What is the journal entry for invoice posting

Recording payments in accounting can otherwise be referred to as “accounts payable,” which means the total amount a given company owes to companies or suppliers for products or services. Furthermore, the accounts payable balance is reflected in the balance sheetBalance SheetThe balance sheet is one of the three fundamental financial statements. The financial statements are key to both financial modeling and accounting., specifically in the current liabilities section, and includes all invoices that are due to be paid.For example, a company that just purchased its office supplies from Company B and received an invoice of $500 should record the amount in its accounts payable sub-ledger and pay it on or before the due date to improve its cash flow and avoid late penalty fees.Accounts Payable vs. Accounts ReceivableAccounts payable and accounts receivable are accounting concepts used in accrual accounting to record transactions when cash is not exchanged. Accounts payableAccounts PayableAccounts payable is a liability incurred when an organization receives goods or services from its suppliers on credit. Accounts payables are are recorded by a company when it purchases goods and services on credit and will make payment in a future period. Accounts payable are considered current liabilities of the company.Accounts receivableAccounts ReceivableAccounts Receivable (AR) represents the credit sales of a business, which have not yet been collected from its customers. Companies allow is the opposite, as it is where a company records the sale of its goods or services to another but has not yet collected any funds. Accounts receivable are considered current assets of the recording company.Example of How to Record Payment in AccountingLet’s say a company called Bags Unlimited sold 100 nylon bags to Company B, and both companies agreed on a certain payment due date. Bags Unlimited sends its invoiceSource DocumentsThe paper trail of a company's financial transactions are referred to in accounting as source documents. Whether checks are written to be and writes the due date as December 15, as agreed by both parties. It records the transaction as an accounts receivable while Company B records it as an accounts payable.Is Accounts Payable a Debit or a Credit?The question above does confuse some due to the terminology used in accounting. For example, accounts payable are considered a debt of a company because they involve the purchase of goods on credit. However, in double-entry accounting, an increase in accounts payable is always recorded as a credit. Credit balance in accounts payable represents the total amount a company owes to its suppliers. Once the invoice is received, the amount owed is recorded, which consequently raises the credit balance.When the invoice is paid, the amount is recorded as debit to the accounts payable account; thus, lowering the credit balance. The higher the accounts payable, the higher its credit balance is, and the lower the accounts payable, the lower its credit balance.The Accounts Payable ProcessThe accounts payable process looks like an easy task, but it entails very careful scrutiny of invoices because the slightest errors can spell huge losses for a company. In fact, all companies, especially the big and long-standing ones, need to adopt an automated accounts payable system to make sure the following process is accurately performed.1. Receipt of an invoiceThe first step is the receipt of the invoice, which can be done through various channels such as by email, fax, or courier.2. Forwarding to the right individualBecause it can just arrive by mail or through the company’s email, it must be forwarded to the appropriate person, who may be the accountantAccountantAn accountant plays a very crucial role in an organization, regardless of whether it is a multinational company or a small, domestic one. The, manager, bookkeeperBookkeeperThe primary job of a bookkeeper is to maintain and record the daily financial events of the company. A Bookkeeper is responsible for recording and maintaining a business' financial transactions, such as purchases, expenses, sales revenue, invoices, and payments., or the accounts payable specialist, if there is such a position.3. Inputting of detailsOnce it reaches the hands of the correct person, the details of the invoice are then inputted into a file such as a spreadsheet or an accounting system, which is saved.4. Approving invoicesThe approval of invoices is very crucial. Ideally, before payments are made, every invoice should go through rigid scrutiny to ensure that all invoices are valid and authorized. In fact, there are various points that need to be checked specifically, including:Pre-approval of the expense or the purchase order issued by the companyThe arrival of the goods purchased before the payment is to be madeThe singularity of the invoiceContracts and agreements with suppliers5. Issuing of checksAfter the steps are completed and the invoice’s been verified, the accountant creates the checks and specifies the amount to be paid on each check. They are sealed in envelopes, labeled with the appropriate addresses, and sent to the intended recipients.The above steps are in a manual accounts payable system. Because it is very tedious and time-consuming, with a high probability of errors, an automated system is highly recommended.Characteristics of a Well-run Accounts Payable SystemAn accurate accounts payable process results in accurate financial statements that ultimately lead to the success of a company. A well-run accounts payable system exhibits the following characteristics.Legitimate invoices are processed, not just accurately but timely as well.Invoices are recorded in the correct accounts.Unprocessed expenses are adjusted.Related ReadingsCFI is the official provider of the global Financial Modeling & Valuation Analyst (FMVA)®Become a Certified Financial Modeling & Valuation Analyst (FMVA)®CFI's Financial Modeling and Valuation Analyst (FMVA)® certification will help you gain the confidence you need in your finance career. Enroll today! certification program, designed to help anyone become a world-class financial analyst. To keep advancing your career, the additional CFI resources below will be useful:Financial Accounting TheoryFinancial Accounting TheoryFinancial Accounting Theory explains the why behind accounting - the reasons why transactions are reported in certain ways. This guide willJournal Entries GuideJournal Entries GuideJournal Entries are the building blocks of accounting, from reporting to auditing journal entries (which consist of Debits and Credits)Projecting Balance Sheet Line ItemsProjecting Balance Sheet Line ItemsProjecting balance sheet line items involves analyzing working capital, PP&E, debt share capital and net income. This guide breaks down how to calculateT Accounts GuideT Accounts GuideIf you want a career in accounting, T Accounts may be your new best friend. The T Account is a visual representation of individual accounts A Journal Entry is an entry made in the general ledger and it indicated the affected accounts. A Journal Entry is a multi purpose transaction where the debit and credit accounts can be selected. All types of accounting entries other than Sales and Purchase transactions are made using the Journal Entry. A Journal Entry is a standard accounting transaction that affects multiple Accounts and the sum of debits is equal to the sum of credits. A Journal Entry Impacts the main ledger. Journal Entries can be used for entering expenses, opening entries, contra entries, bank payments, excise entries, etc. For example, booking running expenses, direct expenses like petrol/transport, sundry expenses, adjustment entries, and adjusting invoice amount. Note: From version-13 onwards we have introduced immutable ledger which changes the way cancellation of accounting entries works in ERPNext. Learn more here. To access the Journal Entry list, go to: Home > Accounting > General Ledger > Journal Entry 1. How to create a Journal Entry Go to the Journal Entry list, click on New. The default Entry Type will be 'Journal Entry'. This is a general purpose entry type. Visit section 3 to know more about entry types. You can change the Posting Date. Expand the table, select an Account from which amount is debited. The above details can be added from a Journal Entry Template too with the 'From Template' field. Select the Party Type and Party if it's a Debtor entry. Add a row where the amount will be credited. Note that, in the end, total debit and credit amounts should add up to be the same. Save and Submit. Finance Book: You can post this entry to a specific Finance Book. On leaving this field blank, this Journal Entry will show up in all Finance Books. 1.1 Quick Entry When creating a Journal Entry, a Quick Entry button can be seen on the top right. This makes creating the Journal Entry a bit easier. Enter the amount, select the accounts, add a remark. This will populate the 'Accounting Entries' table with the selected details. 2. Features 2.1 Accounting Entries Accounting Dimensions: A Project or Cost Center can be linked here to track the costing separately. To know more, visit this page. Bank Account No: If you've added a Bank Account, the number associated with that bank account will be fetched. Reference Type: If this Accounting Entry is associated with another transaction, it can be referenced here. Select the Reference Type and select the specific document. For example, if you're creating a Journal Entry against a specific Sales Invoice. Link this Journal Entry to the invoice. The “outstanding” amount of that invoice will be affected. Following are the documents that can be selected in the Journal Entry under Reference Type: 2.2 Reverse Journal Entry In any submitted Journal Entry, there is a dedicated button to reverse the Journal Entry. On clicking the 'Reverse Journal Entry' button, the system creates a new Journal Entry by reversing debit and credit amount against the respective accounts. 2.3 Difference Entry The “Difference” is the difference that remains after summing all debit and credit amounts. As per double entry accounting system, the total debit should be equal to the total credit. This should be zero if the Journal Entry is to be “Submitted”. If this number is not zero, you can click on “Make Difference Entry” and the system will automatically add a new row with the amount required to make the total as zero. Select the account to debit/credit and proceed. 2.4 Referencing A Reference Number can be entered manually and a Reference Date can be set. On entering a Reference Number here, a 'Remark' will be seen, for example: Note: supplier Reference #2321 dated 30-09-2019 ₹ 1,000.00 against Sales Invoice ACC-SINV-2019-00064 In th Reference section, the following fields can be entered manually if the bill was recorded offline and not in the ERPNext system. This is only for reference purposes. Bill No Bill Date Due Date 2.5 Multi Currency entries If the accounts selected are in different currencies, tick the 'Multi Currency' checkbox. If this checkbox is not enabled, you will not be able to select any foreign currencies in the Journal Entry. This will show the different currency and fetch the 'Exchange Rate'. To know more, visit the Multi Currency Accounting page. 2.6 Journal Entry Template From Template field: Selecting an option in this will load details from a Journal Entry Template. It will fetch and add the following details to the entry: Entry Type Company Series Accounts in Accounting Entries Is Opening To learn more go to the Journal Entry Template page. 2.7 Print Settings Pay To / Recd From: The name entered here will show up in the Sales Invoice. This is useful for printing cheques. Go to the print view in the Journal Entry and select the 'Cheque Printing Format'. You can print your Journal Entry on your company's letterhead. Know more here. Journal Entries can also be titled differently for printing purposes. You can do this by selecting a Print Heading. To create new Print Headings go to: Home > Settings > Printing > Print Heading Read Print Headings to know more. Mode of Payment: Whether the payment was done using Wire Transfer, Bank Draft, Credit Card, Cheque, or Cash. New Modes of Payment can also be created. If a Bank Account is set in Mode of Payment, it will be fetched here when the Mode of Payment is selected. Is Opening: If the Journal Entry is of type 'Opening Entry' this field will be set to 'Yes'. To know more, visit the Opening Balance page. From Template: When a template is selected, the 'Accounting Entries' table will be emptied first before loading the accounts from the template. You can add more account entries after that. 3. Journal Entry Types Let's take a look at some of the common accounting entries that can be done via Journal Entry in ERPNext. 3.1 Journal Entry This is a general purpose entry type which can be used for different purposes. Let's see a few examples. Expenses (non accruing) Many times it may not be necessary to accrue an expense, but it can be directly booked against an expense Account on payment. For example, a travel allowance or a telephone bill. You can directly debit Telephone Expense (instead of your telephone company) and credit your Bank on payment. Debit: Expense Account (like Telephone expense). Credit: Bank or Cash Account. For crediting employee salaries, 'Journal Entry' type is used. In this case, Debit: The salary components. Credit: The bank account. 3.2 Inter Company Journal Entry If a transaction occurs between a parent and child company, or sister companies, or two companies belonging to the same group, this option can be used to make an Inter Company Journal Entry. To know more visit the Inter Company Journal Entry page. 3.3 Bank Entry Use this type when making or receiving a payment using a Bank Account. For example, paying for a entertainment charges etc using the Company's bank account. 3.4 Cash Entry This is the same as 'Bank Entry' but the payment is made via Cash Account. 3.5 Credit Card Entry This is a type of entry to easily identify all credit card entries. 3.6 Debit Note This is a document sent by a customer (your Company) to a supplier (your Supplier) when returning goods/items. You can also create a Debit Note directly from a Purchase Invoice. "Debit Note" is made for a Supplier against a Purchase Invoice or accepted as a credit note from Supplier when a company returns goods. When a Debit Note is made, the Company can either receive a payment from the Supplier or adjust the amount in another invoice. Debit: Supplier Account. Credit: Purchase Return Account. To know more, visit this page. This is a document sent by a supplier to a customer when returning goods/items. "Credit Note" is made for a Customer against a Sales Invoice when the company needs to adjust a payment for returned goods. When a Credit Note is made, the seller can either make a payment to the customer or adjust the amount in another invoice. Debit: Sales Return Account. Credit: Customer Account. To know more, visit this page. A debit/credit note is usually issued for the value of the goods returned or lesser. 3.8 Contra Entry A Contra Entry is booked when the transaction is booked within the same Company of types: Cash to Cash Bank to Bank Cash to Bank Bank to Cash This is used to record withdrawing or depositing money from a Bank Account. When this entry is used, the money does not leave the company unless it is again used to pay for something. 3.9 Excise Entry When a Company buys goods from a Supplier, company pays excise duty on these goods to Supplier. And when a company sells these goods to Customers, it receives excise duty. Company will deduct payable excise duty and deposit balance in Govt. account. When a Company buys goods with Excise duty: Debit: Purchase Account, Excise Duty Account. Credit: Supplier Account. When a Company sells goods with Excise duty: Debit: Customer Account. Credit: Sales Account, Excise Duty Account. Note: Applicable in India, might not be applicable for your country. Please check your country regulations. 3.10 Write Offs or Bad Debts If you are writing off an Invoice as a bad debt, you can create a Journal Voucher similar to a Payment, except instead of debiting your Bank, you can debit an Expense Account called Bad Debts. Debit: Bad Debts Written Off Credit: Customer Note: There may be regulations in your country before you can write off bad debts. 3.11 Opening Entry This entry is useful when moving from an another software to ERPNext during any time of the year. Your outstanding bills, equities etc. can be recorded to ERPNext using this entry type. Selecting type will fetch the Balance Sheet accounts. 3.12 Depreciation Depreciation is when you write off certain value of your assets as an expense. For example if you have a computer that you will use for say 5 years, you can distribute its expense over the period and pass a Journal Entry at the end of each year reducing its value by a certain percentage. Debit: Depreciation (Expense). Credit: Asset (the Account under which you had booked the asset to be depreciated). To know more, visit the Asset Depreciation page. Note: There may be regulations in your country that define by how much amount you can depreciate a class of Assets. 3.13 Exchange Rate Revaluation If your Chart of Accounts has accounts with multiple currencies, a Journal Entry of type 'Exchange Rate Revaluation' helps in dealing with this situation. This entry is intended to be created from an Exchange Rate Revaluation form. To know more visit the Exchange Rate Revaluation page.