

CHAPTER 2
THE RECORDING PROCESS

- Objectives:** After studying this chapter, you should be able to:
- . Explain what an account is and how it helps in the recording process.
 - . Define debits and credits and explain their use in recording transactions.
 - . Identify the basic steps in the recording process.
 - . Explain what a journal is and how it helps in the recording process.
 - . Explain what a ledger is and how it helps in the recording process.
 - . Explain what posting is and how it helps in the recording process.
 - . Prepare a trial balance and explain its purposes.

The Account:

An account is an individual accounting record of increases and decreases in a specific asset, liability or equity item.

In its simplest form, an account consists of three parts: (1) a title (2) a left or debit side, and (3) a right or credit side.

An account can be illustrated in a T-account form as follows;

Account Name	
Debit / Dr.	Credit / Cr.

Debits and Credits:

- The term debit indicates the left side of an account, and credit indicates the right side.
- They are commonly abbreviated as Dr. for debit and Cr. for credit. The act of entering an amount on the left side of an account is called debiting the account. Making an entry on the right side is crediting the account.
- When comparing the totals of the two sides, an account shows a debit balance if the total of the debit amounts exceeds the credits total. An account shows a credit balance if the credit total exceeds the debits.

Asset accounts normally show debit balances. That is, debits to a specific asset account should exceed credits to that account. Likewise, liability accounts normally show credit balances. That is, credits to a liability account should exceed debits to that account. The normal balance of an account is on the side where an increase in the account is recorded.

Double-entry accounting system:



Each transaction must affect two or more accounts to keep the basic accounting equation in balance.

Recording is done by debiting at least one account and crediting another.



DEBITS must equal CREDITS.

Assets	
Debit / Dr.	Credit / Cr.
↑	↓
Normal Balance	



Expense	
Debit / Dr.	Credit / Cr.
↑	↓
Normal Balance	

Liabilities	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-24

Equity	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-25

Revenue	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-26

STEPS IN THE RECORDING PROCESS:

Every business uses three basic steps in the recording process.

- 1. Analyze each transaction for its effects on the accounts.
- 2. Enter the transaction information in a journal.
- 3. Transfer the journal information to the appropriate accounts in the ledger.

The Journal:

Companies initially record transactions in chronological order. Thus, the journal is referred to as the book of original entry. For each transaction, the journal shows the debit and credit effects on specific accounts.

Companies may use various kinds of journals, but every company has the most basic form of journal, a general journal. The journal makes several significant contributions to the recording process.

- 1. It discloses in one place the complete effects of a transaction.
- 2. It provides a chronological record of transactions.
- 3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.

Journalizing:

Entering transaction data in the journal is known as Journalizing. Companies make separate journal entries for each transaction. A complete entry consists of: (1) the date of the transaction (2) the accounts and amounts to be debited and credited and (3) a brief explanation of the transaction.

Example: On September 1, Shareholders invested \$15,000 cash in Betagun Corporation in exchange for ordinary shares, and on the same day, Betagun purchased equipment for cash \$7,000.

GENERAL JOURNAL				PAGE 1
Date	Account Title & Explanation	Ref	Debit	Credit
Sept. 1	Cash	101	15,000	
	Share Capital- Ordinary	311		15,000
	(Issued shares for cash)			
Sept. 1	Equipment	201	7,000	
	Cash	101		7,000
	(Purchased equipment for cash)			

Simple and Compound Entries:

An entry that involves only two accounts, one debit and one credit is a simple entry.
(as shown above)

An entry that requires three or more accounts is a compound entry.

ACT 1600 Fundamentals of Financial Accounting

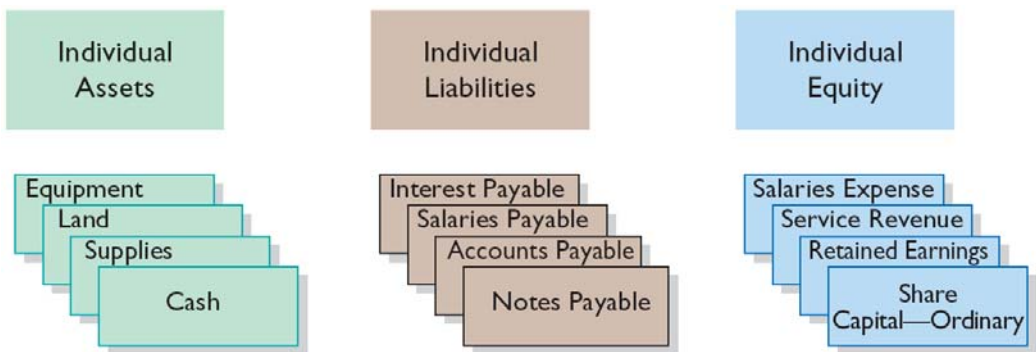
Example; On September 1, the Company purchases an equipment costing \$10,000. It pays \$8,000 cash now and agrees to pay the remaining \$2,000 on account.

GENERAL JOURNAL				PAGE 1
Date	Account Title &Explanation	Ref	Debit	Credit
Sept. 1	Equipment		10,000	
	Cash			8,000
	Accounts Payable			2,000

The Ledger:

The entire group of accounts maintained by a company is the Ledger. The ledger keeps in one place all the information about changes in specific account balances.

Companies may use various kinds of ledgers, but every company has a general ledger. A general ledger contains all the assets, liabilities and equity accounts.



Three-column form of account:

This is a more structured form of account. It has three money columns- debit, credit and balance. The balance in the account is determined after each transaction. Companies use the explanation space and reference columns to provide special information about the transaction.

CASH					NO. 101
Date	Explanation	Ref.	Debit	Credit	Balance
2011					
June 1			25,000		25,000
2				8,000	17,000
3			4,200		21,200
9			7,500		28,700
17				11,700	17,000
20				250	16,750
30				7,300	9,450

Posting:

Transferring journal entries to the ledger accounts is called Posting. Posting should be performed in chronological order. That is, the company should post all the debits and credits of one journal entry before proceeding to the next journal entry. Postings should be made on a timely basis to ensure that the ledger is up to date.

ACT 1600 Fundamentals of Financial Accounting

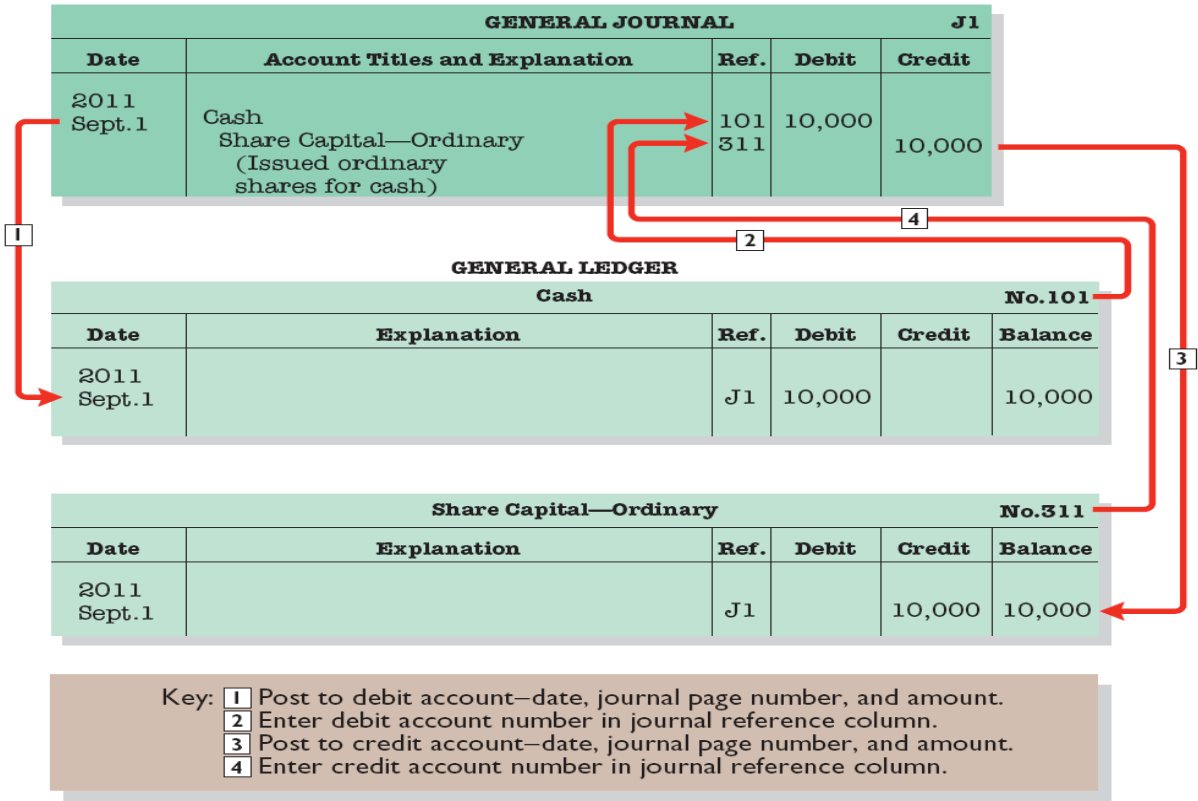


Chart of Accounts:

The number and type of accounts differ for each company. The number of accounts depends on the amount of detail the management desires. The chart which lists the accounts and the account numbers that identify their location in the ledger is known as chart of accounts.

Chart of Accounts

<u>Assets</u>		<u>Equity</u>	
101	Cash	311	Share Capital- Ordinary
112	Accounts receivable	320	Retained earnings
130	Prepaid Insurance	332	Dividends
157	Office Equipment		
158	Accumulated depreciation- Office equipment	<u>Revenues</u>	
		400	Service revenue
<u>Liabilities</u>		<u>Expenses</u>	
200	Notes payable	711	Depreciation expense
201	Accounts payable	726	Salaries expense
213	Salaries Payable	801	Rent expense

The Trial Balance:

A trial balance is a list of accounts and their balances at a given time. Companies prepare a trial balance at the end of an accounting period. They list accounts in the order in which they appear in the ledger. Debit balances appear in the left column and credit balances in the right column.

The steps for preparing a trial balance are:

1. List the account titles and their balances.
2. Total the debit and credit columns.
3. Prove the equality of the two columns.

ACT 1600 Fundamentals of Financial Accounting

Example:

Betapun Corporation
The Trial Balance
September 30, 20XX

Account No:	Account Title	Debit	Credit
101	Cash	\$15,200	
112	Supplies	2,500	
116	Prepaid Insurance	600	
126	Equipment	5,000	
201	Notes Payable		5,000
209	Accounts Payable		2,500
211	Unearned Service Revenue		1,200
311	Share Capital-Ordinary		10,000
312	Dividends	500	
400	Service Revenue		10,000
726	Salaries and Wages Expense	4,000	
727	Rent Expense	900	
	Total	\$28,700	\$28,700

Transaction analysis
<u>Step 1</u> Identify a minimum of two account names from a given transaction
<u>Step 2</u> Decide whether the accounts identified in step 1 is an Asset, Liability, Share capital, Revenue, Expense or Dividend account.
<u>Step 3</u> Identify which account to debit and which account to credit

Rules of debit and credit

Asset	<ul style="list-style-type: none">• Increase - Debit (Normal balance)• Decrease- Credit
Liability	<ul style="list-style-type: none">• Increase- Credit (Normal balance)• Decrease- Debit
Revenue	<ul style="list-style-type: none">• Increase - Credit (Normal Balance)• Decrease- Debit
Expense	<ul style="list-style-type: none">• Increase- Debit (Normal balance)• Decrease- Credit
Share Capital	<ul style="list-style-type: none">• Increase- Credit (Normal balance)• Decrease- Debit
Dividend	<ul style="list-style-type: none">• Increase- Debit (Normal Balance)• Decrease- Credit

Note: Certain events or activities that happens in a business are not considered as transaction. To identify whether an activity is a transaction the criterion is as follows:

“Is the financial position (assets, liabilities, or equity) of the company changed” because of that particular event.

Examples of certain events that are not considered as transactions: Hiring of an employee, enter into an agreement or signing a contract to do something in the future, place an order for something to be received in the future.

Problems:

Problem 2-1:

Eva Le is a licensed accountant. During the first month of operations of her business, Eva Le Inc; the following events and transactions occurred:

- May 1
- Shareholders invested \$20,000 cash in exchange for ordinary shares.

2

 Hired a secretary-receptionist at a salary of \$2,000 per month.

3

 Purchased \$1,500 of supplies on account from Kara Supply Company.

11

 Completed a tax assignment and billed client \$2,800 for services provided.

12

 Received \$3,500 advance on a management consulting engagement.

17

 Received cash of \$1,200 for services completed for Welky Co.

31

 Paid secretary-receptionist \$2,000 salary for the month.

31

 Paid 40% of balance due to Kara Supply Company.

31

 Paid office rent \$900 cash for the month.

Eva Le uses the following chart of accounts: No.101 Cash, No.112 Accounts Receivable, No.126 Supplies, No.201 Accounts Payable, No.209 Unearned Service Revenue, No.311 Share Capital-Ordinary, No.400 Service Revenue, No.726 Salaries and Wages Expense and No.729 Rent Expense.

Instructions:

- Journalize the transactions.
- Post to the ledger accounts.
- Prepare a trial balance on May 31, 20XX.

GENERAL JOURNAL				Page 1
Date	Account Titles and Explanations	Ref	Debit	Credit
May 1				
2				
3				
11				
12				
17				

31				
31				
31				

2. General ledgers

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance

Supplies					No. 126
Date	Explanation	Ref.	Debit	Credit	Balance

Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance

Unearned Service Revenue					No. 209
--------------------------	--	--	--	--	---------

ACT 1600 Fundamentals of Financial Accounting

Date	Explanation	Ref.	Debit	Credit	Balance

Share Capital – Ordinary

No. 311

Date	Explanation	Ref.	Debit	Credit	Balance

Service Revenue

No. 400

Date	Explanation	Ref.	Debit	Credit	Balance

Salaries & Wages Expense

No. 726

Date	Explanation	Ref.	Debit	Credit	Balance

Rent Expense

No. 729

Date	Explanation	Ref.	Debit	Credit	Balance

c.

Account Number	Account Titles	Debit	Credit

ACT 1600 Fundamentals of Financial Accounting

Problem 2-2

Lyons Dental Clinic provides dental services to customers. The business transactions for June, 20XX are shown below:

- June 1 Shareholders invested \$440,000 cash in the business in exchange for 1,000 shares.
- June 2 Purchased dental equipment for \$45,000. Made a \$15,000 cash down payment and issued a note payable for the remaining balance.
- June 5 Medical Instruments were purchased for \$75,000 cash.
- June 10 Office fixtures were purchased from Home Pro for \$25,000. Paid \$10,000 at the time of purchase and agreed to pay the remaining balance within 15 days.
- June 11 Rendered services to customers for \$13,000. Of this amount, \$1,000 was collected in cash and \$12,000 was billed on account due in 30 days.
- June 12 Ordered dental equipment worth \$5,000. It will be delivered only next month.
- June 13 A \$450 invoice was received for newspaper advertisements placed in June. The entire amount is due on July 8.
- June 15 Borrowed \$90,000 from a bank and signed a note payable due in six months.
- June 18 Received a \$2,000 payment on the amount due from patients of June 11.
- June 22: Received cash \$10,000 for services provided to patients.
- June 25: Paid \$100 cash for gasoline. All of this fuel will be used in June.
- June 28: Received \$1,000 cash from a patient. The services will be provided in July.
- June 29: Paid the outstanding balance due to Home Pro for the purchase on June10.
- June 30: Purchased office supplies costing \$2,200 on account.
- June 30: Paid salaries for the month \$11,000.

The company uses the following chart of accounts: No. 101 Cash, No. 112 Accounts Receivable, No. 136 Office Supplies, No. 145 Dental Equipment, No. 156 Medical Instruments No. 157 Office Fixtures, No. 201 Accounts Payable, No. 211 Notes Payable, No. 220 Unearned Service Revenue, No. 311 Share Capital – Ordinary, No. 400 Service Revenue, No. 726 Salaries and Wages Expense, No. 735 Advertising Expense, No. 736 Gasoline Expense

Instruction:

- 1. Journalize the June transactions. (Explanations are needed)
- 2. Post to the ledger accounts.
- 3. Prepare a trial balance on June 30, 20XX.

GENERAL JOURNAL				Page 1
Date	Account Titles and Explanations	Ref	Debit	Credit
June 1				
2				
5				
10				

11				
12				
13				
15				
18				
22				
25				
28				
29				
30				

ACT 1600 Fundamentals of Financial Accounting

30				

2. General Ledgers

Cash					No. 101
Date	Explanation	Ref	Debit	Credit	Balance

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance

Office Supplies					No. 136
Date	Explanation	Ref.	Debit	Credit	Balance

Dental Equipment					No. 145
Date	Explanation	Ref.	Debit	Credit	Balance

Medical Instruments					No. 156
Date	Explanation	Ref.	Debit	Credit	Balance

Office Fixtures					No. 157
Date	Explanation	Ref.	Debit	Credit	Balance

ACT 1600 Fundamentals of Financial Accounting

Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance

Notes Payable					No. 211
Date	Explanation	Ref.	Debit	Credit	Balance

Unearned Service Revenue					No. 220
Date	Explanation	Ref.	Debit	Credit	Balance

Share Capital – Ordinary					No. 311
Date	Explanation	Ref.	Debit	Credit	Balance

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance

Salaries & Wages Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance

Advertising Expense					No. 735
Date	Explanation	Ref.	Debit	Credit	Balance

Gasoline Expense					No. 736
Date	Explanation	Ref.	Debit	Credit	Balance

ACT 1600 Fundamentals of Financial Accounting

c.

Account Number	Account Titles	Debit	Credit

Problem 2-3

FM Broadcasting was organized on April 30 to operate a local radio station. The account titles, numbers and beginning balances on May 1, 20XX are as follows:

110	Cash	\$300,000	202	Unearned service revenue	
150	Accounts receivable	\$2,000	300	Share capital – ordinary	\$300,000
180	Supplies		301	Retained earnings	\$2,000
191	Prepaid insurance		400	Service revenue	
192	Equipment	\$150,000	500	Rent expense	
194	Film Library		501	Salaries expense	
200	Notes payable		502	Utilities expense	
201	Accounts payable	\$150,000			

The transactions of May were as follows:

1	Bought supplies costing \$100 on account from Drago Co.
3	Purchased a film library at a cost of \$30,000 from Godom Co; making a cash down payment of \$15,000 cash, with the balance payable in 30 days.
5	Collected \$50,000 cash for radio advertising services provided.
7	Billed Kong Co. for \$70,000 for radio advertising services rendered during the first week of May. The agreement with Kong called for payment to be received by May 29.
9	Mr. Eiden paid \$9,000 in advance for advertising services to be provided in June.
11	Provided advertising services on account for KIMS Hospital \$11,000.

ACT 1600 Fundamentals of Financial Accounting

13	Borrowed \$13,000 from Axis bank by issuing a 12%, 3 months note.
15	Paid insurance premium in advance for one year \$1,500.
17	Issued a check of \$17,000 to Gono in payment of an accounts payable incurred on April 30.
19	Purchased photocopy equipment on account \$1,900 from Sanyo Co.
21	Rent expense for May of \$2,100 will be paid on June 1.
23	Collected cash of \$2,300 from Kong, a credit customer.
25	Paid employees' salaries for May \$25,000.
27	Utilities expense for May \$2,700 will be paid on June 7.

- Instructions:
- a. Journalize the transactions with the explanation.
 - b. Post to the ledger accounts.
 - c. Prepare a trial balance as of May 31, 20XX

GENERAL JOURNAL				Page 1
Date	Account Titles and Explanations	Ref	Debit	Credit
May 1				
3				
5				
7				
9				
11				
13				
15				

ACT 1600 Fundamentals of Financial Accounting

17				
19				
21				
23				
25				
27				

2. General Ledgers

Cash				No. 110	
Date	Explanation	Ref	Debit	Credit	Balance

ACT 1600 Fundamentals of Financial Accounting

Accounts Receivable					No. 150
Date	Explanation	Ref.	Debit	Credit	Balance

Supplies					No. 180
Date	Explanation	Ref.	Debit	Credit	Balance

Prepaid Insurance					No. 191
Date	Explanation	Ref.	Debit	Credit	Balance

Equipment					No. 192
Date	Explanation	Ref.	Debit	Credit	Balance

Film Library					No. 194
Date	Explanation	Ref.	Debit	Credit	Balance

Notes Payable					No. 200
Date	Explanation	Ref.	Debit	Credit	Balance

Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance

Unearned Service Revenue					No. 202
Date	Explanation	Ref.	Debit	Credit	Balance

ACT 1600 Fundamentals of Financial Accounting

Share Capital – Ordinary					No. 300
Date	Explanation	Ref.	Debit	Credit	Balance

Retained Earnings					No. 301
Date	Explanation	Ref.	Debit	Credit	Balance

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance

Rent Expense					No. 500
Date	Explanation	Ref.	Debit	Credit	Balance

Salaries Expense					No. 501
Date	Explanation	Ref.	Debit	Credit	Balance

Utilities Expense					No. 502
Date	Explanation	Ref.	Debit	Credit	Balance

c.

Account Number	Account Titles	Debit	Credit

ACT 1600 Fundamentals of Financial Accounting

Problem 2-4

Muanim company was organized on October 1, 20XX to provide transportation for office and household furniture. The account titles, numbers and beginning balances on November 1 are as follows:

110	Cash	\$300,000	202	Unearned service revenue	
150	Accounts receivable	\$100,000	300	Share capital – ordinary	\$200,000
180	Land		301	Retained earnings	\$102,000
191	Equipment	\$52,000	302	Dividends	
192	Building		400	Moving service revenue	
194	Trucks		500	Gasoline expense	
200	Notes payable		501	Salaries expense	
201	Accounts payable	\$150,000	502	Utilities expenses	

The transactions for November were as follows:

1	Paid the amount due of \$30,000 on the October 20 invoice, from EquipTox Company.
3	Purchased land for \$170,000 and building for \$360,000 and signed a note payable for the same to Meanoi Company.
5	Purchased six moving vans from Kotonon Company at a total cost of \$ 300,000. A note payable was issued for the purchase price.
7	Collected \$80,000 of the amounts billed to Miss Susy, a customer on October 29.
9	Additional investments were made by the shareholders in exchange for ordinary shares \$200,000.
11	Moved furniture for various clients for \$50,000 and collected the cash in full.
13	Mr. Stup paid \$8,000 in advance for services to be provided in December.
15	Paid dividends to shareholders \$8,000.
17	Paid \$300,000 to Kotonon Company for the amount due.
19	Purchased facsimile equipment on account \$1,900 from Sonyo Co.
21	Moved furniture for Wook Adver Agency from New york to LA for \$29,500 on credit.
23	Received a gasoline bill for the month of November from Red Gas in the amount of \$25,000 to be paid by December 10.
25	Paid salaries to employees for services rendered in November \$19,000.
27	Accrued utilities expense not yet paid for November \$6,000.

Instructions:

- Journalize the transactions with the explanation.
- Post to the ledger accounts.
- Prepare a trial balance as on November 30, 20XX.

GENERAL JOURNAL				Page 1
Date	Account Titles and Explanations	Ref	Debit	Credit
Nov. 1				
3				
5				

ACT 1600 Fundamentals of Financial Accounting

7				
9				
11				
13				
15				
17				
19				
21				
23				
25				
27				

ACT 1600 Fundamentals of Financial Accounting

Cash					No. 110
Date	Explanation	Ref	Debit	Credit	Balance

Accounts Receivable					No. 150
Date	Explanation	Ref.	Debit	Credit	Balance

Land					No. 180
Date	Explanation	Ref.	Debit	Credit	Balance

Equipment					No. 191
Date	Explanation	Ref.	Debit	Credit	Balance

Building					No. 192
Date	Explanation	Ref.	Debit	Credit	Balance

Trucks					No. 194
Date	Explanation	Ref.	Debit	Credit	Balance

Notes Payable					No. 200
Date	Explanation	Ref.	Debit	Credit	Balance

Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance

ACT 1600 Fundamentals of Financial Accounting

Unearned Service Revenue

No. 202

Date	Explanation	Ref.	Debit	Credit	Balance

Share Capital – Ordinary

No. 300

Date	Explanation	Ref.	Debit	Credit	Balance

Retained Earnings

No. 301

Date	Explanation	Ref.	Debit	Credit	Balance

Dividends

No. 302

Date	Explanation	Ref.	Debit	Credit	Balance

Moving Service Revenue

No. 400

Date	Explanation	Ref.	Debit	Credit	Balance

Gasoline Expense

No. 500

Date	Explanation	Ref.	Debit	Credit	Balance

Salaries Expense

No. 501

Date	Explanation	Ref.	Debit	Credit	Balance

Utilities Expense

No. 502

Date	Explanation	Ref.	Debit	Credit	Balance

c.

Account Number	Account Titles	Debit	Credit

GENERAL JOURNAL

Date	Account Titles and Explanations	Ref	Debit	Credit
July 1				
2				
5				
10				
11				
12				
13				
15				
18				
22				

ACT 1600 Fundamentals of Financial Accounting

25				
28				
29				
30				
31				

2. General Ledgers

Cash					No. 110
Date	Explanation	Ref	Debit	Credit	Balance

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance

ACT 1600 Fundamentals of Financial Accounting

Prepaid Insurance					No. 136
Date	Explanation	Ref.	Debit	Credit	Balance

Office Equipment					No. 145
Date	Explanation	Ref.	Debit	Credit	Balance

Land					No. 156
Date	Explanation	Ref.	Debit	Credit	Balance

Building					No. 157
Date	Explanation	Ref.	Debit	Credit	Balance

Motorcycle					No. 158
Date	Explanation	Ref.	Debit	Credit	Balance

Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance

Notes Payable					No. 211
Date	Explanation	Ref.	Debit	Credit	Balance

Unearned Service Revenue					No. 220
Date	Explanation	Ref.	Debit	Credit	Balance

Share Capital – Ordinary					No. 311
Date	Explanation	Ref.	Debit	Credit	Balance

Dividends					No. 320
Date	Explanation	Ref.	Debit	Credit	Balance

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance

ACT 1600 Fundamentals of Financial Accounting

Salaries and Wages Expense

No. 726

Date	Explanation	Ref.	Debit	Credit	Balance

Advertising Expense

No. 735

Date	Explanation	Ref.	Debit	Credit	Balance

c.

Account Number	Account Titles	Debit	Credit

//*/*/*/*/*/*/*