

THEME: THE GENERAL JOURNAL

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ACCOUNTING TERM: General Journal

A journal is a record of transactions that shows the accounts and amounts of both the debit side and credit side of the entry. A General Journal is the primary journal or place to record transactions that do not fit into any other journal.

FEATURE ARTICLE: Miscellaneous Suspense – The Handy-Dandy GL Account.

One of the great things about the discipline of accounting is that there is always a tidy solution to an accounting problem. Well, most of the time. The reason for this is because you are done only when the books are “in balance”. You can never just throw up your hands, walk away, and leave everything hanging. Each transaction must be dealt with individually and “put to bed” so to speak. But what happens when you don’t have all the information you need to complete a transaction? You may need to finish the bookkeeping by a deadline and you can’t let one piece of information stop you in your tracks.

This is where your “handy-dandy” General Ledger (GL) account called Miscellaneous Suspense is called into action. No, I didn’t type that wrong. It is not Miscellaneous Expense. The word is “suspense” like “suspended animation”. Miscellaneous Suspense is a holding account where temporary transactions are held until further information is available that will tell you where to record the transactions permanently.

To begin, we need to establish where Miscellaneous Suspense should be located on the Chart of Accounts. The Chart of Accounts is a list of all the GL accounts organized by the five sections: Assets; Liabilities; Equity; Revenue; and Expense. There is no set rule where Miscellaneous Suspense has to be located. However, it definitely does not belong in the Revenue or Expense sections. I think the easiest place to locate it is in the Asset section, under Other Assets.

Here are some examples of how to use the account:

- 1) Let’s assume that you are cruising along entering checks you have written into the Cash Disbursements Journal in your computer accounting software program. All of a sudden you come to a check for \$86.28 that has no GL account number on it and it is written to someone that you have never heard of. The boss is out of town, or, if you are the boss, you can’t remember what that check was written for. You can simply code the check to the Miscellaneous Suspense account until you have time to

figure it out. Since all checks written result in a decrease to Cash, which is recorded on the credit (right) side of the ledger, the entry of \$86.28 will be recorded on the debit (left) side of the ledger.

<u>Miscellaneous Suspense</u>	<u>Cash-in-Bank</u>
86.28	86.28

A few days later, you discover that the check was written to a new person who comes in every two weeks to water the office plants. Using the General Journal, you write a journal entry to reclassify the Miscellaneous Suspense entry to Outside Services:

DESCRIPTION	DEBIT	CREDIT
Outside Services	86.28	
Misc. Suspense		86.29
To reclassify		

<u>Miscellaneous Suspense</u>	<u>Outside Services</u>
86.28	86.28

- 2) Sometimes when you buy machinery or equipment you buy it in stages. You may first put a down payment on the item and then pay for installation charges when the equipment arrives. You might even buy some accessories that have to be attached to the main equipment. Sometimes you may not know whether certain attachments will fit until you try them. Instead of recording all these different payments to the Machinery & Equipment fixed assets account, you can use the Miscellaneous Suspense account to accumulate all the costs until you have a final figure. This way, when you look into the fixed asset account you can identify this one piece of equipment as costing one single amount. For example:

You bought a milling machine that costs \$7,800. The down payment was \$ 2000; installation fees \$500; accessories \$234; \$76; \$123; and \$42. You returned the \$123 item and replaced it with a \$161 item. These costs came in over a two-month period, and when the equipment was finalized you set up a Note Payable over three years for the remaining amount.

The Miscellaneous Suspense account would look like this:

Miscellaneous Suspense

2,000		
500		
234		
76		
123		
42		
161		123
<u>3,136</u>		<u>123</u>
3,013		

Using the General Journal, you would then transfer this total amount of \$3,013 from Miscellaneous Suspense plus the amount of the Note Payable to the fixed asset GL account called Machinery & Equipment because that is the full cost of the milling machine.

DESCRIPTION	DEBIT	CREDIT
Mach & Equip	8,813	
Notes Payable		5,800
Misc. Suspense		3,013

You are probably starting to get the idea now. If you have made a mistake and need to close the books, put the difference in Miscellaneous Suspense until you have time to make the correction. If you find a check has cleared the bank but it's not on your register and you have no idea what the check was written for, use the Suspense account.

You should clear the Miscellaneous Suspense account by the end of each year; so make sure you write an adequate explanation as to where the numbers came from. This is an accounting technique that keeps your books tidy and easy to understand when, later on, you may be trying to remember what you did.

QUESTION: When Should The General Journal Be Used?

The General Journal (GJ) serves a major purpose. As I mentioned in the definition above, it is used when a transaction does not fit into any of the other journals. In many small business situations, the Cash Disbursements (CD) Journal is the only journal used in conjunction with the GJ. The CD journal you may recall is essentially your checkbook register. That being the case, one side

of the transactions always results in a credit (decrease) to Cash. Your computer system automatically decreases cash and you decide which GL accounts to debit the checks. This is pretty straightforward.

But, how do you enter information into your computer that is not related to the checks you wrote? Consider for instance, items such as: bank charges; correction of mistakes; deposits to the bank; sales; sales tax; non-sufficient funds (NSF) from customer checks that bounce; depreciation expense; gain or losses from the sale or trade of fixed assets; notes payable; inventory adjustments; accounts receivable and accounts payable entries; payroll; and, any other unusual transactions that might occur.

Use of the General Journal sets apart the person who knows how accounting works from those who don't. Why? Because one must understand how debits and credits work in order to write the adjusting journal entries. This simple knowledge is what gives power to the user. This ability allows a person to solve problems, straighten out messes, bring order to disorder, and not be fooled or intimidated by anyone. I remember one day I was in a client's office and was getting ready to leave for another client appointment. I mentioned I was working on organizing a corporation's books that were in chaos, and the principals had no idea what they were doing. I was a little surprised when the client I was with said, "Wow, I would love to have that kind of power". I had never thought about it that way before, but she was right. There is power with knowledge and it feels good.

The persons who know "they know" how accounting works can explain or communicate information confidently to those that need to know, such as the boss, board of directors, partners, CPA or staff. The General Journal is one of the most versatile tools found in the accountant's toolbox.

TIP: How To Use The Deferred Income/Customer Deposit GL Account.

Have you ever received a deposit from a customer for your product or service before you delivered the product or rendered the service? If you are using the accrual method of accounting, you can't record the sale until the product is delivered or the service performed. If you are using a cash basis accounting method, you may not want to record the deposit as a sale because the customer may change his mind before the sale is finally consummated. Therefore, the proper way to record a customer deposit is to debit (increase) Cash (Asset) and credit (increase) a GL Account called either Customer Deposits or Deferred Income (Liability).

DESCRIPTION	DEBIT	CREDIT
Cash	100.00	
Deferred Income		100.00

Deferred Income is found in the Liability section of the Balance Sheet because you are holding the customer's money and he/she could come back and reclaim it. When you deliver the product or render the service, your journal entry would look like this:

DESCRIPTION	DEBIT	CREDIT
Deferred Income	100.00	
Sales		100.00

In a sense, Deferred Income or Customer Deposits is like the Miscellaneous Suspense account in that it serves a holding function, but for a specific purpose.

Here is a word of caution to cash basis taxpayers. Even though you have not recorded the sale, in the USA the Internal Revenue Service considers the deposit you received as reportable income.

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