

8. The General Ledger

As you just saw, the general journal is, in essence, a notebook that contains page after page of detailed accounting transactions. In contrast, the general ledger is, in essence, another notebook that contains a page for each and every account in use by a company. The ledger account for Xao would include the Cash page as illustrated below:

ACCOUNT: Cash					
	Date	Description	Debit	Credit	Balance
	Jan. 1, 20X3	Balance forward			\$ -
	Jan. 1, 20X3	Journal page 1	\$ 25,000		25,000
*	Jan. 4, 20X3	Journal page 1		\$ 2,000	23,000
	Jan. 8, 20X3	Journal page 1	4,000		27,000
	Jan. 18, 20X3	Journal page 2		500	26,500
	Jan. 25, 20X3	Journal page 2	4,800		31,300
	Jan. 28, 20X3	Journal page 2		5,000	26,300

Xao's transactions utilized all of the following accounts:

- Cash
- Accounts Receivable
- Land
- Accounts Payable
- Notes Payable
- Capital Stock
- Service Revenue
- Advertising Expense
- Utilities Expense

Therefore, Xao Corporation's general ledger will include a separate page for each of these nine accounts.

8.1 Posting

Before diving into the details of each account, let's consider what we are about to do. We are going to determine the balance of each specific account by posting. To do this, we will copy ("post") the entries listed in the journal into their respective ledger accounts.

In other words, the debits and credits in the journal will be accumulated ("transferred"/ "sorted") into the appropriate debit and credit columns of each ledger page. Following is an illustration of the posting process.

Notice that arrows are drawn to show how the first journal entry is posted. A similar process would occur for each of the other accounts.



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...I finally learned to speak it in just six lessons"

Jane, Chinese architect

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In reviewing the ledger accounts at right, notice that the “description” column includes a cross-reference back to the journal page in which the transaction was initially recorded. This reduces the amount of detailed information that must be recorded in the ledger, and provides an audit trail back to the original transaction in the journal.

GENERAL JOURNAL				Page 1
Date	Accounts		Debits	Credits
1-1-X3	Cash	✓	25,000	
	Capital Stock	✓		25,000
	<i>Issued stock to shareholders, in exchange for cash</i>			
1-4-X3	Advertising Expense	✓	2,000	
	Cash	✓		2,000
	<i>Paid advertising expense for initial advertising programs</i>			
1-8-X3	Cash	✓	4,000	
	Service Revenue	✓		4,000
	<i>Provided services to customers for cash</i>			

GENERAL JOURNAL				Page 2
Date	Accounts		Debits	Credits
1-15-X3	Utility Expense	✓	1,000	
	Accounts Payable	✓		1,000
	<i>Received bill for utility costs incurred</i>			
1-17-X3	Accounts Receivable	✓	8,000	
	Service Revenue	✓		8,000
	<i>Provided services to customers on account</i>			
1-18-X3	Accounts Payable	✓	500	
	Cash	✓		500
	<i>Paid half of the amount due on the utility bill received on January 15</i>			
1-25-X3	Cash	✓	4,800	
	Accounts Receivable	✓		4,800
	<i>Received 60% of the amount due on the receivable that was established on January 17</i>			
1-28-X3	Land	✓	15,000	
	Cash	✓		5,000
	Notes Payable	✓		10,000
	<i>Purchased land by giving \$5,000 cash, and promising to pay the remainder in 90 days</i>			

ACCOUNT: Cash				
Date	Description	Debit	Credit	Balance
Jan. 1, 20X3	Balance forward			\$ -
Jan. 1, 20X3	Journal page 1	\$ 25,000		25,000
Jan. 4, 20X3	Journal page 1		\$ 2,000	23,000
Jan. 8, 20X3	Journal page 1	4,000		27,000
Jan. 18, 20X3	Journal page 2		500	26,500
Jan. 25, 20X3	Journal page 2	4,800		31,300
Jan. 28, 20X3	Journal page 2		5,000	26,300

ACCOUNT: Accounts Receivable				
Date	Description	Debit	Credit	Balance
Jan. 1, 20X3	Balance forward			\$ -
Jan. 17, 20X3	Journal page 2	\$ 8,000		8,000
Jan. 25, 20X3	Journal page 2		\$ 4,800	3,200

ACCOUNT: Land				
Date	Description	Debit	Credit	Balance
Jan. 1, 20X3	Balance forward			\$ -
Jan. 28, 20X3	Journal page 2	\$ 15,000		15,000

ACCOUNT: Accounts Payable				
Date	Description	Debit	Credit	Balance
Jan. 1, 20X3	Balance forward			\$ -
Jan. 15, 20X3	Journal page 2		\$ 1,000	1,000
Jan. 18, 20X3	Journal page 2	\$ 500		500

ACCOUNT: Notes Payable				
Date	Description	Debit	Credit	Balance
Jan. 1, 20X3	Balance forward			\$ -
Jan. 28, 20X3	Journal page 2		\$ 10,000	10,000

ACCOUNT: Capital Stock				
Date	Description	Debit	Credit	Balance
Jan. 1, 20X3	Balance forward			\$ -
Jan. 1, 20X3	Journal page 1		\$ 25,000	25,000

ACCOUNT: Service Revenue				
Date	Description	Debit	Credit	Balance
Jan. 1, 20X3	Balance forward			\$ -
Jan. 8, 20X3	Journal page 1		\$ 4,000	4,000
Jan. 17, 20X3	Journal page 2		8,000	12,000

ACCOUNT: Advertising Expense				
Date	Description	Debit	Credit	Balance
Jan. 1, 20X3	Balance forward			\$ -
Jan. 4, 20X3	Journal page 1	\$ 2,000		2,000

ACCOUNT: Utilities Expense				
Date	Description	Debit	Credit	Balance
Jan. 1, 20X3	Balance forward			\$ -
Jan. 15, 20X3	Journal page 2	\$ 1,000		1,000

The Check Marks (✓) in the journal indicate that a particular transaction has been posted to the ledger. Without these marks (in a manual system), it would be very easy to fail to post a transaction, or even post the same transaction twice.

8.2 To Review

Thus far you should have grasped the following accounting “steps”:

- STEP 1: Each transaction is analyzed to determine the accounts involved
- STEP 2: A journal entry is entered into the general journal for each transaction
- STEP 3: Periodically, the journal entries are posted to the appropriate general ledger page

