FOUNDATIONS SERIES

Baratelli Foundations: Journal Entries Reference

46 essential entries every business owner should know.

Journal entries are the backbone of bookkeeping. Every financial transaction starts here — recorded in a two-column format with **debits on the left** and **credits on the right**. This guide walks you through 46 of the most common entries you'll encounter in virtually any business, with plain-English explanations so you always know what's happening to your books.

For: small business owners · bookkeepers · students · early-career finance professionals.

Quick rule: Debits increase assets & expenses; credits increase liabilities, equity & revenue. Every entry must balance — total debits always equal total credits.

Section 1 — Revenue & Sales

#01 Cash Sale

Account	Debit (Dr)	Credit (Cr)
Cash	XXX	
Sales Revenue		XXX

When a customer pays you on the spot, Cash goes up (debit) and Sales Revenue goes up (credit). This is the most fundamental revenue entry — money in the door, revenue earned.

Tip: Use this any time a sale is completed AND payment is received at the same time.

#02 Sale on Account (Accounts Receivable)

Account	Debit (Dr)	Credit (Cr)
Accounts Receivable	XXX	
Sales Revenue		XXX

When you deliver goods or services but haven't been paid yet, you record a receivable. Accounts Receivable increases because the customer owes you money. Revenue is still recognized when earned, not when cash is collected.

Tip: Common for B2B businesses that issue invoices with net-30 or net-60 payment terms.

#03 Collecting on an Account Receivable

Account	Debit (Dr)	Credit (Cr)
Cash	XXX	
Accounts Receivable		XXX

When the customer finally pays their invoice, Cash goes up and Accounts Receivable goes down. No new revenue is recorded here — it was already recognized when the sale was made.

Tip: Revenue is NOT recorded again. This entry simply converts a receivable into cash.

#04 Sales Returns & Allowances

Account	Debit (Dr)	Credit (Cr)
Sales Returns & Allowances	XXX	
Accounts Receivable / Cash		XXX

When a customer returns merchandise or receives a price reduction, you reverse part of the original sale. Sales Returns & Allowances is a contra-revenue account that reduces total revenue.

Tip: Keep returns in a separate account so you can track the volume of returns over time.

#05 Unearned Revenue (Customer Deposit / Advance Payment)

Account	Debit (Dr)	Credit (Cr)
Cash	XXX	
Unearned Revenue		XXX

When a customer pays you before you've delivered the product or service, the cash received is a liability — not revenue — because you still owe them something. It becomes revenue only when you perform.

Tip: Common for subscriptions, retainers, gift cards, and advance orders.

#06 Recognizing Unearned Revenue

Account	Debit (Dr)	Credit (Cr)
Unearned Revenue	XXX	
Sales Revenue / Service Revenue		XXX

As you deliver on your obligation, you shift the amount from the liability (Unearned Revenue) to actual Revenue. This is the second half of Entry #5 — it closes the loop when the work is done.

Tip: Each month, recognize only the portion of service you have actually delivered.

Section 2 — Purchases & Inventory

#07 Purchase of Inventory on Account

Account	Debit (Dr)	Credit (Cr)
Inventory	XXX	
Accounts Payable		XXX

When you buy goods to resell and haven't paid yet, Inventory increases and Accounts Payable — a liability — also increases because you owe the supplier.

Tip: Used in a perpetual inventory system. Under periodic inventory, debit 'Purchases' instead.

#08 Payment of Accounts Payable

Account	Debit (Dr)	Credit (Cr)
Accounts Payable	XXX	
Cash		XXX

When you pay off what you owe a supplier, Accounts Payable decreases (debit) and Cash decreases (credit). No new expense is recorded — it was already captured when you received the goods.

Tip: Always reconcile your payables aging report before cutting checks to avoid double payments.

#09 Cost of Goods Sold (COGS)

Account	Debit (Dr)	Credit (Cr)
Cost of Goods Sold	XXX	
Inventory		XXX

Every time you sell inventory, you must record the cost of those items leaving your shelves. COGS (an expense) increases and Inventory (an asset) decreases. This entry pairs with Entry #1 or #2.

Tip: COGS is recorded at the same time as the sales entry in a perpetual inventory system.

#10 Purchase Discount Taken

Account	Debit (Dr)	Credit (Cr)
Accounts Payable	XXX	
Cash		XXX
Purchase Discounts		XXX

When a supplier offers an early-pay discount (e.g., '2/10 net 30' means 2% off if paid within 10 days), the discount reduces what you actually pay. Purchase Discounts is a contra-cost account that reduces the cost of inventory.

Tip: Always evaluate early-pay discounts — a 2/10 net 30 discount is effectively a 36% annualized return.

#11 Inventory Write-Down (Obsolete or Damaged Goods)

Account	Debit (Dr)	Credit (Cr)
Loss on Inventory Write-Down / COGS	XXX	
Inventory		XXX

When inventory becomes obsolete, damaged, or worth less than its recorded cost, you must reduce its book value to net realizable value. This loss reduces net income in the current period.

Tip: Review inventory for impairment at least annually. Write-downs cannot be reversed under US GAAP.

Section 3 — Payroll & Employee Costs

#12 Recording Payroll Expense

Account	Debit (Dr)	Credit (Cr)
Salaries & Wages Expense	XXX	
FICA Taxes Payable (SS/Medicare)		XXX
Federal Income Tax Withholding Payable		XXX
State Income Tax Withholding Payable		XXX
Net Salaries Payable (or Cash)		XXX

Payroll is one of the most complex entries. The gross wage is the full debit. The credits represent amounts withheld from employees' checks plus the net take-home amount. All withholdings are liabilities until remitted.

Tip: The employer also owes matching FICA taxes — record that separately as an additional expense and payable.

#13 Employer Payroll Tax Expense

Account	Debit (Dr)	Credit (Cr)
Payroll Tax Expense	XXX	
FICA Taxes Payable (Employer Match)		XXX
FUTA Payable		XXX
SUTA Payable		XXX

On top of withholding employees' taxes, the employer pays its own share of Social Security, Medicare, plus federal (FUTA) and state (SUTA) unemployment taxes. These are a business cost, not withheld from employees.

Tip: FUTA and SUTA only apply to the first $7,000 (federal) of each employee's wages per year.

#14 Employee Benefits Expense (Health Insurance, 401k)

Account	Debit (Dr)	Credit (Cr)
Employee Benefits Expense	XXX	
Benefits Payable / Insurance Premiums Payable		XXX

When the company contributes to employee health insurance, retirement plans (401k match), or other benefits, those costs are an expense. The credit is a liability until the payment is remitted to the plan.

Tip: Track benefits expense separately from wages for cleaner financial reporting and budget analysis.

Section 4 — Fixed Assets & Depreciation

#15 Purchase of a Fixed Asset

Account	Debit (Dr)	Credit (Cr)
Equipment / Vehicle / Building / etc.	XXX	
Cash (or Notes Payable)		XXX

When you buy a long-term asset like a computer, vehicle, or equipment, you debit the asset account (not an expense). The credit is Cash if paid outright, or Notes Payable if financed.

Tip: Capitalize assets that will last more than one year and cost above your capitalization threshold.

#16 Monthly Depreciation

Account	Debit (Dr)	Credit (Cr)
Depreciation Expense	XXX	
Accumulated Depreciation		XXX

Each period, a portion of a fixed asset's cost is expensed through depreciation. Accumulated Depreciation is a contra-asset that offsets the original cost — the asset's book value decreases over time.

Tip: The asset account itself never changes. Accumulated Depreciation is subtracted to show net book value.

#17 Disposal / Sale of a Fixed Asset

Account	Debit (Dr)	Credit (Cr)
Cash (proceeds received)	XXX	
Accumulated Depreciation	XXX	
Loss on Disposal (if any)	XXX	
Equipment / Asset Account		XXX
Gain on Disposal (if any)		XXX

When you retire or sell an asset, remove both the original cost and all accumulated depreciation. If proceeds exceed book value, record a Gain; if less, record a Loss.

Tip: Book value = Original cost minus Accumulated Depreciation. Compare to sale proceeds to find gain or loss.

#18 Amortization of Intangible Asset

Account	Debit (Dr)	Credit (Cr)
Amortization Expense	XXX	
Accumulated Amortization / Intangible Asset		XXX

Intangible assets with finite useful lives — like patents, trademarks, customer lists, or non-compete agreements — are amortized (expensed) over their useful life, similar to depreciation for tangible assets.

Tip: Goodwill from an acquisition is NOT amortized under US GAAP — it is tested annually for impairment.

Section 5 — Operating Expenses & Adjustments

#19 Prepaid Expense (e.g., Insurance, Rent)

Account	Debit (Dr)	Credit (Cr)
Prepaid Insurance / Prepaid Rent	XXX	
Cash		XXX

When you pay for something in advance, the full payment is first recorded as an asset (Prepaid Expense). Each month, as the benefit is used up, a portion moves to the expense account.

Tip: Prepaids appear on the balance sheet as current assets until they are fully used up.

#20 Recognizing a Prepaid Expense (Adjusting Entry)

Account	Debit (Dr)	Credit (Cr)
Insurance Expense / Rent Expense	XXX	
Prepaid Insurance / Prepaid Rent		XXX

This monthly adjusting entry converts the prepaid asset into an actual expense. For example, a $12,000 annual insurance policy becomes $1,000 of expense each month.

Tip: Adjusting entries are made at month-end or year-end and are critical for accurate financial statements.

#21 Accrued Expense (Wages or Interest Unpaid at Period End)

Account	Debit (Dr)	Credit (Cr)
Wages Expense / Interest Expense	XXX	
Wages Payable / Interest Payable		XXX

If a cost has been incurred but not yet paid by period end, you must accrue it. The expense is recorded now (matching principle) and a liability is set up because you owe the money.

Tip: Common accruals: wages earned through month-end before the next pay date, or interest owed on a loan.

#22 Utilities / Rent Expense Paid

Account	Debit (Dr)	Credit (Cr)
Utilities Expense / Rent Expense	XXX	
Cash (or Accounts Payable)		XXX

Routine operating costs like electricity, gas, water, and office rent are recorded when incurred. Pay immediately and credit Cash, or credit Accounts Payable if billed first.

Tip: Always match expenses to the period they were used, not just when the bill arrives.

#23 Bad Debt Expense (Allowance Method)

Account	Debit (Dr)	Credit (Cr)
Bad Debt Expense	XXX	
Allowance for Doubtful Accounts		XXX

When it becomes likely that some receivables will never be collected, you estimate and record the expected loss in advance. The Allowance for Doubtful Accounts is a contra-asset that reduces Accounts Receivable on the balance sheet.

Tip: The allowance method is required under GAAP. Never wait until the debt is actually uncollectible to record the expense.

#24 Writing Off a Specific Bad Debt

Account	Debit (Dr)	Credit (Cr)
Allowance for Doubtful Accounts	XXX	
Accounts Receivable		XXX

When a specific customer's balance is confirmed uncollectible, you remove it from the books. This entry does NOT affect the income statement — the expense was already recognized in Entry #23.

Tip: If the customer later pays after a write-off, reverse this entry and then record the cash collection.

Section 6 — Taxes

#25 Sales Tax Collected from Customers

Account	Debit (Dr)	Credit (Cr)
Cash / Accounts Receivable	XXX	
Sales Revenue		XXX
Sales Tax Payable		XXX

When you collect sales tax from customers, it is NOT your revenue — you are holding it as a trustee for the government. The tax collected is a liability (Sales Tax Payable) until remitted.

Tip: Sales tax rates and filing frequencies vary by state. Failure to remit timely can result in penalties.

#26 Remitting Sales Tax to the Government

Account	Debit (Dr)	Credit (Cr)
Sales Tax Payable	XXX	
Cash		XXX

When you submit the collected sales tax to the state or local government, the liability is eliminated and Cash decreases. This entry has no effect on your income statement.

Tip: Set a reminder for your filing due date — sales tax is often due monthly, quarterly, or annually depending on volume.

#27 Income Tax Expense (C-Corp or Accrual Method)

Account	Debit (Dr)	Credit (Cr)
Income Tax Expense	XXX	
Income Tax Payable		XXX

Corporations (and some entities on the accrual method) record income tax expense as it is incurred, even before it is paid. Income Tax Payable is a liability on the balance sheet until the payment is made.

Tip: Sole proprietors and S-corp owners pay tax at the individual level — this entry applies mainly to C-corps.

#28 Estimated Tax Payment

Account	Debit (Dr)	Credit (Cr)
Income Tax Payable	XXX	
Cash		XXX

When quarterly estimated taxes are paid to the IRS or state, the tax liability decreases and Cash decreases. This entry reduces the Income Tax Payable balance set up in Entry #27.

Tip: Businesses generally must make quarterly estimated payments or face underpayment penalties.

Section 7 — Financing & Banking

#29 Taking Out a Bank Loan

Account	Debit (Dr)	Credit (Cr)
Cash	XXX	
Notes Payable (or Loan Payable)		XXX

When you borrow money, Cash increases and Notes Payable increases. The interest you'll pay over time is NOT recorded here — it accrues each period separately.

Tip: Separate the current portion (due within 12 months) from the long-term portion on your balance sheet.

#30 Monthly Loan Payment (Principal + Interest)

Account	Debit (Dr)	Credit (Cr)
Notes Payable (principal portion)	XXX	
Interest Expense (interest portion)	XXX	
Cash		XXX

Each loan payment has two parts: principal (reduces the loan balance) and interest (a current expense). Early in a loan, most of the payment is interest; as the balance shrinks, more goes to principal.

Tip: Use a loan amortization table from your lender to know the exact principal vs. interest split each month.

#31 Line of Credit Draw

Account	Debit (Dr)	Credit (Cr)
Cash	XXX	
Line of Credit Payable		XXX

When you draw funds from a business line of credit, treat it like a short-term loan — Cash increases and the line of credit liability increases. Interest accrues on the outstanding balance.

Tip: A line of credit is flexible — you borrow, repay, and borrow again. Track the balance carefully.

#32 Owner's Capital Contribution (Sole Prop / Partnership)

Account	Debit (Dr)	Credit (Cr)
Cash / Asset Contributed	XXX	
Owner's Capital		XXX

When the owner puts personal money or assets into the business, Cash (or the asset) increases and Owner's Capital (equity) increases. This is an investment, not income.

Tip: For corporations, this entry uses Common Stock and Additional Paid-in Capital instead of Owner's Capital.

#33 Owner's Withdrawal / Distribution

Account	Debit (Dr)	Credit (Cr)
Owner's Drawing / Distributions	XXX	
Cash		XXX

When the owner takes money out for personal use, the drawing (equity) account is debited and Cash is credited. For corporations, this is recorded as a dividend distribution.

Tip: Owner drawings are NOT a business expense and do NOT reduce taxable business income for sole proprietors.

Section 8 — End-of-Period & Closing Entries

#34 Closing Revenue to Income Summary

Account	Debit (Dr)	Credit (Cr)
Sales Revenue / Service Revenue	XXX	
Income Summary		XXX

At year-end, all revenue accounts are closed (zeroed out) by debiting them and crediting Income Summary. This resets revenue accounts to zero so they start fresh in the new fiscal year.

Tip: Closing entries are made AFTER all adjusting entries. Only temporary accounts (revenue, expense, drawings) are closed.

#35 Closing Expenses to Income Summary

Account	Debit (Dr)	Credit (Cr)
Income Summary	XXX	
All Expense Accounts (COGS, Wages, Rent, etc.)		XXX

All expense accounts are closed by crediting them and debiting Income Summary. The balance in Income Summary now equals net income (or net loss) for the year.

Tip: If Income Summary has a credit balance, the company had a profit. Debit balance means a loss.

#36 Closing Net Income to Owner's Equity / Retained Earnings

Account	Debit (Dr)	Credit (Cr)
Income Summary	XXX	
Owner's Capital / Retained Earnings		XXX

The net income sitting in Income Summary is transferred to permanent equity. For sole proprietors, it goes to Owner's Capital. For corporations, it goes to Retained Earnings.

Tip: If there was a net loss, debit Retained Earnings (or Owner's Capital) and credit Income Summary.

> ***Companion reference —*** *Closing entries live at the end of the 8-step accounting cycle. For the full Chart of Accounts setup and cycle context that surrounds these closing entries, see* ***Baratelli Foundations: Accounting Reference*** *(Guides 1 and 3).*

Section 9 — Miscellaneous & Advanced Entries

#37 Bank Service Charges (from Bank Reconciliation)

Account	Debit (Dr)	Credit (Cr)
Bank Service Charge Expense	XXX	
Cash		XXX

When your bank statement shows fees (monthly maintenance, wire fees, NSF charges) that aren't yet in your books, record them as an expense. This entry is typically made during bank reconciliation.

Tip: Always reconcile your bank account monthly. Unreconciled accounts are a leading cause of bookkeeping errors.

#38 NSF Check Returned by Bank

Account	Debit (Dr)	Credit (Cr)
Accounts Receivable	XXX	
Cash		XXX

When a customer's check bounces (Non-Sufficient Funds), your bank reverses the deposit. You must reverse the Cash entry and re-establish the Accounts Receivable, because the customer still owes you.

Tip: You may also charge the customer a returned check fee — debit Accounts Receivable and credit Other Income.

#39 Petty Cash Replenishment

Account	Debit (Dr)	Credit (Cr)
Office Supplies Expense	XXX	
Postage Expense	XXX	
Miscellaneous Expense	XXX	
Cash		XXX

When the petty cash fund runs low, you replenish it by writing a check for the total of all receipts. Each expense is recorded based on the receipts. The Petty Cash account itself does NOT change during replenishment.

Tip: The Petty Cash account only changes when you establish or permanently increase/decrease the fund size.

#40 Correction of an Accounting Error

Account	Debit (Dr)	Credit (Cr)
Incorrect Account (reverse original)	XXX	
Correct Account		XXX

When an error is discovered — wrong account used, wrong amount, or a duplicate entry — record a correcting entry to reverse the mistake and record it correctly. Always document the reason for the correction.

Tip: For errors from prior periods, consult your accountant — some may require a prior period adjustment to Retained Earnings.

Section 10 — Leases & Corporate Equity

#41 Operating Lease — Recording Right-of-Use Asset (ASC 842)

Account	Debit (Dr)	Credit (Cr)
Right-of-Use Asset (ROU Asset)	XXX	
Operating Lease Liability		XXX

Under ASC 842, nearly all leases with terms over 12 months must appear on the balance sheet. On the lease start date, record both an asset (your right to use the space or equipment) and a matching liability (your obligation to make payments), both equal to the present value of all future lease payments.

Tip: This replaced the old off-balance-sheet treatment. If you lease office space or equipment for more than a year, this entry likely applies.

#42 Monthly Operating Lease Payment

Account	Debit (Dr)	Credit (Cr)
Operating Lease Liability	XXX	
Operating Lease Expense (straight-line)	XXX	
Cash		XXX
ROU Asset (reduction)		XXX

Each month the cash payment reduces the lease liability and the ROU asset is amortized. Under an operating lease, total lease cost is recognized on a straight-line basis over the lease term — expense is the same amount every period regardless of the actual payment schedule.

Tip: Operating leases show a single lease expense line on the income statement. Finance leases split into amortization plus interest.

#43 Finance Lease — Initial Recognition

Account	Debit (Dr)	Credit (Cr)
Right-of-Use Asset (Finance Lease)	XXX	
Finance Lease Liability		XXX

A finance lease is economically similar to purchasing an asset on credit. Like an operating lease, it is recorded at the present value of future payments on day one. The key difference is how expenses flow through the income statement over the life of the lease.

Tip: A lease is classified as a finance lease if it transfers ownership, includes a bargain purchase option, covers most of the asset life, or the payments represent most of the asset fair value.

#44 Finance Lease — Monthly Expense Entries

Account	Debit (Dr)	Credit (Cr)
Amortization Expense (ROU Asset)	XXX	
Interest Expense (on lease liability)	XXX	
Accumulated Amortization — ROU Asset		XXX
Finance Lease Liability		XXX
Cash		XXX

Finance leases produce two expense lines each period: amortization of the ROU asset (like depreciation on owned equipment) and interest on the lease liability (like a loan). This front-loads total expenses compared to an equivalent operating lease — costs are higher early in the term, then taper off.

Tip: Finance lease costs affect EBITDA differently than operating leases — an important distinction for lenders and investors reviewing your financials.

#45 Issuance of Common Stock

Account	Debit (Dr)	Credit (Cr)
Cash	XXX	
Common Stock (par value)		XXX
Additional Paid-In Capital (APIC)		XXX

When a corporation sells shares to investors, Cash increases. The par value of the shares issued goes to Common Stock (a nominal legal amount, often $0.01 per share), and everything the investor pays above that par value goes to Additional Paid-In Capital (APIC). Together these represent the total equity raised from investors.

Tip: Par value is just a legal formality. Most of the proceeds from a stock sale will land in APIC, not Common Stock.

#46 Treasury Stock Buyback

Account	Debit (Dr)	Credit (Cr)
Treasury Stock	XXX	
Cash		XXX

When a corporation repurchases its own shares, Treasury Stock — a contra-equity account — increases and Cash decreases. Treasury shares are no longer outstanding; they do not receive dividends or carry voting rights. The buyback reduces total stockholders equity on the balance sheet.

Tip: Treasury stock is reported as a negative number in the equity section. If shares are later reissued, reverse this entry and record any difference to APIC.

NEXT STEP — Going Deeper

If you found this useful, the **CFO & Controller's Guide** goes several multiples deeper on every entry in this reference — full ASC citations, audit treatment, and the close-cycle context your controller actually uses.

CFO & Controller's Guide — 489pp paid flagship

- Full ASC references attached to every journal entry
- Audit considerations and reviewer-level commentary per entry
- Sub-ledger reconciliation tied to each posting
- Period-end and cut-off procedures around closing entries
- Controller-level depth on all 46 entries plus 30+ specialized entries

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