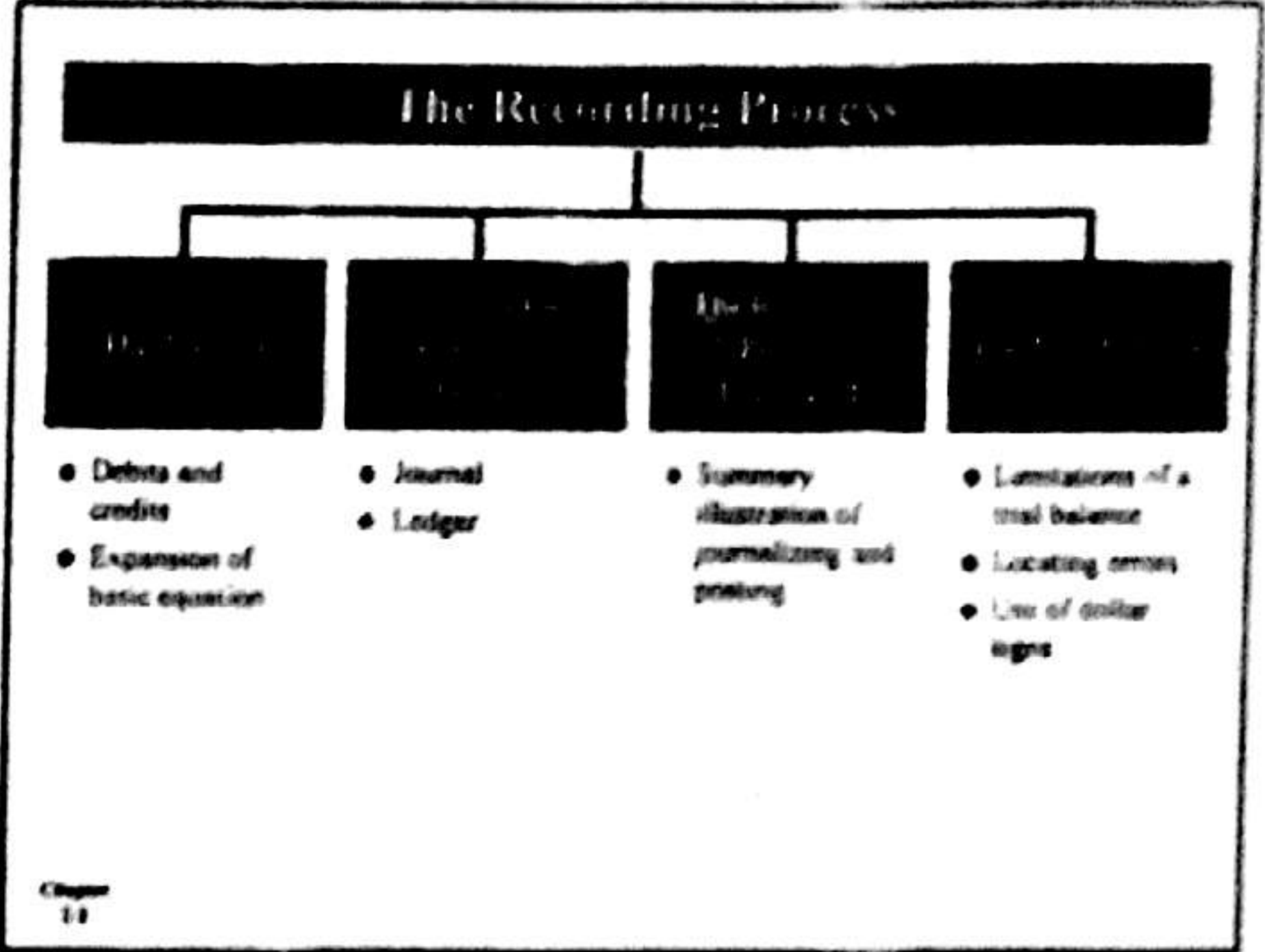


CHAPTER

THE RECORDING PROCESS

Chapter 2.4



The Account

Account →

- Record of increases and decreases in a specific asset, liability, equity, revenue, or expense item
- Debit = "Left"
- Credit = "Right"

An Account can be illustrated in a T-Account form. →

Account Name	
Debit / Dr.	Credit / Cr.

Chapter 2.4

LO 1 Explain what an account is and how it helps in the recording process.

Debits and Credits

Double-entry accounting system

- Each transaction must affect two or more accounts to keep the basic accounting equation in balance.
- Recording done by debiting at least one account and crediting another
- **DEBITS must equal CREDITS**

Chapter 2.4

LO 2 Define debits and credits and explain their use in recording business transactions.

Debits and Credits

If Debits are greater than Credits, the account will have a debit balance.

	Account Name		
	Debit / Dr.	Credit / Cr.	
Transaction #1	\$10,000	\$3,000	Transaction #2
Transaction #3	8,000		
Balance	\$15,000		

Chapter 2.4

LO 2 Define debits and credits and explain their use in recording business transactions.

Debits and Credits

If Debits are greater than Credits, the account will have a debit balance.

	Account Name		
	Debit / Dr.	Credit / Cr.	
Transaction #1	\$10,000	\$3,000	Transaction #2
		8,000	Transaction #3
Balance		\$1,000	

Chapter 2.4

LO 2 Define debits and credits and explain their use in recording business transactions.

Relationship among the assets, liabilities and owners' equity of a business:

Basic Equation	Assets = Liabilities + Owners' Equity									
Expanded Basic Equation	Assets		=	Liabilities		+	Owners' Equity			
	Dr.	Cr.		Dr.	Cr.		Owner's Capital	Dr.	Cr.	
							Owner's Drawing	Dr.	Cr.	
							Revenue	Dr.	Cr.	
							Expenses	Dr.	Cr.	

The equation must be in balance after every transaction. For every Debit there must be a Credit.

Chapter 2-7

LO 2 Define debits and credits and explain their use in recording business transactions.

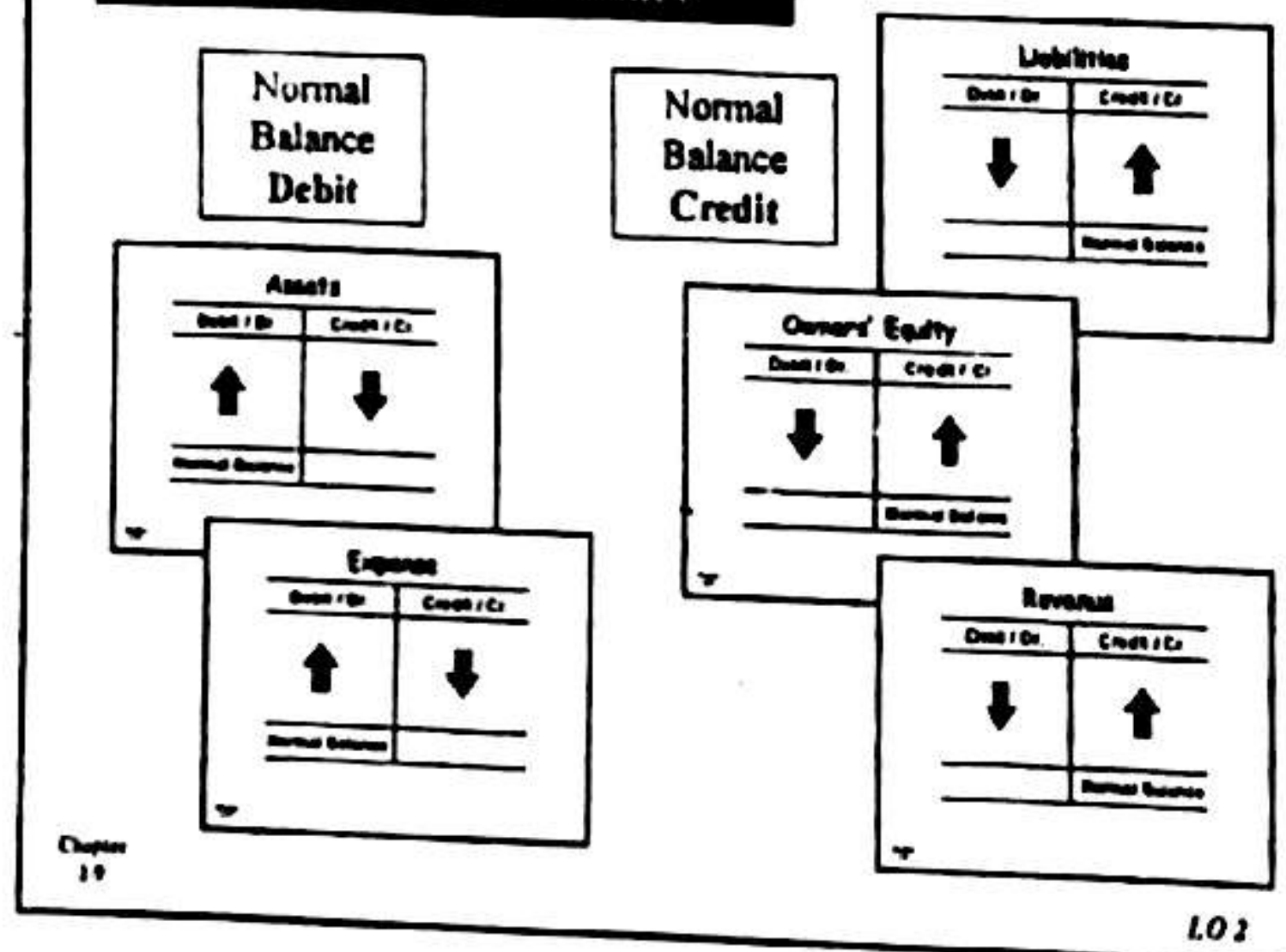
Balance Sheet Income Statement

	Asset	=	Liability	+	Equity	Revenue	-	Expense	=
Debit	↑		↓		↓	↓		↑	
Credit	↓		↑		↑	↑		↓	

Chapter 2-8

LO 2 Define debits and credits and explain their use in recording business transactions.

Debits and Credits Summary



Chapter 2-9

LO 2

Debits and Credits Summary

Review Question

Debits:

- increase both assets and liabilities.
- decrease both assets and liabilities.
- increase assets and decrease liabilities.**
- decrease assets and increase liabilities.

Chapter 2-10

LO 2 Define debits and credits and explain their use in recording business transactions.

Debits and Credits Summary

Discussion Question

Q4. Maria Alvarez, a beginning accounting student, believes debit balances are favorable and credit balances are unfavorable. Is Maria correct? Discuss.

See notes page for discussion

Chapter 2-11

LO 2 Define debits and credits and explain their use in recording business transactions.

Debits and Credits Summary

Review Question

Accounts that normally have debit balances are:

- assets, expenses, and revenues.
- assets, expenses, and owner's capital.
- assets, liabilities, and owner's drawings.
- assets, owner's drawings, and expenses.**

Chapter 2-12

LO 2 Define debits and credits and explain their use in recording business transactions.

Steps in the Recording Process

Illustration 3-12

Business documents, such as a sales slip, a check, a bill, or a cash register tape, provide evidence of the transaction.

Chapter 3-12

LO 3 Identify the basic steps in the recording process.

The Journal

- Book of original entry (General Ledger).
- Transactions recorded in chronological order.
- Contributions to the recording process:
 - Discloses the complete effects of a transaction.
 - Provides a chronological record of transactions.
 - Helps to prevent or locate errors because the debit and credit amounts can be easily compared.

Chapter 3-14

LO 3 Identify the basic steps in the recording process.

Journalizing

Journalizing - Entering transaction data in the journal.

E2-4 (Facts) Presented below is information related to Hanshew Real Estate Agency

Oct. 1 Pete Hanshew begins business as a real estate agent with a cash investment of \$15,000

3 Purchases office furniture for \$1,900, on account

6 Sells a house and lot for B. Kidman, bills B. Kidman \$3,200 for realty services provided

27 Pays \$700 on balance related to transaction of Oct. 3

30 Pays the administrative assistant \$2,500 salary for Oct.

E2-5 Instructions - Journalize the transactions for E2-4

Chapter 3-15

LO 4 Explain what a journal is and how it helps in the recording process.

Journalizing

E2-4 (Facts) Presented below is information related to Hanshew Real Estate Agency.

Oct. 1 Pete Hanshew begins business as a real estate agent with a cash investment of \$15,000.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Oct. 1	Cash		15,000	
	Hanshew, Capital (Owners investment)			15,000

Chapter 3-16

LO 4 Explain what a journal is and how it helps in the recording process.

Journalizing

E2-4 (Facts) Presented below is information related to Hanshew Real Estate Agency.

Oct. 3 Purchases office furniture for \$1,900, on account.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Oct. 3	Office furniture		1,900	
	Accounts payable (Purchase furniture)			1,900

Chapter 3-17

LO 4 Explain what a journal is and how it helps in the recording process.

Journalizing

E2-4 (Facts) Presented below is information related to Hanshew Real Estate Agency.

Oct. 6 Sells a house and lot for B. Kidman; bills B. Kidman \$3,200 for realty services provided.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Oct. 6	Accounts receivable		3,200	
	Service revenue (Realty services provided)			3,200

Chapter 3-18

LO 4 Explain what a journal is and how it helps in the recording process.

Journalizing

E2-4 (Facts) Presented below is information related to Hanshew Real Estate Agency.

Oct. 27 Pays \$700 on balance related to transaction of Oct. 3.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Oct. 27	Accounts payable		700	
	Cash			700
	(Payment on account)			

Chapter 2-19

LO 4 Explain what a journal is and how it helps in the recording process.

Journalizing

E2-4 (Facts) Presented below is information related to Hanshew Real Estate Agency.

Oct. 30 Pays the administrative assistant \$2,500 salary for Oct.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Oct. 30	Salary expense		2,500	
	Cash			2,500
	(Payment for salaries)			

Chapter 2-19

LO 4 Explain what a journal is and how it helps in the recording process.

Journalizing

Simple Entry – Two accounts, one debit and one credit.

Compound Entry – Three or more accounts.

Example – On June 15, H. Burns, purchased equipment for \$15,000 by paying cash of \$10,000 and the balance on account (to be paid within 30 days).

General Journal				
Date	Account Title	Ref.	Debit	Credit
June 15	Equipment		15,000	
	Cash			10,000
	Accounts payable			5,000
	(Purchased equipment)			

Chapter 2-21

LO 4 Explain what a journal is and how it helps in the recording process.

The Ledger

- **Ledger** contains the entire group of accounts maintained by a company.
- A **general ledger** contains all the asset, liability, owner's equity, revenue, and expense accounts.
- **Chart of Accounts**, Accounts arranged in sequence in which they are presented in the financial statements

Chapter 2-22

LO 5 Explain what a ledger is and how it helps in the recording process.

Chart of Accounts

Hanshew Real Estate Agency Chart of Accounts			
Assets		Owner's Equity	
101	Cash	300	Hanshew, Capital
112	Accounts receivable	306	Hanshew, Drawing
126	Advertising supplies	350	Income summary
130	Prepaid insurance		
150	Office equipment		
158	Accumulated depreciation	400	Service revenue
Liabilities		Expenses	
200	Accounts payable	631	Advertising supplies expense
201	Notes payable	711	Depreciation expense
209	Unearned revenue	722	Insurance expense
212	Salaries payable	726	Salaries expense
230	Interest payable	729	Rent expense
		805	Interest expense

Chapter 2-23

LO 6 Explain what posting is and how it helps in the recording process.

Standard Form of Account

T-account form used in accounting textbooks.

In practice, the account forms used in ledgers are much more structured.

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 1			15,000		15,000
27				700	14,300
30				2,500	11,800

Chapter 2-24

LO 5 Explain what a ledger is and how it helps in the recording process.

Posting - the process of transferring amounts from the journal to the ledger accounts.

General Ledger			Acct. No. 101		
Cash					
Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 1	On the investment	J1	15,000		15,000

Chapter 2.18

LO 6 Explain what passing is and how it helps in the recording process.

Review Question

- a. normally occurs before journalizing.
- b. transfers ledger transaction data to the journal.
- c. is an optional step in the recording process.
- d. transfers journal entries to ledger accounts.**

Chapter
2.14

LO 6 Explain what posting is and how it helps in the recording process.

Follow these steps

- 1 Determine what type of account is involved
- 2 Determine what items increased or decreased and by how much
- 3 Translate the increases and decreases into debits and credits

Transaction 319

On October 1, C. R. Byrd invests \$10,000 in a company called Pioneer Advertising Agency.

Illustration 3-19

The owner, Cash increases \$10,000, and owner's equity, C. R. Byrd, Capital increases \$10,000.

Account Analysis

Assets	Liabilities	Owner's Equity
Cash		C. R. Byrd
10,000		Capital
		10,000

Debits increase assets, debits Cash \$10,000.
Credits increase owner's equity credits C. R. Byrd, Capital \$10,000.

Journal Entry

Date	Cash	C. R. Byrd, Capital	Total
Oct. 1	10,000	10,000	20,000
		(Owner's Investment)	

Posting

Cash	C. R. Byrd, Capital	Total
Oct. 1 10,000	Oct. 1 10,000	

Chapter 1

LO 6 Explain what posting is and how it helps in the recording process.

- A list of accounts and their balances at a given time.
- Purpose is to prove that debits equal credits.

Hanshaw Real Estate Agency		
Trial Balance		
October 31, 2008		
	Debit	Credit
Cash	\$ 11,800	
Accounts receivable	3,200	
Office furniture	1,900	
Accounts payable		\$ 1,200
Hanshaw, Capital		15,000
Service revenue		3,200
Salaries expense	2,500	
	<u>\$ 19,400</u>	<u>\$ 19,400</u>

Chapter 2.25

LO 7 Prepare a trial balance and explain its purposes.

Limitations of a Trial Balance

The trial balance may balance even when

- 1 a transaction is not journalized,
- 2 a correct journal entry is not posted,
- 3 a journal entry is posted twice,
- 4 incorrect accounts are used in journalizing or posting, or
- 5 offsetting errors are made in recording the amount of a transaction

Chapter 1.4

LO 7 Prepare a trial balance and explain its purposes.

Review Question

A trial balance will not balance if:

- a. a correct journal entry is posted twice.
- b. the purchase of supplies on account is debited to Supplies and credited to Cash.
- c. a \$100 cash drawing by the owner is debited to Owner's Drawing for \$1,000 and credited to Cash for \$100.**
- d. a \$450 payment on account is debited to Accounts Payable for \$15 and credited to Cash for \$45.

Chap. 1.14

LO 7 Prepare a trial balance and explain its purposes.

Recording Process

Discussion Question

Q2-19. Jim Benes is confused about how accounting information flows through the accounting system. He believes the flow of information is as follows.

- a. Debits and credits posted to the ledger.
- b. Business transaction occurs.
- c. Information entered in the journal.
- d. Financial statements are prepared.
- e. Trial balance is prepared.

Is Jim correct? If not, indicate to Jim the proper flow of the information.