

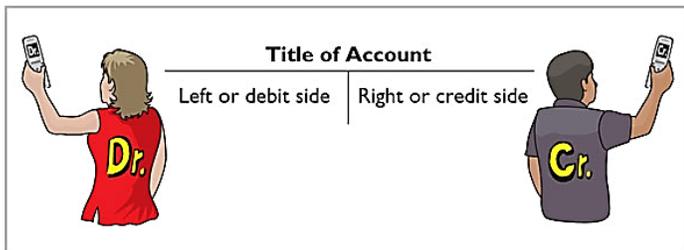
Congratulations! You have graduated from T-Accounts



Now we can get to the *REAL* stuff

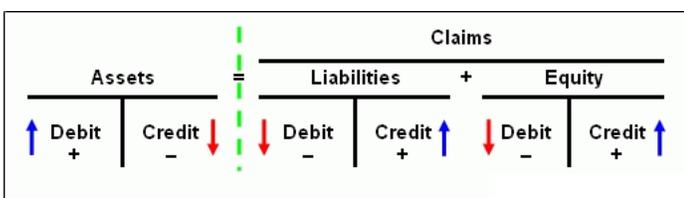
Because accounting is based on organizing, summarizing, and reporting financial information; there are standard processes. That is why accounting is a valuable skill to learn. When you learn how to apply the accounting cycle, you have a skill that every business person relies on. You also can better manage your personal finance.

Accounting is not hard – it is a system or organizing numbers into columns. The math is easy – you just add columns of numbers. When you learn the terms and concepts, you are ready for the calculations. Recall that we have learned to work with 2 columns. The left column is a debit. *The right is a credit – from this point forward, WE WILL NOT TALK LEFT/RIGHT.* We will use the accounting terms “debit” and “credit”.



We begin learning debits and credits with simple stick figures, the T-Account. This is a conceptual tool only. It would not be convenient to do real-world accounting this way. So now we will learn how accounting is done with paper forms. Then we will be ready to understand how computers help us and make accounting easy.

We’ve already learned the accounting equation and seen it at a series of T-Accounts.



We begin an accounting system with a chart of accounts. This is a listing of all the data for one type of information. Once we have made a chart listing all the accounts, then we can set up a ledger – a record of the financial data on each account.

Instead of using T-accounts, we need a more useful format. Traditionally, accounting ledgers (a collections of accounts from the ledger) may have used the form below:

Information needed to trace entry back to journal page			T Account	
			Debit side	Credit side
ACCOUNT				
DATE	ITEM	POST. REF.	DEBIT	CREDIT

Do you see this is a T-account? The only real difference is professional accounting forms are organized to include more details – important details. BUT! One important detail is still missing. Wouldn’t it be helpful to have a form that included the balance in each account after each entry? (sometimes called a running-balance).

ACCOUNT				ACCOUNT NO.		
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT

The accounting form more commonly used places 2 T-accounts side-by-side. This is called 4-column ledger paper. Usually, the BALANCE column only is used on the *normal balance* side. Typically, the other column is not used.

Journals

As we have reviewed, all financial transactions affect at least 2 accounts. All transactions have a debit and a credit entry. This is why professional accounting is called “double-entry” accounting. Now that we understand how to analyze transactions and record them in ledgers, we need 1 more thing before we can understand accounting.

Business people are *busy* people. An accounting system needs to be set up so that busy people on-the-go can accurately record all transactions. Remember, our ledgers and financial statements are no good if they are not complete.

They are inaccurate if we forget to record a transaction. Accounting systems are set up so that we can easily record each and every transaction “on-the-fly” when we have time to do so. Later, we can organize, summarize, and report financial information.

When transactions occur, it is not feasible to go to the ledger and make entries directly in each account as they happen. Even computerized accounting does not do this. Instead, we need a system to record each and every transaction accurately and without-fail. Each transaction must have documentation – a source document – that objectively demonstrates each transaction as it occurs and allows us to agree on the amount(s) of money involved. All transactions must have a *source document* which allows each transaction to be verified.

We begin the process of recording financial data with a general journal. Whether done on paper or on a computer, the purpose is to accurately verify and record each transaction while documenting the source document that objectively demonstrates a financial transaction occurred.

To be useful, each source document must:

- A description of a business transaction
- The date of the transaction
- A specific amount of money
- Proof the transaction is authorized

Examples of source documents include:

- **Bank statement.** This contains a number of adjustments to a company's book balance of cash on hand that the company should reference to bring its records into alignment with those of the bank.
- **Cash register tape.** This can be used as evidence of cash sales, which supports the recordation of a sale transaction.
- **Credit card receipt.** This can be used as evidence for a disbursement of funds from petty cash.
- **Lockbox check images.** These images support the recordation of cash receipts from customers.
- **Packing slip.** This describes the items shipped to a customer, and so supports the recordation of a sale transaction.
- **Sales order.** This document, when coupled with a bill of lading and/or packing list, can be used to invoice a customer, which in turn generates a sale transaction.
- **Supplier invoice.** This is a source document that supports the issuance of a cash, check, or electronic payment to a supplier. A supplier invoice also supports the recordation of an expense, inventory item, or fixed asset.
- **Time card.** This supports the issuance of a paycheck or electronic payment to an employee. If employee hours are being billed to customers, then it also supports the creation of customer invoices.

Transactions with source documents are recorded in a journal as shown below:

Journal		Page 1	
Date	Account Titles and Explanation	Debit	Credit
2016			
Apr. 2	Cash ←	250,000	
	Lisa Hunter, Capital ←		250,000
	Received initial investment from owner.		

Callouts:

- Date of the transaction
- Debit account name and dollar amount. Debits are always listed first.
- Brief explanation
- Credit account name and dollar amount. The credit account name is indented.
- Dollar signs are omitted in the money columns because it is understood that the amounts are in dollars.

Each of the transactions on page 3 is journalized as shown below:

GENERAL JOURNAL							PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
Aug. 1	Cash	R1	110	10 000 00		1	
	Barbara Treviño, Capital		310		10 000 00	2	
3	Supplies	C1	150	1 577 00		3	
	Cash		110		1 577 00	4	
4	Prepaid Insurance	C2	160	1 200 00		5	
	Cash		110		1 200 00	6	
7	Supplies	M1	150	2 720 00		7	
	Accounts Payable—Ling Music Supplies		210		2 720 00	8	
11	Accounts Payable—Ling Music Supplies	C3	210	1 360 00		9	
	Cash		110		1 360 00	10	
12	Cash	T12	110	3 250 00		11	
	Sales		410		3 250 00	12	
12	Accounts Receivable—Kids Time	S1	130	2 000 00		13	
	Sales		410		2 000 00	14	
12	Rent Expense	C4	540	2 500 00		15	
	Cash		110		2 500 00	16	
12	Utilities Expense	C5	560	4 500		17	
	Cash		110		4 500	18	
12	Cash	R2	110	1 000 00		19	
	Accounts Receivable—Kids Time		130		1 000 00	20	
12	Barbara Treviño, Drawing	C6	320	1 000 00		21	
	Cash		110		1 000 00	22	
13	Accounts Receivable—Learn N Play	S2	140	2 000		23	
	Sales		410		2 000	24	
14	Advertising Expense	C7	510	6 800		25	
	Cash		110		6 800	26	
14	Cash	T14	110	1 200 00		27	
	Sales		410		1 200 00	28	
17	Petty Cash	C8	120	2 000 00		29	
	Cash		110		2 000 00	30	
18	Advertising Expense	C9	510	2 000 00		31	
	Cash		110		2 000 00	32	
20	Supplies	M2	150	2 000		33	
	Accounts Payable—Sullivan Office Supplies		220		2 000	34	

4. If posting is interrupted, the accounting personnel can easily see which entries in the general journal still need to be posted. A blank in the Post. Ref. column of the journal indicates that posting for that line still needs to be completed. Therefore, the posting reference is always recorded in the journal as the last step in the posting procedure.

5 Step Posting Process: Debits

- Write the date, 20—, Aug. 1, in the Date column of the account, Cash.
- Write the journal page number, G1, in the Post. Ref. column of the account. The letter G is an abbreviation for the general journal. Post. Ref. is an abbreviation for Posting Reference.
- Write the debit amount, \$10,000.00, in the Debit amount column of the account.
- Write the new account balance, \$10,000.00, in the Balance Debit column. Because this entry is the first in the cash account, the previous balance is zero. The new account balance is calculated as shown below:

Previous Balance	+	Debit Column Amount	=	New Debit Balance
\$0.00	+	\$10,000.00	=	\$10,000.00

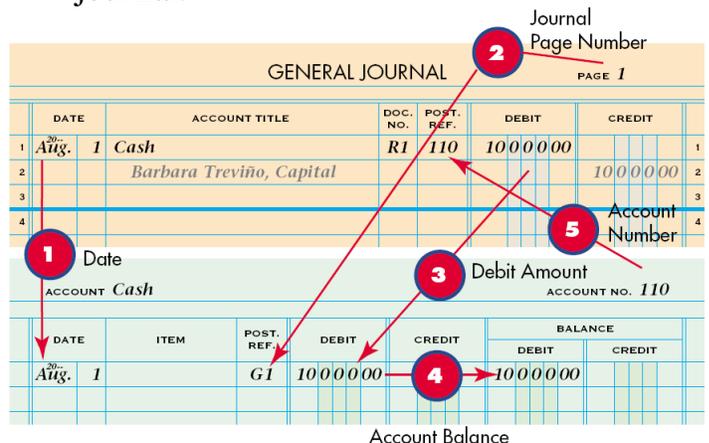
- Return to the journal and write the account number, 110, in the Post. Ref. column of the journal.

Posting from the General Journal to Ledgers

Transferring information from a journal entry to a ledger account is called *Posting* sorts journal entries so that all debits and credits affecting each account are brought together in one place. For example, all changes to Cash are brought together in the cash account.

Each amount in the Debit and Credit columns of a general journal is posted to the account written in the Account Title column. The numbers in the Post. Ref. columns of the general ledger account and the general journal serve three purposes.

- An entry in an account can be traced to its source in a journal.
- An entry in a journal can be traced to where it was posted in an account.



5 Step Posting Process: Credits

1. Write the date, 20—, Aug. 1, in the Date column of the account, Barbara Treviño, Capital.
2. Write the journal page number, G1, in the Post. Ref. column of the account.
3. Write the credit amount, \$10,000.00, in the Credit amount column of the account.
4. Write the new account balance, \$10,000.00, in the Balance Credit column. Because this entry is the first in the capital account, the previous balance is zero. The new account balance is calculated as shown below.

Previous Balance	+	Credit Column Amount	=	New Credit Balance
\$0.00		+ \$10,000.00		= \$10,000.00

1. Return to the journal and write the account number, 310, in the Post. Ref. column of the journal.

The diagram illustrates the 5-step posting process for credits. Red circles 1 through 5 are connected by arrows to the corresponding fields in the journal and T-accounts.

- 1**: Date (Aug. 1)
- 2**: Journal Page Number (G1)
- 3**: Credit Amount (\$10,000.00)
- 4**: Account Balance (\$10,000.00)
- 5**: Account Number (310)

Complete General Journal After Posting

GENERAL JOURNAL										PAGE 1
	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT		CREDIT			
1	Aug. 1	Cash	R1	110	1000000					1
2		Barbara Treviño, Capital		310			1000000			2
3		Supplies	C1	150	157700					3
4		Cash		110			157700			4
5		Prepaid Insurance	C2	160	120000					5
6		Cash		110			120000			6
7		Supplies	M1	150	272000					7
8		Accounts Payable—Ling Music Supplies		210			272000			8
9		Accounts Payable—Ling Music Supplies	C3	210	136000					9
10		Cash		110			136000			10
11		Cash	T12	110	32500					11
12		Sales		410			32500			12
13		Accounts Receivable—Kids Time	S1	130	20000					13
14		Sales		410			20000			14
15		Rent Expense	C4	540	25000					15
16		Cash		110			25000			16
17		Utilities Expense	C5	560	4500					17
18		Cash		110			4500			18
19		Cash	R2	110	10000					19
20		Accounts Receivable—Kids Time		130			10000			20
21		Barbara Treviño, Drawing	C6	320	10000					21
22		Cash		110			10000			22
23		Accounts Receivable—Learn N Play	S2	140	2000					23
24		Sales		410			2000			24
25		Advertising Expense	C7	510	6800					25
26		Cash		110			6800			26
27		Cash	T14	110	12000					27
28		Sales		410			12000			28
29		Petty Cash	C8	120	20000					29
30		Cash		110			20000			30
31		Advertising Expense	C9	510	20000					31
32		Cash		110			20000			32
33		Supplies	M2	150	2000					33
34		Accounts Payable—Sullivan Office Supplies		220			2000			34
35										35

Finish this project with the rest of:
General Journal ch 5.pdf