Journal Entries

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Double Entry Accounting

- Main purpose of bookkeeping is producing financial statements:
  - Profit and loss/income statement – revenue, expenses and profit/loss
  - Balance sheet – statement of net worth, assets (what we own), debt/liabilities (what we owe) and net worth

- Review of sample financial statements.

- Double entry accounting is designed for every transaction to be reflected in both financial statements. Both balance sheet and income statement are updated with every transaction we record.

Double Entry Accounting Continued

- Transactions are posted to accounts or categories in our records – income, expenses, assets and liabilities. These accounts are used to compile balance sheet and income statement.
- Every account has a "natural" debit or credit position.
- In the double entry system, every transaction has a debit and a credit – positive and negative.
- Every transaction should balance - debit amount equals credit amount.
- Transactions are sometimes referred to as journal entries. Every time we record a transaction our accounting system makes a journal entry debiting one account and crediting another.

Double Entry Accounting Continued

- Some accounting systems are designed in a simplified way and don’t show debits and credits for transactions. Instead, we perform tasks like issuing a customer receipt or recording a bill payment.

- When we intend to make a journal entry it’s normally referred to as general journal entry.

- We should only use general journal entries if there’s no other choice. It’s always better to use our software functions for revenue and expenses.

- Auditors’ adjustments are referred to as “adjusting journal entries” or AJE’s. These are posted as general journal entries.

Natural Positions for Accounts

<table>
<tr><th>Debit</th><th>Credit</th></tr>
<tr><td rowspan="2">Assets</td><td>Liabilities</td></tr>
<tr><td>Retained Earnings</td></tr>
<tr><td>Expenses</td><td>Income</td></tr>
</table>

To increase an amount, use its natural position. To decrease, use the opposite.

Journal Entries – Account Pairs

Debit	Credit
Expenses	Accounts Payable/Bank/Credit Card
Accounts Receivable/Bank	Revenue
Capital assets	Accounts Payable/Bank/Credit Card
Depreciation expense	Accumulated Depreciation
Bad debt expense	Allowance for Doubtful AR

Making a Journal Entry

- For every journal entry, first think about transaction flow:
  - What account pair is affected?
  - What are the natural positions for these accounts?
  - Do we want to increase or decrease the account?
- Determine debit and credit accounts based on the transaction flow.
- JE date – use the date from the most relevant supporting document.
- JE description – should make sense to you and the auditors, need a description on every line.
- Journal entry examples

Practical Application for First Nations Finance

Thank you for your time

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