>    Sales revenue .....</b>		<b>100,000</b>

**Notice – the entry consists of one account pulled all the way to the left (cash) → this account is being DEBITED and one account indented to the right (sales revenue) → this account is being CREDITED**

And, let's take a look at an example of a Journal Entry.

An example of a Journal Entry would be this:

You see Cash, there and Sales Revenue (on Slide 3).

And, notice that the account: Cash is sort of pulled all the way to the left.  
And, notice that the account: Sales Revenue is kind-of indented into the right.

So, in this Journal Entry—this example, you would say that the account: Cash is being...what?

It is being debited. It is pulled to the left.

And you would say that the account: Sales Revenue, which is indented to the right—so, the account Sales Revenue is being credited.

You can see it right there on the slide (Slide 3).

Every entry is going to have this situation. Every entry is going to have these accounts that are pulled to the left—we call those the debits. Every entry is going to have these accounts that are indented to the right—those accounts that are being credited.

Go to the next slide with me.

**Slide 4**

<i>Chapter 3 Module 3: Journal Entry</i>		
Cash .....	100,000	
Sales revenue .....		100,000
<b>Notice also → the debits = credits</b>		
<b>This must happen in every entry!!</b>		
<b>QUESTION:</b>	<b>Can you have more than one debit or more than one credit in a journal entry?</b>	

And, once again, I have put our example of our Journal Entry up there (on Slide 4).

We have the debit to Cash and the credit to Sales Revenue.

What else do you notice about the entry? Just look at it.

Hopefully, what you have noticed is: that the debits equal the credits. We had \$100,000 of debits and \$100,000 of credits.

And, it was not just by fluke that this happened. This must happen in every entry. That is crucial.

Every entry you write must make sure that Total Debits equal (=) the Total Credits. That makes sure that the Balance Sheet will balance—that the accounting equation will be in balance. A will still equal (=  $L + E$ ).

If you make entries that have debits and credits not equaling, then, the Balance Sheet will be out of balance.

I have a question for you:

It is possible to have more than one debit and/or more than one credit in a Journal Entry?

What do you think the right answer to that is?

Go to the next slide with me.

## Slide 5

*Chapter 3 Module 3: Journal Entry*

**ANSWER:**        **Yes - as long as the total dollar of the debits is equal to the total dollar of the credits**

**INCORRECT ENTRY:**

<b>Cash .....</b>	<b>100,000</b>	
<b>Accounts receivable .....</b>	<b>90,000</b>	
		<b>100,000</b>
<b>    Sales revenue .....</b>		

And, the answer is: Yes! Of course!

You can have 10,000 different accounts being debited and 100,000 different accounts being credited. That is completely fine as long as: the total dollar amount of the debits in the entry is equal to (=) the total dollar amounts of the credits.

That is crucial.

Because it just sort of feeds back to our fundamental accounting equation—that ensures that the Balance Sheet equation: Assets equals (=) Liabilities plus (+) Equity ( $A = L + E$ ) is always in balance.

Now, take a look at what is here on the slide (Slide 5.)

That is an example of an incorrect entry.

That is an example where you have more than one account being debited, which is okay. But, the problem is: the total dollar amount of the debits is \$190,000; the total dollar amount of the credits is \$100,000.

That won't cut it! That will cause the Balance Sheet to be out of balance.

If you would go to the next slide with me...

### Slide 6

***Chapter 3 Module 3: Journal Entry***

**CORRECT ENTRY:**

<b>Cash .....</b>	<b>10,000</b>	
<b>Accounts receivable .....</b>	<b>90,000</b>	
<b>Sales revenue .....</b>		<b>100,000</b>

**Double-entry accounting - every transaction must be recorded with at least one debit and at least one credit with the total dollar debits always equaling the total dollar credits**

And, let's take a look at a correct entry.

There (on Slide 6) you see it.

You can certainly have more than one account being debited or credited. That is fine. But, the total dollar of your debits—in this case, \$100,000—must always equal (=) the total dollar of your credits—in this case, \$100,000.

And, does anybody know? Let's see if you can answer before I pop it up here on the slide.

What type of Accounting is this called—where debits and credits must always equal?

You may have heard of this.

It is referred to as Double-Entry Accounting.

Double-Entry Accounting says that: “Hey look, every transaction is recorded by a Journal Entry where we have at least one debit and at least one credit—we may have more but we have at least one of each—with the total dollar of the debits being equal to (=) the total dollar amount of the credits.

As a real quick aside:

Double-Entry Accounting was really developed back—I think—in the mid-to-late 1400s by an Italian monk named Luca Pacioli. And, quite frankly, the Double-Entry Accounting that exists today is virtually the exact same as it was when it was developed by that Italian monk how many years ago.

So, that thing has existed for many, many years and the basic premises hold.

Debits must equal credits to ensure that Assets equal Liabilities plus (+) Equity ( $A = L + E$ ).

Let's go ahead to the next slide.

Slide 7

***Chapter 3 Module 3: Posting***

***Posting*** is the process of transferring debit and credit amounts from the journal to the ledger (i.e., transferring the amounts in the journal entries to the T-accounts)

**QUESTION:**      **What is the purpose of posting?**

And, I want to talk for a couple of minutes about linking up the Ledger and the Journal.

And, the way in which we do that is through a process called posting.

Posting is the process of taking those debit and credit amounts from the Journal Entries—from the Journal—and simply transferring them into the T-Accounts (i.e. the Ledger).

So, it is taking all the different entries you make—all the debits and credits that you record—and then, moving those amounts into the individual T-Accounts that comprise the Ledger.

That is the idea of posting.

Question: Why?

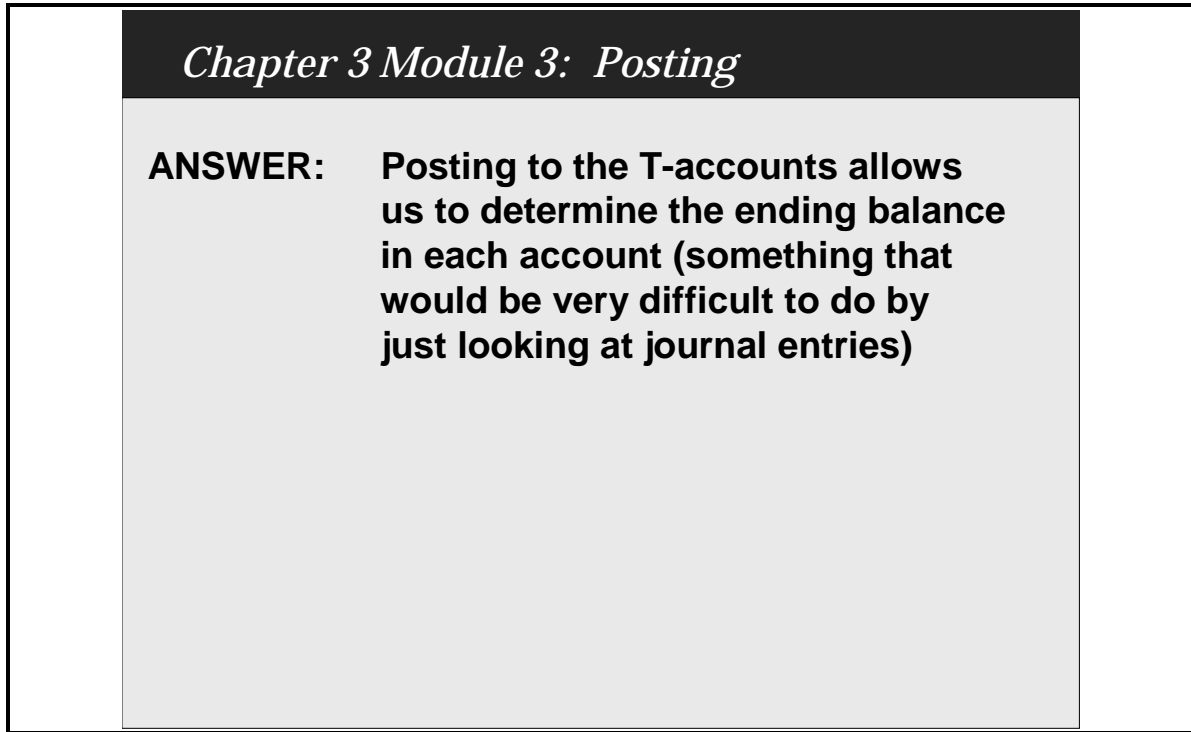
Why in the world would we do this?

Why would we transfer debit and credit amounts from the Journal to the Ledger?

Why would we post?

Go to the next slide with me.

**Slide 8**

A rectangular box with a black border. At the top, there is a dark grey header with the text "Chapter 3 Module 3: Posting" in white, italicized font. Below the header, the main content area has a light grey background. It contains the text "ANSWER: Posting to the T-accounts allows us to determine the ending balance in each account (something that would be very difficult to do by just looking at journal entries)" in bold black font.

*Chapter 3 Module 3: Posting*

**ANSWER: Posting to the T-accounts allows us to determine the ending balance in each account (something that would be very difficult to do by just looking at journal entries)**

Have you thought about it at all? Have you given it any consideration?

Why do we do this posting? Why do we transfer debit and credit amounts from the Journal into the T-Accounts, which are the Ledger?

The answer is: this allows us to figure out the Ending Balance in each of our accounts: something that would be really difficult to do if you were just looking at a whole bunch of Journal Entries.

Imagine your textbook: how many pages is that—is it about 800 pages? Imagine if that was the Journal. And, you had, say 1000 entries on each page.

And I said to you: “Okay, there’s your Journal. What is your balance in Cash?”

That would be pretty difficult to figure out.

But doing this posting process—by moving the debits and credits from the Journal into the individual T-Accounts that make up the Ledger, we can pretty easily determine what the balance in Cash is.

Let’s go ahead to the next slide.

### Slide 9

<i>Chapter 3 Module 3: Debit &amp; Credit Rules</i>				
<b>Account Type</b>	<b>Increase</b>	<b>Decrease</b>	<b>Normal Balance</b>	
<i>Asset</i>	Debit	Credit	Debit	
<i>Liability</i>	Credit	Debit	Credit	
<i>Equity</i>	Credit	Debit	Credit	
<i>Revenue</i>	Credit	Debit	Credit	
<i>Expense</i>	Debit	Credit	Debit	

And, all I want to do is take a look at this slide one more time to kind of give you the hint that: “boy, this is important!”

These kind-of are the rules we need to be able to apply in doing our recording of transactions.

There are our Debit and Credit Rules—our increase/decrease rules.

Assets and Expenses increase with debits; decrease with credits.

Liabilities, Equity and Revenue increase with credits; decrease with debits.

The Normal Balance column just tells us on which side of the T-Account the Beginning and Ending balance will be. It is always the same as the increase side.