

Visual Learning Maps

Introductory Financial Accounting



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## VIRTUAL TEXT BOOK

### SPECIAL JOURNALS – 1 of 4

"Special" is short for **Specialized**.

Each of the Journals specializes in collecting and tracking specific types of transactions. The purpose of the "specialization" is to provide managers / owners with important recurring information - in total and in detail.

Here is a summary:

<u>Special Journal</u>	<u>What it Tracks</u>	<u>Main Info Provided</u>
Cash Receipts Journal (CRJ)	All cash received	<ul style="list-style-type: none"><li>- Accounts receivable payments received activity totals and individual customer payment details</li><li>- Cash sales</li></ul>
Cash Disbursements Journal (CDJ)  (also called Cash Payments Journal) (CPJ)	All cash paid out (Checks)	<ul style="list-style-type: none"><li>- Accounts payable payment activity totals and payment details to each supplier</li></ul>
Sales Journal (SJ)	All sales on account	<ul style="list-style-type: none"><li>- Accounts receivable sales activity in total and individual customer sales details</li></ul>
Purchases Journal (PJ)	All purchases on account	<ul style="list-style-type: none"><li>- Accounts payable purchasing activity totals and purchase details from each supplier</li></ul>
General Journal (SJ)	All entries NOT applicable to the other Journals	<ul style="list-style-type: none"><li>- <u>Examples</u>: adjusting, closing, correcting, reversing entries; credit and debit memos</li></ul>

## Special Journals – 2 of 4

### WHY HAVE SPECIAL JOURNALS?

The short answer is: - to have quick information about the critical elements of the business - cash, sales, accounts receivable and accounts payable.

**Owners and managers ask the same questions every month:**

- Do we have any money? How much?
- Where did the money go?
- What are we spending it on?
- Where did the money come from?
- How much money do we owe? To whom?
- How much money is owed to us? By whom?
- How prompt are we paying our creditors?
- How prompt are our customers paying us?
- What are cash sales compared to credit sales?

What does this mean for action plans for the next accounting period?

The Special Journals collect data and convert it to information that then is used to analyze what happened, what decisions must be made and what action flows out of those decisions.

### HOW DO I KNOW WHICH JOURNAL TO USE?

Every transaction is recorded through one of the Journals - only one. There is NEVER an instance where part of a transaction goes through one Journal and another part goes through another Journal. **Never.**

Deciding which transaction goes to which Journal involves two top line questions:

- 1) Has cash moved? (cash means the bank account)
- 2) Is this an "on account" (credit) transaction?

If the answer to the first question is "no," go to question 2.

If the answer to the first question is "yes, cash did move;" then cash received is recorded via the CRJ, and cash paid recorded in the CDJ.

If cash did not move and there was no "on account" transaction, then the entry always goes through the GJ.

If an "on account" transaction occurred; then a credit purchase is recorded via the PJ and a credit sale is recorded in the SJ.

## Special Journals – 3 of 4

### Cash Receipts Journal

All cash received by a business are recorded via the CRJ. Here are the common types of transactions generating cash:

#### Frequent

- Cash sales of merchandise or cash paid for services
- Cash received from customers as payments on accounts receivable
- Cash retainers received by service businesses

#### Infrequent

- Cash received from loans and other financings
- Cash received from the sale of assets that are being replaced or no longer used such as old computers, furniture.
- Cash received from the disposal of assets that have no planned future use such as buildings, land
- Government Grants
- Tax refunds

### Cash Disbursements Journal

All cash paid (checks issued) by a business are recorded via the CDJ. Here are the common types of transactions that decrease cash:

#### Frequent

- Payments to suppliers
- Operating expenses
- Cash purchases of merchandise inventory
- Payroll

#### Infrequent

- Payments on bank loans
  - Drawings by owners
  - Taxes
  
  - Dividends
  - Interest on bonds or debentures
- } Corporations Only

## Special Journals – 4 of 4

### Purchases Journal

All purchases "on account" / "on credit" are recorded via the PJ. Any time a business receives an invoice from a supplier, it is recorded via the PJ to ensure that the Accounts Payable record is accurate and up to date...so that the business can manage paying its suppliers.

The most common and most frequent credit transaction relates to acquiring merchandise inventory. Some operating expenses are credit purchases such as travel, utilities or repairs and maintenance and so on.

### Sales Journal

**All and only** sales "on account" / "on credit" to customers are recorded via the SJ. Any time a business issues an invoice to a customer, it is recorded via the SJ to ensure that the Accounts Receivable record is accurate and up to date...so that the business can manage collections.

### General Journal

Entries that cannot be made to the other Journals are made to the GJ. GJ entries are initiated internally by the business to record:

- Adjusting entries
- Closing entries
- Correcting entries
- Reversing entries
- Granting of credit to a customer for a sales return or allowance
- Obtaining a credit from a supplier for a purchase return or allowance
- Capital transactions in corporations

### NEXT

These Class Notes have explained what the Journals are and do, what they record, and why they are critical to managing. **“Posting the Journals” is a separate Class Notes Section.**