

3

Keeping Books and Records

Accounting Period	40
The Accounting Cycle	41
Basic Rules of Debit and Credit	43
Business Transaction Source Documents	46
Analyzing the Transaction	47
Recording Transactions Using the Basic Accounting Equation	48
Examples of Transactions	49
The General Journal	59
Recording the Opening Balance Sheet in the Firm's Records	59
Chapter Summary	61
Key Terms	61
Further Reading	61
Review Questions	62
Practice Exercises	63
Put It into Practice	71

After reading this chapter, you should be able to:

- LO1 Understand the concept of a fiscal year.
- LO2 Understand the accounting cycle.
- LO3 Demonstrate an understanding of debits and credits.
- LO4 Complete an analysis of transactions using double-entry bookkeeping.
- LO5 Record opening entries in PCLaw®.
- LO6 Record transactions in a general journal.

LO1 Accounting Period

Accounting records are prepared, and procedures are performed, over the course of the **accounting period**. The process that begins with analyzing and recording business transactions into journals and ends with the completion of financial statements and a post-closing trial balance is referred to as the **accounting cycle**. The steps in the accounting cycle are described in the next section.

Accounting periods of equal length, called **fiscal periods**, are used to measure the financial progress of a business over time. Periods may be defined as monthly, quarterly, or annual. The accounting or fiscal period refers to the period of time for which an income statement is prepared. The length of each accounting period will vary depending on the type and size of business being conducted. If the results are to be compared from one period to the next, the results must be examined over consistent periods of time. It is not usually helpful to compare the results for a 6-month period with results for a 12-month period. When filing tax returns, the results reported to the CRA must cover a 12-month period. When the period covers 12 months, it is called the **fiscal year**. The fiscal year-end is the date upon which the financial year finishes. The fiscal year-end does not have to be December 31; it can be any day of the year as long as it is consistent from one year to the next.

Selecting a year-end for a business depends on various concerns the owner may have, such as the following:

- Are tax benefits available if the business does not use December 31 (the calendar year) as the year-end?
- What additional records will be required if the business does not use the calendar year?
- Is the business seasonal, and does the owner prefer a fiscal period that corresponds to a quiet time of the year?
- On what date did the firm originally begin business?

Once the fiscal year-end has been selected for tax purposes, the CRA will not allow the selected date to be changed without its consent, as this would create inconsistencies in the financial reports. Having a year-end that does not finish on December 31 complicates the bookkeeping because many expenses—such as LSO dues, remittances of employees' tax deductions, and CPP and Employment Insurance (EI) premiums—must be calculated on a calendar-year basis. T4 slips issued to employees must cover salary over the calendar year. The additional record-keeping required when selecting a year-end other than December 31 is often a deterrent.

LO2 The Accounting Cycle

The accounting cycle is the process of analyzing and recording business transactions and producing financial statements from the information. This cycle takes place over a fiscal period covered by the income statement. A business owner may wish to complete the cycle once every month, every quarter, or once a year. Most businesses report on their financial activity monthly. Many paralegals use a one-year accounting period but may produce interim reports each month.

The steps in the accounting cycle are completed in the following order:

1. After a business transaction occurs, journalize the transaction using a general journal, trust journal, and/or specialized journal.
2. Post the journal entry to the general ledger and/or trust ledger.
3. Prepare the trial balance.
4. Prepare the worksheet.
5. Prepare the adjusted trial balance.
6. Prepare the financial statements.
7. Record adjusting and closing entries.
8. Calculate the **post-closing trial balance**.

Figure 3.1 illustrates the steps of the accounting cycle.



FIGURE 3.1 Steps of the accounting cycle

Note that the post-closing trial balance in step 8 is carried forward as the opening balance for the next period.

Transactions

All financial activities involving the business are transactions. The process starts when the business enters into a financial transaction. The transaction might be for cash (or cheque) or for credit. As an example, the paralegal may purchase a piece of equipment, pay rent, or charge fees to a client. An additional consideration for paralegals is that the transaction may involve the trust account and trust records, instead of only the general bank account.

Journal Entries

As discussed in Chapter 2, the general journal is where journal entries are recorded. The general journal is a chronological list of the transactions that occurred during an accounting period. It is called the “book of original entry” because this is where transactions are first recorded in chronological order. The basic general journal usually has two columns—a debit column and a credit column. The **journal entries** involve a double-entry system in which there is at least one debit entry and one credit entry for every transaction. The basic trust journals, which are also books of original entry, are used to record funds received in the trust account and disbursements made from the trust account.

Posting

Once the entries have been recorded in the general journal, they are summarized using a **general ledger**. The general ledger contains all the company accounts and is used to keep a running total of the balance in each asset, liability, equity, income, and expense account. The firm’s books will have one general ledger with a chart for each of the accounts used in the business. Each general journal entry is posted to the account affected by the transaction. The process of recording general journal entries to the general ledger is called posting. **Posting** also will be done from the trust journal to the individual client trust ledgers so that the funds held in the mixed trust account are properly accounted for.

Trial Balance

When the accounting period ends (month-end, quarter-end, or year-end), a list of the ending balances in all the ledger accounts is prepared. This list is called a **trial balance** and it is performed to ensure that the total debits are equal to the total credits. If they are not equal, this indicates that an error occurred in one or more journal entries or in a general journal posting. Errors must be corrected before proceeding to the completion of the financial statements. It is important to note that a balanced trial balance does not necessarily mean that all the transactions were recorded without error.

Worksheet

Sometimes period-end adjustments are needed for certain accounts. For example, a paralegal may have paid motor vehicle insurance premiums and entered the amount as an asset under the account called “prepaid insurance.” At the end of the period, part of the premium will have been used up, and the amount used must be moved from the prepaid asset account on the balance sheet to the expense account on the income statement. An adjusting entry would be made to reduce the amount in the asset account (prepaid insurance) and increase the insurance expense amount in the books to show how much insurance was expended.

If **adjustments** need to be made to the balances in any accounts after the trial balance is prepared, a **worksheet** is used to make the changes required. The worksheet is an internal document used to track the changes made to various accounts, usually after the period transactions have been recorded in order to adjust accounts to their correct balances. Once the adjustments for the period are done, an updated trial balance is prepared to ensure that the debits and credits are still equal. This updated trial balance that occurs after the adjustments have been made is called the **adjusted trial balance**.

Adjusting Journal Entries

Any adjustments made on the worksheet must be entered into the general journal and then posted to the general ledger accounts in order to update and bring the entries from the worksheet into the closing balances of the firm.

Financial Statements

The **financial statements**—an income statement, a statement of owner’s equity, and a balance sheet—are prepared once the adjusting entries have been entered in the general ledger, and an adjusted trial balance has been prepared.

Closing the Books

The owner will want to start a new accounting cycle each fiscal year, so the revenue and expense accounts in the ledgers (referred to as *temporary accounts*) must be closed. Revenue and expense accounts are temporary because they are closed out each year-end and start the next year at zero. **Closing the books** is the final step of the accounting cycle after adjusting entries are recorded, financial statements are prepared, and the closing entries are completed. The balance sheet accounts (the *permanent accounts*) are not closed at the end of the cycle because the amounts in those accounts are carried forward from period to period.

LO3 Basic Rules of Debit and Credit

As a rule, the left side of the T-account is the debit side. The right side is the credit side. Do not give any other meaning to the words debit and credit. Debit means left; credit means right.

(T-account)	
Debits (Dr.)	= Credits (Cr.)
Left side	= Right side

The double-entry method of accounting requires that at least two entries be made for each transaction: a debit entry in one (or more) account(s) is always offset by an equal credit entry in another account (or more than one account). In order for the books to be balanced, the total value of the debits entered must always equal the total value of credits.

Debits and Credits

Points to keep in mind about the terms *debit* and *credit*:

- Assets are shown on the left side of the accounting equation and normally have a debit balance (**normal debit balance**).
- Liabilities and owner's equity are shown on the right side of the accounting equation and normally have a credit balance (**normal credit balance**).
- Every transaction you record will have at least one debit and one credit. The total value of the debits and credits must be equal when you are finished the entry.
- There may be a transaction, called a **compound entry**, that affects three or more accounts. At the end of the entry, the total value of debits must still equal the total value of credits. For instance, if a \$10,000 vehicle is purchased with \$4,000 cash and a \$6,000 loan, then there would be one debit entry (vehicle account) and two credit entries (one for cash and one for the loan).
- A debit entry might increase the balance in some accounts (asset, withdrawal, and expense accounts), but a debit entry might decrease the balance in other accounts (liability, capital, and revenue accounts).
- The ending account balance is the net amount of the debit entries and credit entries posted to each specific account.
- A credit entry can increase the balance in some accounts (liability, capital, and revenue accounts), and a credit entry can decrease the balance in some accounts (asset, withdrawals, and expense accounts).

Loan Payable (Liability Account)		General Bank Account (Asset Account)	
Dr.	Cr.	Dr.	Cr.
Entry on this side <i>decreases</i> balance	Entry on this side <i>increases</i> balance	Entry on this side <i>increases</i> balance	Entry on this side <i>decreases</i> balance

- What is known as a debit or credit on bank statements is actually the opposite of what debits and credits mean in accounting. Although personal bank statements may show deposits as a credit, a credit in a cash or general bank account in accounting records does not result in an increase in the bank account balance; it actually represents a *decrease* in the account balance. Bank statements are done from the perspective of the bank and what it owes to its customers. When the bank issues an account statement, it shows deposits made as a credit because the deposit is actually a liability for the bank—the bank owes its customer the money they have deposited in their bank account.
- Making an entry on the debit side (left side) or credit side (right side) is simply a system used to increase or decrease the balance in an account—nothing more.
- All asset accounts, such as cash, equipment, or office furniture, normally have a debit balance. Therefore, to increase the balance in an asset account, it is necessary to debit the account. For example, if \$1,000 in cash is deposited into the bank account, the deposit will show in the books as a “general bank account” debit.

General Bank Account	
Dr.	Cr.
Increase 1,000	Decrease

- If a cheque for \$50 is written from the general bank account, it is necessary to credit the general bank account by that amount because the balance in the asset (general bank account) is decreasing by \$50 (credit), leaving a debit balance of \$950.

General Bank Account	
Dr.	Cr.
Increase 1,000	Decrease 50
Bal. 950	

- Liability accounts (such as loans payable or credit card debt) are shown on the right side of the accounting equation and have a normal credit balance. To increase the balance in a liability account, the account is credited. For example, if a charge of \$120 is made to the credit card, it is necessary to credit the credit card debt account because the debt is increasing.

Credit Card Debt	
Dr.	Cr.
Decrease	Increase 120

- If a payment is made on the credit card debt, the amount of the debt decreases, which is a liability, and an entry will need to be made on the debit side. If \$100 was paid on the credit card, it would show it as a debit, leaving a balance of \$20 owing on the credit card.

Credit Card Debt	
Dr.	Cr.
Decrease 100	Increase 120
	Bal. 20

- Owner's equity is on the right side of the accounting equation. The capital account, which shows the investment made by the owner in the business, has a normal credit balance. If the owner invests \$1,000 into the business, the capital account must be credited to show an increase in the balance.

Justin Case, Capital	
Dr.	Cr.
Decrease	Increase 1,000

- When a business owner takes \$800 out of the business for personal use, it is called a withdrawal. The drawings account (which has a normal debit balance) is debited when a withdrawal is made because the owner's capital (which has a normal credit balance) is being decreased.

Justin Case, Withdrawal	
Dr.	Cr.
Increase 800	Decrease

- Revenues are entered as a credit because when income is earned, this ultimately results in an increase in the owner’s capital (which has a normal credit balance). Fees earned of \$2,000 would be shown on the credit side in the fees earned (revenue) account (which has a normal credit balance).

Fees Earned	
Dr. Decrease	Cr. Increase 2,000

- Expenses are entered as a debit because they ultimately reduce the owner’s capital. For example, a telephone expense of \$180 would be recorded as a debit.

Telephone Expense	
Dr. Increase 180	Cr. Decrease

Business Transaction Source Documents

When a business transaction occurs, documented evidence of that transaction must be retained. This may be an invoice sent online or in the mail, a receipt or voucher from a purchase made at a store with cash or credit, or a deposit slip from the bank.

TAX TIP

Receipts

When reporting to the CRA, all receipts must be kept to prove the nature of all business transactions. A charge shown on a credit card or bank statement, or even a cancelled cheque, is not considered a valid receipt for tax purposes. The original invoice from a vendor must be available for the purpose of auditing. The reason is that although the charge shown on a bank statement or credit card indicates that something was purchased at an office supply store, it does not specify what was bought—were the purchases really office supplies for the business, or school supplies for the owner’s children? The original receipt from the store explains what the expense was for, not just the fact that money was spent at a particular place of business.

The receipt obtained must be entered into the firm’s books. A system for filing and maintaining receipts must be established. Some people like to file bills by order of date. Others prefer to have separate file folders by account. This enables a business owner to look at the file and see all the bills charged to that account. For example, a business owner may wish to have a file folder named Telephone Expense and place all bills related to telephone expenses for the office in that file. If a question arises, the business owner needs to look through only one folder rather than through the bills for all the items the firm may have purchased over a particular period of time. Further, some choose to file their documents by clients and vendors.

If a bill shows a charge for GST or HST, the registration number of the business must be included on the bill. If the registration number is not shown, the tax department may refuse to allow a credit for the tax paid.

LO4 Analyzing the Transaction

Business transactions must be recorded in the firm's books. As previously mentioned, the general journal is the book of original entry. When a general journal entry is made, the transaction must be analyzed to determine which accounts in the firm's chart of accounts are affected. The following five steps will help with the analysis:

- Which accounts are affected by the transaction? Think about what the firm is giving and receiving in the transaction. Look at the chart of accounts and identify which accounts will be used to record the transaction.
- Are the account balances increasing or decreasing?
- Which category does each affected account belong to? Is it an asset, liability, withdrawal, capital, income, or expense account?
- Given the increase or decrease of each account and the rules of debit and credit, which accounts will be debited and which accounts will be credited?
- Record the entry to the general journal or the T-accounts. Is the entry balanced? Are debits and credits equal after the entry is made?

The biggest challenge for people learning double-entry bookkeeping is knowing which account to use and when to debit or credit an account. One simple memory device to help distinguish debits from credits is the acronym **DEAD CLIC** (Figure 3.2).

Side of the account used to record an increase												
Accounts with a normal debit balance + = Dr.	<table style="border-collapse: collapse; width: 100%;"> <tr> <td style="border-bottom: 1px solid black; padding: 2px 5px;">Debit</td> <td style="border-bottom: 1px solid black; padding: 2px 5px;">Credit</td> </tr> <tr> <td style="padding: 2px 5px;">Expenses</td> <td style="padding: 2px 5px;">Liabilities</td> </tr> <tr> <td style="padding: 2px 5px;">Assets</td> <td style="padding: 2px 5px;">Income</td> </tr> <tr> <td style="padding: 2px 5px;">Drawings</td> <td style="padding: 2px 5px;">Capital</td> </tr> <tr> <td style="padding: 2px 5px;">DEAD</td> <td style="padding: 2px 5px;">CLIC</td> </tr> </table>	D ebit	C redit	E xpenses	L iabilities	A ssets	I ncome	D rawings	C apital	DEAD	CLIC	Accounts with a normal credit balance + = Cr.
D ebit	C redit											
E xpenses	L iabilities											
A ssets	I ncome											
D rawings	C apital											
DEAD	CLIC											

FIGURE 3.2 The acronym DEAD CLIC will help you distinguish debits from credits

DEAD stands for the categories of accounts that have a normal debit balance, that is, expenses, assets, and drawings are debited to increase their balance. To decrease the balance in any of these accounts, the account will need to be credited.

CLIC stands for the categories of accounts that have a normal credit balance, that is, liabilities, income, and capital. To increase the balance in any of these accounts, the account must be credited; to decrease the balance, the account will need to be debited.

The first step in using DEAD CLIC is to learn to recognize the category of account that is being dealt with.

In a double-entry bookkeeping system, two or more accounts will be affected by any transaction. Remember that the total debits and credits must be equal after each entry is made in the general journal.

Recording Transactions Using the Basic Accounting Equation

Let's go back to the original Justin Case opening balance sheet from Chapter 2, which is shown again here in Figure 3.3.

Justin Case, Paralegal Opening Balance Sheet Oct. 1, 20**			
Assets		Liabilities	
General Bank Account (cash)	\$5,000	Personal Loan	\$4,000
Computer Equipment	900	Credit Card Debt	500
Office Furniture	<u>150</u>	Total Liabilities	<u>\$4,500</u>
		Owner's Equity	
		Justin Case, Capital	1,550
Total Assets	<u>\$6,050</u>	Total Liabilities and Owner's Equity	<u>\$6,050</u>

FIGURE 3.3 Opening balance sheet

The T-accounts in Figure 3.4 illustrate how posting the opening entries affects the individual ledger accounts. The total debits equal the total credits once all posting is completed. When making the entries in the general journal, there are at least two entries for each transaction—an entry on the left side, **debit (Dr.)**, and an entry on the right side, **credit (Cr.)**. The total debits are equal to the total credits.

General Bank Account	
Dr.	Cr.
5,000	
Computer Equipment	
Dr.	Cr.
900	
Office Furn. & Equip.	
Dr.	Cr.
150	
Personal Loan	
Dr.	Cr.
	4,000
Credit Card Debt	
Dr.	Cr.
	500
Justin Case, Capital	
Dr.	Cr.
	1,550

Total Debits = 6,050 Total Credits = 6,050

FIGURE 3.4 T-accounts showing ledger balances after posting

Other Types of Entries

Sometimes you may run into an entry that involves more than two accounts or a shift in assets.

Compound Entries

As previously mentioned, a compound entry requires more than one debit or more than one credit. For example, if office furniture is purchased for \$2,000, and \$500 is paid by cheque and \$1,500 is purchased on credit, there will be three lines in the journal entry (see Figure 3.5).

	<i>Debit</i>	<i>Credit</i>
Office Furniture	2,000	
General Bank Account		500
Accounts Payable/General Liabilities		1,500
<i>To record purchase of office furniture</i>		

FIGURE 3.5 Recording a compound entry

Shift in Assets

A shift in assets occurs when two asset accounts are affected by the same transaction. For example, suppose computer equipment that costs \$1,000 is purchased, and it is paid for with cash or cheque. There will be an increase in the computer equipment account, and the general bank account will decrease. The total value of assets has not changed; however, the value of the computer equipment account has increased and the value of the general bank account has decreased, reflecting a shift in assets. This entry would be shown by debiting the computer equipment account and crediting the general bank account (see Figure 3.6).

	<i>Debit</i>	<i>Credit</i>
Computer Equipment	1,000	
General Bank Account		1,000
<i>To record purchase of computer equipment</i>		

FIGURE 3.6 Recording a shift in assets

Examples of Transactions

The following examples illustrate the application of debits and credits in double-entry bookkeeping and recording transactions in a general journal.

EXAMPLE 1

On October 5, Justin Case wrote a cheque for \$300 to Bell Canada to pay the telephone bill for his office.

Analysis of Transaction		Result
Step 1:	Which accounts are affected by the transaction?	<ul style="list-style-type: none"> • Telephone Expense is used to record telephone bills received. • General Bank Account is used to record payment.
Step 2:	Are the account balances increasing or decreasing?	<ul style="list-style-type: none"> • Telephone Expense will increase. • General Bank Account will decrease.
Step 3:	Which category does each affected account belong to?	<ul style="list-style-type: none"> • Telephone Expense is an expense account. • General Bank Account is an asset account.
Step 4:	Which accounts will be debited and which accounts will be credited?	<ul style="list-style-type: none"> • Telephone Expense will be debited \$300. • General Bank Account will be credited \$300.
Step 5:	Record the entry to the general journal or the T-accounts. Is the entry balanced?	<ul style="list-style-type: none"> • Yes, there is a debit of \$300 and a credit of \$300.

General Journal					GJ2
<i>Date</i> 20**		<i>Description</i>	<i>PR</i>	<i>Debit</i>	<i>Credit</i>
Oct.	5	Telephone Expense		300	
		General Bank Account (Cash)			300
		<i>Paid telephone expense for Oct.</i>			

EXAMPLE 2

Compound entry: On October 5, Justin Case purchased office furniture from IKEA for \$2,000. He paid \$500 by cheque and \$1,500 was put on his credit card. This compound entry will involve three different accounts.

Analysis of Transaction		Result
Step 1:	Which accounts are affected by the transaction?	<ul style="list-style-type: none"> • Office Furniture and Equipment Fixtures is the account used for furniture received. • General Bank Account is used to record payment for the furniture. • Credit Card Debt is used to record the liability incurred on the card.
Step 2:	Are the account balances increasing or decreasing?	<ul style="list-style-type: none"> • Office Furniture and Equipment will increase. • General Bank Account will decrease. • Credit Card Debt will increase.
Step 3:	Which category does each affected account belong to?	<ul style="list-style-type: none"> • Office Furniture and Equipment is an asset account. • General Bank Account is an asset account. • Credit Card Debt is a liability account.
Step 4:	Which accounts will be debited and which accounts will be credited?	<ul style="list-style-type: none"> • Office Furniture and Equipment will be debited \$2,000. • General Bank Account will be credited \$500. • Credit Card Debt will be credited \$1,500.
Step 5:	Record the entry to the general journal or the T-accounts. Is the entry balanced?	<ul style="list-style-type: none"> • Yes, there is a debit of \$2,000 and a credit of \$500 plus \$1,500.

General Journal					GJ2
Date	20**	Description	PR	Debit	Credit
Oct.	5	Telephone Expense		300	
		General Bank Account (Cash)			300
		<i>Paid telephone expense for Oct.</i>			
	5	Office Furniture and Equipment		2,000	
		General Bank Account (Cash)			500
		Credit Card Debt			1,500
		<i>To record furniture purchased from IKEA</i>			

EXAMPLE 3

On October 8, Justin Case received \$500 by way of a scholarship for having obtained the highest marks in his class. Justin wishes to invest this amount in his firm.

Analysis of Transaction		Result
Step 1:	Which accounts are affected by the transaction?	<ul style="list-style-type: none"> General Bank Account is used to record cash received. Justin Case, Capital is used to record an increase in investment by the owner.
Step 2:	Are the account balances increasing or decreasing?	<ul style="list-style-type: none"> General Bank Account will increase. Justin Case, Capital will increase.
Step 3:	Which category does each affected account belong to?	<ul style="list-style-type: none"> General Bank Account is an asset. Justin Case, Capital is an owner's equity account.
Step 4:	Which accounts will be debited and which accounts will be credited?	<ul style="list-style-type: none"> General Bank Account will be debited \$500. Justin Case, Capital will be credited \$500.
Step 5:	Record the entry to the general journal or the T-accounts. Is the entry balanced?	<ul style="list-style-type: none"> Yes, there is a debit of \$500 and a credit of \$500.

General Journal					GJ2
Date 20**		Description	PR	Debit	Credit
-----1					
Oct.	5	Office Furniture and Equipment		2,000	
		General Bank Account (Cash)			500
		Credit Card Debt			1,500
		<i>To record furniture purchased from IKEA</i>			
	8	General Bank Account		500	
		Justin Case, Capital			500
		<i>To record investment of scholarship</i>			

1 The broken lines here and in the tables that follow indicate that the page has been split, so that the whole general journal need not be shown each time.

EXAMPLE 4

On October 10, Justin opened an account with a legal stationer, Legal Supplies Inc., and purchased office supplies from them worth \$580. Terms for payment on account are net 30 days, after which interest will be charged.

Analysis of Transaction		Result
Step 1:	Which accounts are affected by the transaction?	<ul style="list-style-type: none"> • Office Supplies/General Expense is used because the supplies will be used up within the year. • Accounts Payable/General Liabilities is used to record the promise to pay Legal Supplies Inc. for the purchase on credit.
Step 2:	Are the account balances increasing or decreasing?	<ul style="list-style-type: none"> • Office Supplies/General Expense will increase. • Accounts Payable/General Liabilities will increase.
Step 3:	Which category does each affected account belong to?	<ul style="list-style-type: none"> • Office Supplies/General Expense is an expense account. • Accounts Payable/General Liabilities is a liability account.
Step 4:	Which accounts will be debited and which accounts will be credited?	<ul style="list-style-type: none"> • Office Supplies/General Expense will be debited \$580. • Accounts Payable/General Liabilities will be credited \$580.
Step 5:	Record the entry to the general journal or the T-accounts. Is the entry balanced?	<ul style="list-style-type: none"> • Yes, there is a debit of \$580 and a credit of \$580.

General Journal					GJ2
Date		Description	PR	Debit	Credit
20**					
Oct.	8	General Bank Account		500	
		Justin Case, Capital			500
		<i>To record investment of scholarship</i>			
	10	Office Supplies/General Expense		580	
		Accounts Payable/General Liabilities			580
		<i>To record purchase from Legal Supplies Inc.</i>			

EXAMPLE 5

Shift in assets: On October 15, Justin purchased a second-hand filing cabinet at Office Equipment Inc., a used office equipment store. He paid \$100 by cheque.

Analysis of Transaction		Result
Step 1:	Which accounts are affected by the transaction?	<ul style="list-style-type: none"> Office Furniture and Equipment is used for the item received. General Bank Account is used for the item given.
Step 2:	Are the account balances increasing or decreasing?	<ul style="list-style-type: none"> Office Furniture and Equipment will increase. General Bank Account will decrease.
Step 3:	Which category does each affected account belong to?	<ul style="list-style-type: none"> Office Furniture and Equipment is an asset account. General Bank Account is also an asset account.
Step 4:	Which accounts will be debited and which accounts will be credited?	<ul style="list-style-type: none"> Office Furniture and Equipment will be debited \$100. General Bank Account will be credited \$100.
Step 5:	Record the entry to the general journal or the T-accounts. Is the entry balanced?	<ul style="list-style-type: none"> Yes, there is a debit of \$100 and a credit of \$100.

General Journal					GJ2
Date 20**		Description	PR	Debit	Credit
Oct.	10	Office Supplies/General Expense		580	
		Accounts Payable/General Liabilities			580
		<i>To record purchase from Legal Supplies Inc.</i>			
	15	Office Furniture and Equipment		100	
		General Bank Account			100
		<i>Purchased filing cabinet from Office Equipment Inc.</i>			

EXAMPLE 6

Payment for services rendered: On October 20, Justin gave a bill to his first client, Judith Sabourin, in the amount of \$3,000, and she paid him with a cheque.

Analysis of Transaction		Result
Step 1:	Which accounts are affected by the transaction?	<ul style="list-style-type: none"> • General Bank Account is used to record the payment received. • Fees Earned is used to record the bill given to the client for the services rendered.
Step 2:	Are the account balances increasing or decreasing?	<ul style="list-style-type: none"> • General Bank Account will increase. • Fees Earned will increase.
Step 3:	Which category does each affected account belong to?	<ul style="list-style-type: none"> • General Bank Account is an asset account. • Fees Earned is an income account.
Step 4:	Which accounts will be debited and which accounts will be credited?	<ul style="list-style-type: none"> • General Bank Account will be debited \$3,000. • Fees Earned will be credited \$3,000.
Step 5:	Record the entry to the general journal or the T-accounts. Is the entry balanced?	<ul style="list-style-type: none"> • Yes, there is a debit of \$3,000 and a credit of \$3,000.

General Journal					GJ2
Date	20**	Description	PR	Debit	Credit
Oct.	15	Office Furniture and Equipment		100	
		General Bank Account			100
		<i>Purchased filing cabinet from Office Equipment Inc.</i>			
	20	General Bank Account		3,000	
		Fees Earned			3,000
		<i>To record fees billed to Sabourin and paid</i>			

EXAMPLE 7

Expenses: On October 30, Justin Case paid rent of \$500 for one month. Use the same process to record this expense as was used in example 1 to record an expense.

Analysis of Transaction		Result
Step 1:	What accounts are affected by the transaction?	<ul style="list-style-type: none"> • Rent Expense is used to record rent charged. • General Bank Account is used to record payment given.
Step 2:	Are the accounts increasing or decreasing?	<ul style="list-style-type: none"> • Rent Expense will increase. • General Bank Account will decrease.
Step 3:	What category does each affected account belong to?	<ul style="list-style-type: none"> • Rent Expense is an expense account. • General Bank Account is an asset account.
Step 4:	Which account will be debited and which account will be credited?	<ul style="list-style-type: none"> • Rent Expense will be debited \$500. • General Bank Account will be credited \$500.
Step 5:	Record the entry to the general journal or T-accounts. Is the entry balanced?	<ul style="list-style-type: none"> • Yes, there is a debit of \$500 and a credit of \$500.

General Journal					GJ2
Date 20**		Description	PR	Debit	Credit
Oct.	20	General Bank Account		3,000	
		Fees Earned			3,000
		<i>To record fees billed to Sabourin and paid</i>			
	30	Rent Expense		500	
		General Bank Account			500
		<i>To record rent paid for one month</i>			

Figure 3.7 shows the general journal after all October transactions (Examples 1 through 7) have been entered and totalled.

General Journal					GJ2
Date		Description	PR	Debit	Credit
Oct.	5	Telephone Expense		300	
		General Bank Account (Cash)			300
		<i>Paid telephone expense for Oct.</i>			
	5	Office Furniture and Equipment		2,000	
		General Bank Account (Cash)			500
		Credit Card Debt			1,500
		<i>To record furniture purchased from IKEA</i>			
	8	General Bank Account		500	
		Justin Case, Capital			500
		<i>To record investment of scholarship</i>			
	10	Office Supplies/General Expense		580	
		Accounts Payable/General Liabilities			580
		<i>To record purchase from Legal Supplies Inc.</i>			
	15	Office Furniture and Equipment		100	
		General Bank Account			100
		<i>Purchased filing cabinet from Office Equipment Inc.</i>			
	20	General Bank Account		3,000	
		Fees Earned			3,000
		<i>To record fees billed to Sabourin and paid</i>			
	30	Rent Expense		500	
		General Bank Account		_____	<u>500</u>
		<i>To record rent paid for one month</i>			
		Totals		<u>6,980</u>	<u>6,980</u>

FIGURE 3.7 General journal after all October transactions have been entered and totalled

LOS Recording Opening Entries in PCLaw®

To get started, Justin Case must enter the account opening balances in the accounting system to create an opening balance sheet. He has added any missing accounts using the set-up menu for the software. He has also recorded the amounts for his investment in the firm in order to calculate his equity (or investment) in the firm. Figure 3.8 shows the general ledger opening account balances as they appear in PCLaw®.

G/L Acct	Description	Debit	Credit
1155	Computer Equipment (Hardware)	900.00	
1158	Office Furniture and Equipment	150.00	
2205	Personal Loan		4000.00
2206	Credit Card Debt		500.00
3000	Justin Case, Equity		1550.00
1000	Gen Bank Acct 1	5000.00	

Debits: 6050.00 Credits: 6050.00
Balance: 0.00

FIGURE 3.8 General ledger opening balances for Justin Case, shown in PCLaw®

The amount to be entered on the line for Justin Case, Equity was shown at the bottom of the screen in the Description column. Once the equity amount of \$1,550 is entered, the Debits and Credits boxes at bottom of the screen show debits of \$6,050 and credits of \$6,050 and the Balance box shows a zero balance, indicating that the debits and credits are balanced. The system does not allow you to exit this screen if the total debits and total credits are not equal so that the balance is zero.

Once the opening balances have been entered, Justin is able to print an opening balance sheet (Figure 3.9).

Printed on: July 6, 2018 Page: 1

**Justin Case, Paralegal
Balance Sheet
As at January 31, 2017**

ASSETS			
<u>Current Assets</u>			
Gen Bank Acct 1	5,000.00		
Total Current Assets		\$5,000.00	
<u>Fixed Assets</u>			
Computer Equipment (Hardware)	900.00		
Office Furniture and Equipment	150.00		
Total Fixed Assets		\$1,050.00	
Total Assets			\$6,050.00
LIABILITIES			
<u>Short Term Liabilities</u>			
Personal Loan	4,000.00		
Credit Card Debt	500.00		
Total Short Term Liabilities		\$4,500.00	
<u>Long Term Liabilities</u>			
Total Long Term Liabilities		\$0.00	
Total Liabilities			\$4,500.00
EQUITY			
Justin Case, Equity	1,550.00		
Total Equity			\$1,550.00
Total Liabilities & Equity			\$6,050.00

FIGURE 3.9 Opening balance sheet for Justin Case, Paralegal, shown in PCLaw®

LO6 The General Journal

As each transaction in Examples 1 through 7 was analyzed, it was recorded on page 2 (GJ2) in the general journal. All the information regarding each transaction is captured in this journal—the date the transaction occurred, the names of the accounts affected, the amounts debited and credited, and an explanation of what the entry was for.

There are a number of conventions regarding journal entries that should be kept in mind:

- Enter the year on the first line at the top left of the first column.
- Enter the month on the first line of the journal entry. It is not necessary to enter the month again until a new page is started or the month changes.
- Enter the date of the transaction in the second column on the first line of each entry. Transactions are entered in chronological order (by order of date).
- Enter the name of the account to be debited on the first line of the entry. Note that debits are always entered first. Use the name of the account as it is shown on the chart of accounts being used by the firm. The description of the debit entry should be aligned at the left margin. Enter the amount to be debited in the debit column on the same line. Dollar signs are not used in journals and ledgers.
- Enter the name of the account to be credited on the next line of the entry, below the debit line(s). Use the name of the account as it is shown on the chart of accounts being used by the firm. The description of the credit entry should be indented by about three spaces (or 1 cm). This provides a visual clue that the line is a credit entry. Enter the credit amount in the credit column.
- Enter a brief explanation of what the entry is for. This entry is sometimes indented to distinguish it from the credit entries. When providing the explanation for the transaction, indicate the name of who was paid or what month the bill was for.
- Leave one blank line between each new entry.

Post Reference Column

The post reference (PR) column in the general journal is left blank when a transaction is initially recorded. Individual account numbers will be entered into the PR column when the entry is posted to the general ledger accounts.

Recording the Opening Balance Sheet in the Firm's Records

The numbers from the opening balance sheet in Figure 3.3 are recorded in the firm's general journal when the firm's books are first set up (see Figure 3.10). These entries are then posted to the firm's general ledger accounts as opening entries.

Justin Case, Paralegal General Journal					GJ1
Date 20**		Description	PR	Debit	Credit
Oct.	1	General Bank Account	100	5,000	
		Computer Equipment	155	900	
		Office Furniture and Equipment	158	150	
		Personal Loan	205		4,000
		Credit Card Debt	210		500
		Justin Case, Capital	300		1,550
		<i>To record opening balance sheet</i>			

FIGURE 3.10 Opening entries

The balances from the opening balance sheet are recorded in the general journal. The heading indicates that the page number is 1 (GJ1), which is the first page of the general journal. In addition:

1. The month and year are placed in the first column for the first entry. The month does not repeat for entries that follow because the date did not change.
2. The descriptions of the debit entries (in the Description column) are aligned at the left margin and the descriptions of the credit entries are indented by about three spaces (or 1 cm).
3. The PR column shows the general ledger account to which the amount was posted. The account number is entered only after the amount has been recorded in the firm's general ledger.
4. "To record opening balance sheet" is the description of the general journal entries above.

**POTENTIAL
PARALEGAL
PITFALLS**

- **Potential pitfall:** Not safeguarding books and records.
- **Possible fallout:** If you lose your financial information, be it paper or electronic, you will be unable to properly report to the CRA, the LSO, or the LFO. You may face fines or penalties for failing to report on time. You would waste valuable billing time spent recreating your financial information.
- **Proposed recommendation:** Store duplicate copies of paper documents off-site. If using an electronic bookkeeping system, make sure you backup your data regularly and store copies of electronic records offsite. Update computers and software when needed.

CHAPTER SUMMARY

The accounting cycle has been briefly described in this chapter. You have learned about the practical factors to consider in selecting a fiscal year. The concepts of debit and credit have been explained, and you should understand how to analyze transactions. You should be starting to understand the accounting equation and the rules of debit and credit.

Analyzing business transactions and entering them into a journal are only the first two steps in the accounting cycle, but getting them right at this stage will make completion of the other steps in the cycle much easier. The accuracy of entries in the general journal and other journals is the key to smooth sailing for completion of the other steps.

KEY TERMS

accounting cycle, 40	fiscal periods, 40
accounting period, 40	fiscal year, 40
adjusted trial balance, 43	general ledger, 42
adjustments, 43	journal entries, 42
closing the books, 43	normal credit balance, 44
compound entry, 44	normal debit balance, 44
credit (Cr.), 48	post-closing trial balance, 41
DEAD CLIC, 47	posting, 42
debit (Dr.), 48	trial balance, 42
financial statements, 43	worksheet, 43

FURTHER READING

Law Society of Ontario, *The Bookkeeping Guide for Paralegals* (Toronto: LSO, December 2015), online: <https://lawsocietyontario.azureedge.net/media/lso/media/legacy/pdf/p/paralegal_bookkeeping_guide_final-s.pdf>.

REVIEW QUESTIONS

True or False

- ___ 1. Debit entries always cause an increase in an account. (LO3)
- ___ 2. Adjustments made on a worksheet should be transferred directly to the appropriate financial statement. (LO2)
- ___ 3. Credit entries are found on the right side of the accounting equation or T-account. (LO3)
- ___ 4. The accounting period is established by the tax regulator (for example, the CRA). (LO1)
- ___ 5. Accounting periods or fiscal periods may be calculated monthly, quarterly, or annually. (LO1)
- ___ 6. The normal balance for expense accounts is a debit entry. (LO3)
- ___ 7. The normal balance for asset accounts is a credit entry. (LO3)
- ___ 8. Each transaction must have a minimum of one debit record entry and one credit record entry. (LO3)

Short Answer

- 1. What are the pros and the cons of electing a December 31 fiscal year-end? (LO1)
- 2. What does it mean to *close the books*? (LO2)

PRACTICE EXERCISES

PRACTICE
EXCEL

Practice Exercise 3.1

In the following list of accounts, complete the table as follows:

- Indicate the category of account: asset, liability, capital, withdrawal, income, or expense. **(LO3)**
- Indicate the normal balance for that category of account. **(LO3)**
- Indicate whether the balance in the account increases or decreases when an entry is made on the side indicated. **(LO4)**

	<i>Account Name</i>	<i>Category</i>	<i>Normal Balance</i>	<i>Side</i>	<i>Increases/Decreases</i>
1	Accounting and Bookkeeping Expense	Expense	Debit	Dr.	Increases
2	Accounts Payable/General			Dr.	
3	Auto Expense			Cr.	
4	Credit Card Debt			Cr.	
5	Fees Earned			Cr.	
6	General Bank Account			Dr.	
7	Insurance—Prof. Liability			Dr.	
8	Interest Income			Cr.	
9	Office Furniture			Dr.	
10	Owner, Capital			Cr.	
11	Owner, Drawings			Cr.	
12	Photocopy Expense			Dr.	
13	Prepaid Insurance			Dr.	
14	Prepaid Rent			Cr.	
15	Salaries			Dr.	
16	Utilities			Cr.	
17	Vacation Accrual Payable			Cr.	
18	General Bank Account			Cr.	

PRACTICE
EXCEL

Practice Exercise 3.2

Complete the T-account chart based on the opening balances provided for each account and the transactions listed. Calculate the ending balance for each account. Opening balances are shown in green. (LO3)

1	Withdrew \$5,000 from legal practice for personal use.
2	Billed and received payment for legal services rendered, \$2,300 (Client A).
3	Received payment for legal services rendered, \$1,800 (Client B). This client was billed previously and an account receivable for the amount of the account had been recorded at that time.
4	Paid supplier for legal texts, \$400.
5	Paid process server for filing court documents, \$130.
6	Paid for Internet and business email services, \$105.
7	Obtained business line of credit, \$15,000.
8	Paid interest on bank loan, \$85.

General Bank Account	
Dr.	Cr.
8,000	

Accounts Receivable	
Dr.	Cr.
3,000	

Liabilities	
Dr.	Cr.
	2,000

Owner's Equity	
Dr.	Cr.
	9,000

Professional Fees Earned	
Dr.	Cr.

Expenses	
Dr.	Cr.

PRACTICE
EXCEL

Practice Exercise 3.3

Using the examples in the box below as a guide, show the increase and decrease that occurs for each of the transactions in the following T-accounts. Identify and insert the name of the account affected in each transaction and place the amount on the debit or credit side depending on whether the account is increasing or decreasing. (LO3)

Example of T-account form:

Accounting Equation: Assets (left) = Liabilities + Owner's Equity (right)

Example balance sheet:

Assets (100)	
Debit	Credit
(+) Increase	(-) Decrease

Liabilities (200)	
Debit	Credit
(-) Decrease	(+) Increase

Owner's Equity (300)	
Debit	Credit
(-) Decrease	(+) Increase

Owner, Drawings (350)	
Debit	Credit
(+) Increase	(-) Decrease

Example income statement:

Income (400)	
Debit	Credit
(-) Decrease	(+) Increase

Expenses (500)	
Debit	Credit
(+) Increase	(-) Decrease

Transactions

- a. A paralegal invests capital (\$10,000) in a legal services firm.

Dr.	Cr.

Dr.	Cr.

- b. A paralegal bills a client for fees (\$8,000) on account.

Dr.	Cr.

Dr.	Cr.

- c. A paralegal receives a cheque as payment from a client (\$5,000) on an outstanding account for legal services.

Dr.	Cr.

Dr.	Cr.

- d. A paralegal pays an invoice for professional liability insurance with cash (\$1,100).

Dr.	Cr.

Dr.	Cr.

PRACTICE
EXCEL

Practice Exercise 3.4

Using the examples in the box below as a guide, analyze each transaction that follows and record the appropriate entries in general journal format. (LO3, LO4)

Example: On October 1, Judy Roth wrote a cheque for \$300 to Minitel in payment of the phone bill.

Which two accounts are affected?	
General Bank Account	Telephone Expense

To which category do the affected accounts belong?	
Assets	Expenses

Is the affected account balance increasing or decreasing?	
Decreasing	Increasing

Will the account be debited or credited?	
Credit	Debit

What amount will be debited or credited to each account?	
300	300

Record the journal entry for this transaction:

Date 20**		Description	Dr.	Cr.
Oct.	1	Telephone Expense	300	
		General Bank Account		300
		<i>Payment of September telephone bill</i>		

Transactions

- On October 1, Judy Roth invested \$2,000 in her firm.
- On October 1, Judy Roth purchased computer equipment on account (that is, on credit) for \$800.
- On October 5, Judy Roth invoiced a client for professional fees of \$2,500.

- d. On October 10, Judy Roth received partial payment of \$1,500 from a client for the invoice sent in transaction (c), above.
- e. On October 15, Judy Roth paid \$600 cash for office furniture.

Use a general journal format to illustrate the transactions in Practice Exercises 3.5 through 3.10.

PRACTICE
EXCEL

Practice Exercise 3.5

Paying Office Expenses (LO3, LO4, LO6)

- a. May 1: Ann Litigate wrote a general cheque #25 for \$200 to pay her telephone bill.
- b. May 1: Ann Litigate wrote a general cheque #26 for \$25 to pay Staples for office supplies expense.

PRACTICE
EXCEL

Practice Exercise 3.6

Compound Entries (LO3, LO4, LO6)

- a. May 1: Ann Litigate purchased a computer for \$1,000 from Computers R Us. She paid for the computer using a credit card and a general cheque. The cheque (#27) was written for \$300 and she put \$700 on the credit card.
- b. May 1: Ann Litigate paid three months' rent with a general cheque #28 in the amount of \$3,000 (\$1,000 per month). Of that amount, \$1,000 was rent expense for the current month and \$2,000 was prepaid rent for the next two months' rent.

PRACTICE
EXCEL

Practice Exercise 3.7

Recording and Paying Accounts Payable (LO3, LO4, LO6)

- a. May 15: Ann Litigate purchased a photocopier on account (on credit) from Sharpie Copiers. The cost of the copier is \$5,000 and payments are to be made at the rate of \$300 per month until the amount is paid in full. Her first payment is due on June 15.
- b. June 15: Ann Litigate made a payment to Sharpie Copiers against the amount owed to them for the copier in the amount of \$300 (cheque #29).

PRACTICE
EXCEL

Practice Exercise 3.8

Recording a Shift in Assets (LO3, LO4, LO6)

- a. May 15: Ann Litigate purchased a fax machine from FaxMe and paid \$150 with a general cheque #30.

PRACTICE
EXCEL

Practice Exercise 3.9

Recording Invoices Sent to a Client and Recording Payment on Account by a Client (LO3, LO4, LO6)

- a. May 1: Ann Litigate prepared invoice #10 for fees earned and mailed it to her client Barbara Short for \$1,500.
- b. May 30: Barbara Short sent a cheque for \$1,000 to the firm in partial payment of invoice #10.

PRACTICE Practice Exercise 3.10

EXCEL

Recording Investment by Owner and Withdrawal by Owner (LO3, LO4, LO6)

- a. May 1: Ann Litigate deposited \$10,000 of her personal funds as an investment in her firm.
- b. May 15: Ann Litigate withdrew \$800 from the firm for her own personal living expenses (cheque #31).

PRACTICE Practice Exercise 3.11

EXCEL

Ann Litigate opened her paralegal service practice, Ann Litigate Paralegal Services, in January 20**. For each of the following transactions, analyze the transaction and prepare the appropriate general journal entry. (LO3, LO4, LO6)

January 1–31, 20**:

- 1 Made initial capital investment, \$10,000
- 1 Paid professional liability insurance expense in full for the next 12 months with cash, \$1,100
- 1 Law Society membership dues paid for one month with cash, \$125
- 2 Paid monthly business insurance with cash, \$50
- 3 Purchased office furniture with cash, \$500
- 4 Paid for computer software by credit card, \$250
- 5 Paid for cellphone bill by credit card, \$75
- 5 Paid for telephone and Internet service by credit card, \$145
- 10 Paid for court filing fee by credit card (for client R. Scott), \$200
- 15 Invoiced client (L. Bailey, invoice #101) for initial consultation, \$175
- 15 Paid biweekly salary for secretary with cash, \$1,000
- 18 Paid installment payment for leased photocopier (equipment) with cash, \$240
- 23 Invoiced client (R. Smythe, invoice #102) for provincial offences file, \$300
- 25 Paid process server for service of court documents and court filing by credit card for client (R. Scott), \$108
- 26 Purchased legal accounting publication, *Law Practice, Billing & Accounting*, by credit card, \$100
- 27 Retained bookkeeper based on a one-year contract and paid in advance with cash, \$2,000
- 30 Withdrew cash from the business for personal use, \$800
- 30 Paid biweekly salary for secretary with cash, \$1,000
- 30 Paid bank account charges with cash (direct bank payment), \$35

Ann Litigate Paralegal Services				GJ1	
General Journal					
Date 20**	Description	PR	Debit	Credit	

PRACTICE
EXCEL

Practice Exercise 3.12

- a. Complete the T-accounts based on the transactions in Practice Exercise 3.11 and provide the balance for each balance sheet account. *Note: Each account starts with \$0 opening balance for the purpose of this exercise. (LO3, LO4)*

T-Accounts (Assets)

General Bank Account (100)	
Dr. (+)	Cr. (-)
0	
OPENING BALANCE	

Computer Software (160)	
Dr. (+)	Cr. (-)
0	
OPENING BALANCE	

Prepaid Insurance (125)	
Dr. (+)	Cr. (-)
0	
OPENING BALANCE	

T-Accounts (Liabilities)

Credit Card Debt (210)	
Dr. (-)	Cr. (+)
	0
	OPENING BALANCE

Prepaid Expense (135)	
Dr. (+)	Cr. (-)
0	
OPENING BALANCE	

T-Accounts (Owner's Equity)

Owner, Capital (300)	
Dr. (-)	Cr. (+)
	0
	OPENING BALANCE

Accounts Receivable (120)	
Dr. (+)	Cr. (-)
0	
OPENING BALANCE	

Owner, Drawings (301)	
Dr. (+)	Cr. (-)
0	
OPENING BALANCE	

Office Furniture and Equipment (159)	
Dr. (+)	Cr. (-)
0	
OPENING BALANCE	

- b. Complete the T-accounts based on the transactions in Practice Exercise 3.11 and add up the totals for each income and expense account; then, as a final step, total all the income and expense accounts. (LO3, LO4)

T-Accounts (Income)

Fees Earned (400)	
Dr. (-)	Cr. (+)

T-Accounts (Expenses)

Salaries Expense (511)	
Dr. (+)	Cr. (-)

General Disbursement Expense (525)	
Dr. (+)	Cr. (-)

Telephone (and Internet Service) Expense (565)	
Dr. (+)	Cr. (-)

Library and Subscriptions (530)	
Dr. (+)	Cr. (-)

Membership/Professional Dues (534)	
Dr. (+)	Cr. (-)

Insurance/Other (528)	
Dr. (+)	Cr. (-)

Equipment Lease (524)	
Dr. (+)	Cr. (-)

Bank Charges (507)	
Dr. (+)	Cr. (-)

Total Income and Expenses	
TOTAL INCOME: \$ _____	TOTAL EXPENSES: \$ _____

PUT IT INTO PRACTICE

Case Example: Analysis of Transactions

Ann Litigate is updating her bookkeeping records in preparation for the monthly meeting with her accountant. She has the following transactions to enter in the general journal, but she is not sure how to analyze the transactions in order to complete the entries. Use the chart of accounts on the inside front cover of this textbook and provide your analysis of the transactions listed below:

1. Ann invoiced her client on January 1 (\$3,000), but the account is now more than 40 days past due. What is the entry? What options are available to Ann?
2. Ann earned \$1,200 for legal services rendered on another client file. She received a partial payment (\$700) by cheque, but there is an outstanding balance of \$500. What is the entry?

