

Accounting Journal Entries: What Are They, Examples, and How To Use Them



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If you're a small business owner currently using double-entry bookkeeping or accrual accounting, you're likely familiar with journal entries.

For those using cash accounting or recording transactions on a Microsoft Excel spreadsheet, to better understand journal entries, you must first understand the accounting formula, $assets = liabilities + equity$, which means that all of your

assets should equal your liability and equity totals.

What Is Double-Entry Accounting?

Double-entry accounting is the preferred bookkeeping method that businesses use to record their transactions.

Unlike cash accounting or single-entry accounting, which are used to record entries in a single ledger, double-entry accounting or accrual accounting requires all transactions to have both a debit and a credit entry.

These debit and credit entries are journal entries.

A debit entry increases the balance of both expense and asset accounts and decreases the balance of liability, revenue, and equity accounts, while credit entries increase the balance of liability, revenue, and equity accounts while decreasing the balance of expense and asset accounts.

What Does an Account Represent?

A general ledger account is where all business transactions are recorded.

When you set up your accounting system, you'll need to create a chart of accounts for your general ledger.

For example, you'll have a cash account that represents your current bank balances and a sales account where sales are recorded. It's impossible to use double-entry accounting, or any accounting system without the use of accounts.

What Is a Journal Entry?

A journal entry sometimes referred to as a general journal is a record of a financial transaction that affects your business.

All journal entries require you to use double-entry accounting since they require both a debit amount and a credit amount to be in balance.

A journal entry recorded improperly or in error directly impacts your account balances and your financial statements, which is why learning how to record

journal entries for your business is a necessary skill.

The easiest way to understand journal entries and the impact they have on your financial reporting is to take an introductory bookkeeping or accounting class that will thoroughly explain the accounting cycle, general ledger account types, double-entry accounting, debits and credits, and the impact that journal entries have on your finances.

It can also be helpful to have a reference chart handy that displays the impact a debit or credit has on an account.

Account Type	Debit	Credit
Assets: items of value such as cash, accounts receivable, bank accounts, furniture, fixtures, and land	Increases balance	Decreases balance
Liabilities: things that are owed such as loans, mortgages, and accounts payable	Decreases balance	Increases balance
Revenue: money earned during the course of business from the sale of goods and services	Decreases balance	Increases balance
Expenses: regular overhead expenses which include rent, utilities, payroll, office supplies	Increases balance	Decreases balance
Equity: represents ownership's financial interest in the business	Decreases balance	Increases balance

Using this chart can be extremely helpful for those unfamiliar with the journal entry process.

For example, if you purchase office supplies and need to do a journal entry for the purchase, you can look at the chart and see that you will want to debit the office expense account, which increases the account balance, and credit your bank account, which will decrease the balance.

An easier way to handle journal entries is to use automated accounting software, which prepares the majority of journal entries for your business automatically.

While you'll still be responsible for processing some journal entries, the use of

accounting software significantly reduces the number of manual journal entries you'll need to record.

What Are the Different Types of Journal Entries?

While recording transactions for your business, you may have to complete several different types of journal entries.

Even if you're using an accounting software application, it's helpful to understand what each journal entry is used for.

■ What Are the Different Types of Journal Entries



Opening Entries



Adjusting Entries



Closing Entries



Reversing Journal Entries

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• Opening Entries

For those recording accounting transactions manually, you will need to complete opening entries at the beginning of each accounting period.

For example, to begin the new month, you would take your ending account balances for your various accounts such as cash, accounts receivable, accounts payable, loans, and other accounts you're using, and transfer the ending November balance to your beginning December balance.

This process is completed automatically when you close the accounting period if you're using accounting software.

▪ Opening Entry Example

The year-end balance sheet had the following values:

- **Cash** - \$120,000
- **Inventory** - \$100,000
- **Accounts Receivable** - \$75,000
- **Accounts Payable** - \$45,000
- **Notes Payable** - \$90,000
- **Equity** - \$160,000

Your opening journal entries would be as follows:

Date	Account	Debit	Credit
1/1/2025	Cash	\$120,000	
1/1/2025	Inventory	\$100,000	
1/1/2025	Accounts Receivable	\$75,000	
1/1/2025	Accounts Payable		\$45,000
1/1/2025	Notes Payable		\$90,000
1/1/2025	Equity		\$160,000

If you add up each column, you'll see that they match.

If the debits and credits don't match, there's an error that will need to be corrected.

▪ Adjusting Entries

Because double-entry accounting is accrual accounting, adjusting entries are often needed to record changes to accounts that are not automatically recorded.

Whether you have accounting software or are recording your accounting transactions manually, you may need to complete the following types of adjusting entries.

- **Expense Accruals** - Expense accruals are completed for expenses that have not yet been accounted for.
For example, if you receive your utility bill for the month late,

you'll have to accrue the expense for the month to have an accurate accounting of your expenses.

- **Payroll Accruals** - Payroll accruals are common, with employees typically working the last days of one month but not being paid until the following month.

If your employees work the last few days of November but their payday isn't until the beginning of December, you'll need to accrue payroll expenses for those days.

- **Revenue Accruals** - For most businesses, revenue accruals are in the form of accounts receivable, but there may be instances when an invoice has not yet been sent to a customer but the work was completed or a product sold.

In that case, you'll need to accrue the revenue for the month.

- **Depreciation and Amortization Expense** - If you have an amortized loan or equipment that's depreciated, you'll need to prepare a journal entry to record the depreciation or amortization for the month.

- **Depreciation and Amortization Expense** - If you receive payment for a year of services, you will need to defer revenue until the month when it's earned.

This is also the case if you prepay expenses. Instead of recording the entire expense, you'll need to expense the amount each month.

▪ **Adjusting Journal Entries Example**

In October, you had a plumber in to take care of a leak in the kitchen.

The plumber completed the work in October but you did not receive the bill for \$500 until November.

To ensure that October expenses are correctly recorded, you'll need to record the \$500 bill in October with the following journal entry.

Date	Account	Debit	Credit
10/31/2024	Repairs and Maintenance	\$500	
10/31/2024	Accrued Expenses		\$500

At the beginning of November, you'll need to reverse the accrual since you received the bill and can properly record it.

• Closing Entries

If you're using a manual accounting system, you'll need to do closing entries at the end of an accounting period.

Closing entries are necessary to zero out the balance in all temporary accounts such as expenses, revenue, income, and gain and loss accounts like retained earnings.

The balance in the permanent account is then transferred to the appropriate accounts as an opening entry.

• Closing Entry Example

To close your revenue account balance, leaving it a zero balance for the upcoming month, you'll need to complete the following journal entries.

Date	Account	Debit	Credit
10/31/2024	Revenue	\$115,000	
10/31/2024	Income Summary		\$115,000
	To close the revenue account		

Next, you'll also have to close your expense account balances, since those balances also have to be zeroed out in preparation for the next accounting period.

Date	Account	Debit	Credit
10/31/2024	Income Summary	\$85,000	
10/31/2024	Cost of Goods Sold		\$40,000

10/31/2024	Depreciation Expense		\$5,000
10/31/2024	Rent Expense		\$15,000
10/31/2024	Payroll Expense		\$25,000
	To close expense accounts		

Once the expense account balances are closed out, you'll take the difference between the revenue account and the expenses and then record that transaction as well.

This would be completed by subtracting total expenses from total revenue:

$$\$115,000 - \$85,000 = \$30,000.$$

Now that you have your retained earnings total, you can record that as well.

Date	Account	Debit	Credit
10/31/2024	Income Summary	\$30,000	
10/31/2024	Retained Earnings		\$30,000
	To close income summary account balance to retained earnings		

One of the most convenient things about using an automated accounting software application is that this entire process is completed automatically when you close each accounting period.

You may also need to post compound journal entries, which combine multiple accounts into a single entry.

One of the most convenient things about using an automated accounting software application is that the entire closing process is completed automatically.

• Reversing Journal Entries

Reversing entries are always made at the beginning of an accounting

period to reverse the adjusting entries that were made in the previous period.

For instance, if you did an adjusting entry for a payroll accrual, you'll want to reverse it, otherwise, your payroll expense will be too high.

Most accounting software applications now automatically reverse accruals when the new accounting period starts, but if you're accruing expenses manually, you'll need to remember to record the reversal.

• Reversing Entry Example

Let's look at our adjusting entries from earlier, where we accrued repair costs. Since the expense has been recorded in the month it occurred, you'll have to reverse the accrual in the following month when you receive the invoice for repairs.

If you don't reverse the adjusting entry, your expenses will be overstated for the month.

Date	Account	Debit	Credit
10/31/2024	Accrued Expenses	\$500	
10/31/2024	Repairs and Maintenance		\$500
	To reverse October Accrual		

What Is the Basic Journal Entry in Accounting?

Journal entries always follow the accounting equation; $\text{Assets} = \text{Liabilities} + \text{Equity}$. For every journal entry you create and post, an account will be debited and an account will be credited.

All journal entries should include the account name, the date, and a brief description of the transaction.

If you're posting into a manual ledger, you may also want to include a reference number for the journal entry.

What Is the Difference Between a Journal Entry and a Transaction?

A transaction is something that happens. For example, you have a new employee starting tomorrow and you need to purchase office supplies for them, so you head to the nearest office supply store to stock up on the necessities.

The act of purchasing these supplies is a business transaction.

However, until the purchase of the supplies is recorded in your accounting system, none of your accounts will reflect the purchase.

It's only when the supplies purchase is recorded as a journal entry that your accounts will display the transaction.

Let's say that you spent \$420 at the office supply store.

To record the purchase in the correct month, you'll need to complete a journal entry that records the purchase in the month it was completed so that your accounts reflect the correct balance.

Date	Account	Debit	Credit
11/30/2024	Office Supplies	\$420	
11/30/2024	Cash		\$420
	To purchase office supplies for new employee		

The main point is that a transaction represents money exchanging hands in some form while a journal entry is the recording of that transaction in your accounting software application or journal.

What Are Best Practices for Managing Journal Entries?

There are some ways to streamline the journal entry process, starting with the following.

What Are Best Practices for Managing Journal Entries



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• **Make Sure To Have Backup for All Transactions Posted**

Some form of backup documentation should always be in place for any journal entry made, whether it's posted manually on a spreadsheet or in an accounting software application.

• **Create and Use Templates**

Most of the journal entries that you'll be entering will follow a standard format.

Creating a template to record the journal entry can speed up the process while also providing you with the backup you need for audit purposes.

• **Define the Approval Process**

If your journal entries require approval before processing, it's important to define and follow the approval process.

Delays in the approval process can result in out-of-balance ledgers and inaccurate month-end financial statements.

Automate Your Accounting Processes With the Appropriate Software

Recording and entering journal entries into an accounting software application can be time-consuming, but it doesn't begin to compare with how much time is spent preparing and recording journal entries in a manual accounting system.

Automated accounting software automates much of the journal entry process, eliminating the need to complete opening and closing entries.

Automation also streamlines the entire workflow process, so journal entries become a rarity, not a necessity.

Automation Is the Key to Managing Journal Entries Properly

Journal entries are an important part of the accounting process, so understanding them is vital.

Luckily, accounting automation handles much of the heavy lifting when it comes to processing journal entries, reducing staff workload while increasing accuracy and improving functionality.

While you'll still have to process some journal entries such as month-end accruals for payroll and depreciation expenses, the majority of the work is completed for you, leaving you and your staff time to concentrate on more important things.

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