

SETTING UP A JOURNAL ENTRY

Step 1: Identify which accounts are affected

Example:

- ABC Corp. buys \$300 worth of supplies on account.
 - Accounts affected: Supplies and Accounts Payable (noted by the phrase “on account”)

Step 2: Determine if the affected accounts are increasing or decreasing

Example:

- If ABC corp. is buying supplies, the Supplies account balance is increasing. If ABC Corp. is buying the supplies on account, they now owe money to a vendor. Therefore, their Accounts Payable is also increasing.

Step 3: Determine whether a debit or credit will result in the increase or decrease in the account

Example:

- Dividends, Expenses, and Assets have normal debit balances which means they are increased by debits and decreased by credits. Supplies is an asset account and it is increasing, so it will be debited. Liabilities, Revenues, and Stockholders’ Equity have normal credit balances which means they are increased with a credit and decreased with a debit. Accounts Payable is a liability that is increasing, so it will be credited.

Step 4: Write out the journal entry

Example:

Supplies: \$300

Accounts Payable: \$300

- Make sure all debits are listed first and all credits are listed next with an indentation before each credit. Also make sure that debits and credits are equal.