



The Professional's Guide to Journal Entries: A Global Perspective

Your Learning
Transformation



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BEFORE Working Through This Guide...

Transaction Recording Uncertainty

You might see daily business transactions but feel unsure how to properly record them for accounting purposes.

Confusing Financial Terms

Financial terms like **Debit** and **Credit** may sound like confusing jargon with no clear, real-world meaning.

Double-Entry Mystery

The concept of double-entry bookkeeping, where every transaction has two sides, might seem like a complete mystery.

Incomplete Financial View

Overall, your financial records might feel like a simple list of "money in" and "money out." This one-sided view makes it impossible to build proper financial reports or understand the true health of the business.

AFTER Completing This Guide...

Master Journal Entry Building Blocks

You will be able to define and explain the five key building blocks of a journal entry: analyzing transactions, determining accounts, identifying debits and credits, and recording amounts.

Apply the Golden Rule

You will be able to apply the "**golden rule**" of accounting: that Debits must always equal Credits.

Journalize Common Transactions

You will be able to correctly journalize common business transactions, including sales, expenses, and payroll.

Navigate Global Differences

You will be able to identify and explain key differences in bookkeeping practices between Japan, the USA, and the Philippines, especially concerning **VAT** and **Sales Tax**.

Speak the Language of Business

You will be able to confidently translate a company's financial activities into the universal "language of business."



1. What is a Journal Entry?

In accounting, a journal entry is the very first step in recording a business transaction. Think of yourself as a financial translator: your job is to take a real-world event and translate it into the language of accounting.

❏ **For example:** If your business sells \$1,000 worth of services for cash:

- Your "Cash" increases.
- Your "Service Revenue" increases.

The formal process of recording this event in your company's books using debits and credits is a **journal entry**.





2. The Rules of Debits and Credits

Every journal entry is built on two concepts: **Debits (Dr.)** and **Credits (Cr.)**. Don't let the names intimidate you; they simply refer to the left and right sides of an entry.

Debit (Dr.)

An entry on the left side.

Credit (Cr.)

An entry on the right side.

The most important rule in all of accounting is that **the total amount of debits must always equal the total amount of credits** for every transaction. This is the foundation of the **double-entry bookkeeping** system that has been the global standard for centuries.



Here's a simple way to remember what to debit and credit, based on the fundamental accounting equation (**Assets = Liabilities + Equity**):

1

Increase Assets

To **increase** an **Asset** (left side of the equation), you **Debit** it.

2

Increase Liabilities or Equity

To **increase** a **Liability** or **Equity** (right side of the equation), you **Credit** it.

Expenses are debited when they occur because they reduce Equity, while Revenue is credited when earned because it increases Equity.

3. T-Accounts: Visualizing a Transaction

To visualize how a transaction works, accountants often use a simple tool called a "T-account" because it's shaped like the letter T.

For example: Recording the sale of \$1,000 in services for cash.

	Debit	Credit
Cash (Asset)	+\$1,000	
Service Revenue		+\$1,000

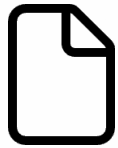
As you can see, the debit on the left matches the credit on the right.



4. The Journalizing Process: A 4-Step Method

Every journal entry follows the same logical process:

01



Analyze the transaction

What business activity took place? (e.g., We sold a service, we paid a bill).

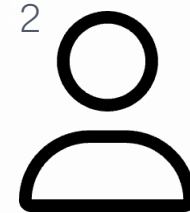
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Apply the rules of debits and credits

Which account gets debited, and which gets credited?

0



Determine the accounts involved

Which categories were affected? (e.g., Cash, Salaries Expense).

0



Record the amounts

Assign the correct dollar value to the debit and credit, ensuring they are equal.

Master this four-step method, and you can correctly record any transaction anywhere in the world.

5. Commonly Used Accounts

These are the primary building blocks for your journal entries.



Assets

Resources the company *owns*. (e.g., Cash, Accounts Receivable, Inventory, Buildings).



Liabilities

What the company *owes* to others. (e.g., Accounts Payable, Loans Payable, Accrued Expenses).



Equity

The owner's stake in the company; its net worth. (e.g., Common Stock, Retained Earnings).



Revenue

Money the company *earns* from its business operations. (e.g., Sales, Service Revenue).



Expenses

Costs incurred to run the business. (e.g., Purchases, Salaries, Rent, Utilities).

Note: While account names can vary slightly by country, the core concepts are universal.

6. Journal Entry Examples: A Global Creative Agency

Let's apply these concepts to a fictional creative agency run by **Patricia** (writer), **Cris** (web developer), and **Zyrine** (video editor).

Patricia, the writer, completes a project for a U.S. client.

Transaction 1



Transaction: Sold an eBook manuscript for \$5,000, which was received in cash.

Debit	Credit
Cash \$5,000	Service Revenue \$5,000

Transaction 2



Transaction: Cris, the web developer, pays the monthly website hosting fee of \$50 via a bank transfer.

Debit	Credit
Web Hosting Expense \$50	Bank \$50

Philippine Example

The agency completes a project for a local client in the Philippines. Note: As of 2025, the Value Added Tax (VAT) rate is 12%.

Transaction: Zyrine sold a video editing package for P20,000. The client paid cash.

- **Analysis:** The agency earned P20,000 in revenue but must also collect 12% VAT for the government. The total cash collected will be the service price plus the VAT.
- **Calculation:**
 - VAT Amount = P20,000 (Service Price) \times 12% (0.12) = P2,400
 - Total Cash Collected = P20,000 + P2,400 = P22,400
- **Journal Entry:**
 - **Debit:** Cash P22,400
 - **Credit:** Service Revenue P20,000
 - **Credit:** VAT Payable P2,400 (This is a liability, as the agency owes this money to the government).

Transaction: The agency pays Cris her monthly salary of P30,000, deducting P2,500 for withholding tax.

Analysis & Calculation

- **Analysis:** The total salary expense is P30,000. However, the agency withholds P2,500 to pay the government on Cris's behalf. The cash paid to Cris is the difference.
- **Calculation:** Cash Paid = P30,000 (Gross Salary) - P2,500 (Tax) = P27,500 (Net Pay)

Journal Entry

- **Debit:** Salaries Expense P30,000
- **Credit:** Withholding Tax Payable P2,500
- **Credit:** Cash P27,500

Japanese Example

The agency buys software from Japan. Note: As of 2025, the Japanese Consumption Tax is 10%.

Transaction: Purchased video editing software for ¥50,000, paying with cash. This price includes the 10% consumption tax.

Analysis & Calculation

- **Analysis:** The total cash paid is ¥50,000. We need to separate the cost of the software from the tax paid.
- **Calculation:**
 - Software Cost = $¥50,000 \div 1.10 = ¥45,455$ (rounded)
 - Consumption Tax = $¥50,000 - ¥45,455 = ¥4,545$

Journal Entry

- **Debit:** Software Expense ¥45,455
- **Debit:** Consumption Tax Paid (Asset) ¥4,545
- **Credit:** Cash ¥50,000

Category	United States	Philippines	Japan
Sales/VAT	Sales Tax is added at the point of sale. It is a state/local tax, and accounting for it varies. It's often not recorded as part of the company's revenue.	12% VAT is a national tax embedded in the price. It must be separated and recorded as a liability (VAT Payable) in the journal entry.	10% Consumption Tax is a national tax. It is also recorded separately, often as (Temporary Paid Consumption Tax) or (Temporary Received Consumption Tax).
Payroll	Employers deduct Federal/State income tax and FICA (Social Security & Medicare) from employee paychecks.	Employers deduct Withholding Tax, plus contributions to SSS, PhilHealth, and Pag-IBIG.	Employers deduct Withholding Income Tax and social insurance premiums (Shakai Hoken).

8. Common Mistakes to Avoid



USA

Incorrectly applying the sales tax rules, which vary significantly by state and even by city.




Philippines

Forgetting to separate the 12% VAT from a sales or purchase transaction, which is a common audit issue.



Japan

Mixing consumption tax into a revenue or expense account instead of tracking it separately for tax reporting.

 **Pro Tip:** Always ask, "Is there a tax component to this transaction?" This simple question can save you from major headaches later.

9. Practice Problems



Q1 (USA)

Patricia buys several retro video games for \$150 in cash to use as research for a client's project. Show the journal entry for this business expense.



Q3 (General)

The agency pays a freelance designer a gross fee of \$500. They are required to withhold \$50 for taxes. The net amount is paid in cash. Record the transaction.



Q2 (Philippines)

Cris goes café hopping for a business meeting and pays P1,500 + 12% VAT for coffee and snacks. Show the journal entry for this expense, paid in cash.



Q4 (Advanced)

Based on the examples, explain why a business in the Philippines needs to be more detailed in recording sales transactions compared to a similar business in the USA.

10. Answers and Explanations

A1 (USA)

- **Debit:** Research Expense \$150
- **Credit:** Cash \$150

Note: In the U.S., sales tax paid on a purchase like this is typically included in the total expense amount rather than being recorded separately.

A2 (Philippines)

How we get this:

- VAT on Purchase (Input VAT) = $P1,500 \times 12\% = P180$
- Total Cash Paid = $P1,500 + P180 = P1,680$

Journal Entry:

- **Debit:** Meetings & Entertainment Expense P1,500
- **Debit:** Input VAT P180
- **Credit:** Cash P1,680

A3 (General)

How we get this: Net Cash Paid = \$500 (Gross Fee) - \$50 (Tax) = \$450

Journal Entry:

- **Debit:** Professional Fees Expense \$500
- **Credit:** Tax Payable \$50
- **Credit:** Cash \$450

A4 (Advanced)

In the **Philippines**, the 12% VAT is a national, transaction-level tax that businesses are legally required to collect on behalf of the government and report in detail. Therefore, it must be explicitly separated in every relevant journal entry.

In the **USA**, sales tax is a consumer-facing tax managed at the state and local levels. Businesses are simply pass-through collectors, and for accounting purposes, the sales tax collected is generally not considered part of the business's revenue, leading to simpler sales journal entries.

11. Summary

Foundation of Financial Recording

A journal entry is the first, essential step in translating business activities into financial records.

Global Tax Awareness

Understanding the specific tax laws of each country—like **U.S. Sales Tax**, **Philippine VAT**, and **Japanese Consumption Tax**—is critical for accurate bookkeeping.

The Golden Rule

The golden rule of double-entry bookkeeping is that **Debits must always equal Credits**.

Business Decision Foundation

By mastering this process, you gain the power to create reliable financial data, which is the foundation for all smart business decisions.