To summarize:

- Journal entries are the building blocks of the accounting system.
- They record every financial transaction in terms of debits and credits, ensuring the balance of the accounting equation.
- By mastering journal entries, you'll gain a solid foundation for understanding more complex accounting processes, including ledgers, trial balances, and financial reporting.

In this entry, we see that one asset account (office supplies) increases with a debit, while another asset account (cash) decreases with a credit.

4. The Golden Rules of Accounting

Now, how do we know which accounts to debit and which to credit? For this, we follow the Golden Rules of Accounting, which differ slightly depending on the type of account:

- For Assets, Expenses, and Losses:
  - Debit- the increase.
  - Credit - the decrease.

- For Liabilities, Revenues, and Gains:
  - Debit- the decrease.
  - Credit - the increase.

example:

If a company makes a sale of $1,000 on credit, we record this as:
- **Account Debited:** Accounts Receivable — Debit $1,000
- **Account Credited:** Sales Revenue — Credit $1,000

Here, Accounts Receivable is increasing because the company is owed money, so we debit it. Sales Revenue is increasing, which is a gain, so we credit it.

5. The Importance of Journal Entries

Why are journal entries so important?
They serve as the foundation for preparing **financial statements**, such as the **income statement**, **balance sheet**, and **cash flow statement**. Without accurate journal entries, these financial statements would not reflect the true financial health of the business.

Additionally, journal entries provide a detailed record of all business activities, helping management track performance and make informed decisions.

6. Common Mistakes and How to Avoid Them

When recording journal entries, beginners often make some common mistakes, such as:
- Failing to ensure the debits equal the credits.
- Choosing the wrong accounts to debit or credit.
- Forgetting to include a clear narration or description.

To avoid these, always double-check your work and refer back to the **accounting equation** and golden rules before finalizing any entry.

Accounts Receivable (AR) – Money owed to a company by its customers for goods or services delivered but not yet paid for.

- Example: "A healthy accounts receivable balance is key to strong cash flow."

Depreciation – The reduction in the value of an asset over time due to wear and tear or obsolescence.

- Example: "The company calculates depreciation for its equipment on an annual basis."

2. What is a Journal Entry?

A journal entry is a record of a financial transaction in the accounting system of a company. Whenever a business transaction occurs—whether it's a sale, purchase, loan, or payment—it must be recorded. These transactions are captured in the company's books via journal entries, and they are the first step in the **accounting cycle**.

Each journal entry follows a structure, recording two important components:
- **Debits** and **Credits**

Every transaction must affect at least two accounts, and the sum of the debits must always equal the sum of the credits. This is called the **Double-Entry Accounting System**. It ensures that the accounting equation:

Assets = Liabilities + Equity

remains balanced.

3. Key Components of a Journal Entry

A journal entry typically includes the following elements:
- Date of the transaction
- Accounts involved – Each transaction affects at least two accounts.
- Debit amount – The value recorded on the left side of the journal entry.
- Credit amount – The value recorded on the right side of the journal entry.
- Description or narration – A brief explanation of the transaction.

example:

Imagine a company purchases office supplies worth $500 in cash. The journal entry would look like this:

- Date: October 16, 2024
- Account Debited: Office Supplies (an asset) — Debit $500

- Account Credited: Cash (an asset) — Credit $500
-Narration: Purchased office supplies for cash.

Lecture 1 : journal entries

Dr. AHMOUDA

1. Key Vocabulary in Accounting

Assets – Anything of value owned by a company, such as cash, inventory, or equipment.
- Example: "The company's total assets increased after acquiring new equipment."

Liabilities – Financial obligations or debts owed by the company.
- Example: "Liabilities include loans, accounts payable, and mortgages."

Equity – The value remaining after subtracting liabilities from assets.
- Example: "Equity is also known as the owners' interest in the company."

Revenue – The income a business earns from its normal business operations.
- Example: "The company reported higher revenue due to an increase in sales."

Expenses – Costs incurred by a business in its effort to generate revenue.
- Example: "Operating expenses include rent, utilities, and salaries."

Balance Sheet – A financial statement that shows a company's financial position at a specific point in time.
- Example: "The balance sheet lists the company's assets, liabilities, and equity."

Income Statement (Profit and Loss Statement) – A financial document that reports the company's performance over a specific period, showing revenue, expenses, and profits.
- Example: "The income statement helps investors evaluate a company's profitability."

Cash Flow Statement – A financial statement that provides a summary of a company's cash inflows and outflows.
- Example: "The cash flow statement is crucial for understanding a company's liquidity."

Accrual Basis Accounting – Recognizes revenue and expenses when they are incurred, regardless of when the cash is actually received or paid.
- Example: "Most large businesses use accrual basis accounting for their financial reporting."

Double-Entry Accounting – A system where every transaction affects at least two accounts (debits and credits).
- Example: "In double-entry accounting, debits must always equal credits."

Accounts Payable (AP) – Amounts a company owes to suppliers for goods or services received but not yet paid for.
- Example: "The accounts payable department manages the company's payments to vendors."