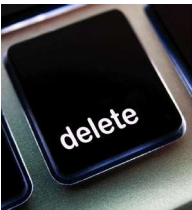


- 3. If the error is divisible by 9, retrace the account balances on the trial balance to see whether they are incorrectly copied from the ledger. For example, if a balance was \$12 and it was listed as \$21, a \$9 error has been made. Reversing the order of numbers is called a **transposition error**.
- 4. If the error is not divisible by 2 or 9, scan the ledger to see whether an account balance in the amount of the error has been omitted from the trial balance, and scan the journal to see whether a posting of that amount has been omitted.

Dollar Signs and Underlining

Note that dollar signs do not appear in journals or ledgers. Dollar signs are typically used only in the trial balance and the financial statements. Generally, a dollar sign is shown only for the first item in the column and for the total of that column. A single line (a totaling rule) is placed under the column of figures to be added or subtracted. Total amounts are double-underlined to indicate they are final sums.

Investor Insight Fannie Mae



iStock.com/Enviromatic

Why Accuracy Matters

While most companies record transactions very carefully, the reality is that mistakes still happen. For example, bank regulators fined **Bank One Corporation** (now **JPMorgan Chase**) \$1.8 million because they felt that the unreliability of the bank's accounting system caused it to violate regulatory requirements.

Fannie Mae, the government-chartered mortgage association, also announced a series of large accounting errors. These announcements caused alarm among investors, regulators, and politicians because they feared that the errors might have suggested larger, undetected problems. This is important because the home-mortgage market depends on Fannie

Mae to buy hundreds of billions of dollars of mortgages each year from banks, thus enabling the banks to issue new mortgages.

Finally, before a major overhaul of its accounting system, the financial records of **Waste Management, Inc.** were in such disarray that of the company's 57,000 employees, 10,000 were receiving pay slips that were in error.

The Sarbanes-Oxley Act was created to minimize the occurrence of errors like these by increasing every employee's responsibility for accurate financial reporting.

In order for these companies to prepare and issue financial statements, their accounting equations (debits and credits) must have been in balance at year-end. How could these errors or misstatements have occurred? (Answer is available near the end of the chapter.)

ACTION PLAN

- Determine normal balances and list accounts in the order they appear in the ledger.
- Accounts with debit balances appear in the left column, and those with credit balances in the right column.
- Total the debit and credit columns to prove equality.

DO IT! 4 Trial Balance

The following accounts come from the ledger of SnowGo Company at December 31, 2022.

157	Equipment	\$88,000	301	Owner's Capital	\$20,000
306	Owner's Drawings	8,000	212	Salaries and	
201	Accounts Payable	22,000		Wages Payable	2,000
726	Salaries and		200	Notes Payable	
	Wages Expense	42,000		(due in 3 months)	19,000
112	Accounts Receivable	4,000	732	Utilities Expense	3,000
400	Service Revenue	95,000	130	Prepaid Insurance	6,000
			101	Cash	7,000

Prepare a trial balance in good form.

Solution

SnowGo Company Trial Balance December 31, 2022		
	<u>Debit</u>	<u>Credit</u>
Cash	\$ 7,000	
Accounts Receivable	4,000	
Prepaid Insurance	6,000	
Equipment	88,000	
Notes Payable		\$ 19,000
Accounts Payable		22,000
Salaries and Wages Payable		2,000
Owner's Capital		20,000
Owner's Drawings	8,000	
Service Revenue		95,000
Utilities Expense	3,000	
Salaries and Wages Expense	42,000	
	<u>\$158,000</u>	<u>\$158,000</u>

Related exercise material: BE2.9, BE2.10, DO IT! 2.4, E2.11, E2.12, E2.13, E2.15, and E2.16.

Review and Practice

Learning Objectives Review

1 Describe how accounts, debits, and credits are used to record business transactions.

An account is a record of increases and decreases in specific asset, liability, and owner's equity items. The terms debit and credit are synonymous with left and right. Assets, owner's drawings, and expenses are increased by debits and decreased by credits. Liabilities, owner's capital and revenues are increased by credits and decreased by debits.

2 Indicate how a journal is used in the recording process.

The basic steps in the recording process are (a) analyze each transaction for its effects on the accounts, (b) enter the transaction information in a journal, and (c) transfer the journal information to the appropriate accounts in the ledger.

The initial accounting record of a transaction is entered in a journal before the data are entered in the accounts. A journal (a) discloses in one place the complete effects of a transaction, (b) provides

a chronological record of transactions, and (c) prevents or locates errors because the debit and credit amounts for each entry can be easily compared.

3 Explain how a ledger and posting help in the recording process.

The ledger is the entire group of accounts maintained by a company. The ledger provides the balance in each of the accounts as well as keeps track of changes in these balances. Posting is the transfer of journal entries to the ledger accounts. This phase of the recording process accumulates the effects of journalized transactions in the individual accounts.

4 Prepare a trial balance.

A trial balance is a list of accounts and their balances at a given time. Its primary purpose is to prove the equality of debits and credits after posting. A trial balance also uncovers errors in journalizing and posting and is useful in preparing financial statements.