

# The Recording Process

# 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.

# 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.**

# 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 #3	8,000	
Balance	<b>\$15,000</b>	

# Debits and Credits

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

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

# Expansion of the Basic Equation

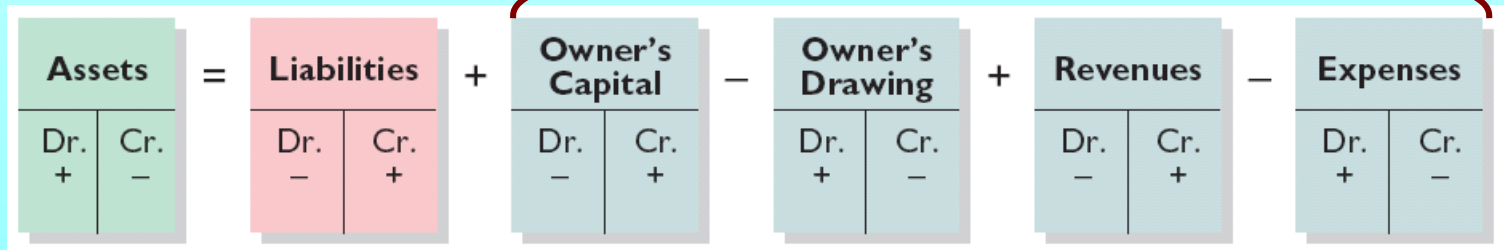
Relationship among the assets, liabilities and owner's equity of a business:

**Basic  
Equation**

**Assets = Liabilities +**

**Owner's Equity**

**Expanded  
Basic  
Equation**



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

# Debits and Credits Summary

## Review Question

Accounts that normally have debit balances are:

- a. assets, expenses, and revenues.
- b. assets, expenses, and owner's capital.
- c. assets, liabilities, and owner's drawings.
- d. assets, owner's drawings, and expenses.

# Debits and Credits Summary

## Discussion Question

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



# The Journal

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

# Journalizing

**Journalizing** - Entering transaction data in the journal.

**(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.

**Instructions** - Journalize the transactions for E2-4.

# Journalizing

**(Facts)** Journalize the transactions 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			15,000
	(Owner's investment)			

# Journalizing

**(Facts)** Journalize the transactions 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			1,900
	(Purchase on account)			

# Journalizing

**(Facts)** Journalize the transactions 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			3,200
	(Services provided)			

# Journalizing

**(Facts)** Journalize the transactions 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)			

# Journalizing

**(Facts)** Journalize the transactions 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	Salaries expense		2,500	
	Cash			2,500
	(Payment for salaries)			

# 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
Jun. 15	Equipment		15,000	
	Cash			10,000
	Accounts payable			5,000
	(Purchase equipment)			



# The Ledger

- A **General Ledger** contains the entire group of accounts maintained by a company.
- The **General Ledger** includes all the asset, liability, owner's equity, revenue and expense accounts.

# Chart of Accounts

Accounts and account numbers arranged in sequence in which they are presented in the financial statements.

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

# 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

# Posting

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

General Journal				J1
Date	Account Title	Ref.	Debit	Credit
Oct. 1	Cash	101	15,000	
	Hanshew, Capital			15,000
	(Owner's investment in business)			

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

# Posting

## General Journal

J1

Date	Account Title	Ref.	Debit	Credit
Oct. 1	Cash	101	15,000	
	Hanshew, capital	300		15,000
	(Owner's investment)			

## General Ledger

Cash

Acct. No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 1		J1	15,000		15,000

## General Ledger

Hanshew, capital

Acct. No. 300

Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 1		J1	15,000		15,000

# Posting

## General Journal

J1

Date	Account Title	Ref.	Debit	Credit
Oct. 3	Office furniture	140	1,900	
	Accounts payable	200		1,900
	(Purchase on account)			

## General Ledger

### Office Furniture

Acct. No. 140

Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 3		J1	1,900		1,900

## General Ledger

### Accounts Payable

Acct. No. 200

Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 3		J1		1,900	1,900

# Posting

## General Journal

J1

Date	Account Title	Ref.	Debit	Credit
Oct. 6	Accounts receivable	112	3,200	
	Service revenue	400		3,200
	(Services provided)			

## General Ledger

### Accounts Receivable

Acct. No. 112

Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 6		J1	3,200		3,200

## General Ledger

### Service Revenue

Acct. No. 400

Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 6		J1		3,200	3,200

# Posting

## General Journal

J1

Date	Account Title	Ref.	Debit	Credit
Oct. 27	Accounts payable	200	700	
	Cash	101		700
	(Payment on account)			

## General Ledger

### Cash

Acct. No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 1		J1	15,000		15,000
Oct.27		J1		700	14,300

## General Ledger

### Accounts Payable

Acct. No. 200

Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 3		J1		1,900	1,900
Oct.27		J1	700		1,200



# Posting

## General Journal

J1

Date	Account Title	Ref.	Debit	Credit
Oct. 30	Salaries expense	726	2,500	
	Cash	101		2,500
	(Payment for salaries)			

## General Ledger

### Cash

Acct. No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 1		J1	15,000		15,000
Oct.27		J1		700	14,300
Oct.30		J1		2,500	11,800

## General Ledger

### Salaries Expense

Acct. No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
Oct.30		J1	2,500		2,500

# Posting

## Review Question

Posting:

- 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.

# The Recording Process Illustrated

Illustration 2-19

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	On October 1, C. R. Byrd invests \$10,000 cash in an advertising company called Pioneer Advertising Agency.																			
Basic Analysis	The asset Cash increases \$10,000, and owner's equity C. R. Byrd, Capital increases \$10,000.																			
Equation Analysis	<table><tr><td><u>Assets</u></td><td>=</td><td><u>Liabilities</u></td><td>+</td><td><u>Owner's Equity</u></td></tr><tr><td>Cash</td><td>=</td><td></td><td></td><td>C.R. Byrd, Capital</td></tr><tr><td>+10,000</td><td></td><td></td><td></td><td>+10,000</td></tr></table>					<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>	Cash	=			C.R. Byrd, Capital	+10,000				+10,000
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>																
Cash	=			C.R. Byrd, Capital																
+10,000				+10,000																
Debit – Credit Analysis	<p>Debits increase assets: debit Cash \$10,000.</p> <p>Credits increase owner's equity: credit C. R. Byrd, Capital \$10,000.</p>																			
Journal Entry	Oct. 1	Cash C. R. Byrd, Capital (Owner's investment of cash in business)	101 301	10,000	10,000															
Posting	<table><tr><td colspan="2">Cash 101</td></tr><tr><td>Oct. 1</td><td>10,000</td></tr></table>		Cash 101		Oct. 1	10,000	<table><tr><td colspan="2">C. R. Byrd, Capital 301</td></tr><tr><td></td><td>Oct. 1 10,000</td></tr></table>			C. R. Byrd, Capital 301			Oct. 1 10,000							
Cash 101																				
Oct. 1	10,000																			
C. R. Byrd, Capital 301																				
	Oct. 1 10,000																			

# The Trial Balance

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

## E2-5

Hanshew Real Estate Agency		
Trial Balance		
October 31, 2010		
	Debit	Credit
Cash	\$ 11,800	
Accounts receivable	3,200	
Office furniture	1,900	
Accounts payable		\$ 1,200
Hanshew, Capital		15,000
Service revenue		3,200
Salaries expense	2,500	
	<u>\$ 19,400</u>	<u>\$ 19,400</u>

# The Trial Balance

## 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.

# The Trial Balance

## 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 \$45 and credited to Cash for \$45.

# Recording Process

## Discussion Question

**Q.** 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.