

The Recording Process

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1. Analyze Each Transaction
2. Enter transaction in a journal
3. Transfer journal information to ledger accounts



The Journal

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- ✓ Transactions are initially recorded in a chronological order in a **journal** before being transferred to the ledger
- ✓ The journal makes several significant contributions to the recording process:
 - It discloses, in one place, the complete effect of a transaction.
 - It provides a chronological record of transactions
 - It helps to prevent or locate errors because the DR and CR amounts for each entry can be compared.



Simple Journal Entry

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General Journal J1				
Date	Accounts Titles and Explanation	Ref.	Debit	Credit
Oct 2	Truck		14,000	
	Cash			14,000
	<i>Purchased truck for cash</i>			

If an entry involves only two accounts, one debit and one credit, it is considered a **simple entry**.



Compound Journal Entry

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General Journal J1				
Date	Accounts Titles and Explanation	Ref.	Debit	Credit
Oct 2	1 Truck		34,000	
	2 Cash			8,000
	3 Notes Payable			26,000
	<i>Purchased truck for cash and note payable.</i>			

When **three or more** accounts are required in one journal entry, the entry is referred to as a **compound entry**.



The Ledger

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Individual Assets	Individual Liabilities	Individual Owner's Equity
§ Equipment § Supplies § A/R § Cash	§ Interest Payable § Salaries Payable § A/P § Notes Payable	§ Salaries Expense § Service Revenue § Doucet, Capital § Doucet, Drawings

- a The entire group of accounts is referred to collectively as the ledger.
- a A general ledger contains all assets, liabilities, owner's equity accounts.

Posting a Journal Entry

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In the ledger, enter in the appropriate columns of the accounts, the date, journal page, debit amount shown in the journal, and the account number to which the journal was posted.

General Journal J1 1				
Date	Accounts Titles and Explanation	Ref.	Debit	Credit
2002				
1-sept	Cash	3 101	15,000	2
	M. Doucet, Capital	301		15,000
	<i>Invested cash in business</i>			

General Ledger				
CASH 3 01				
Date	Accounts Titles and Explanation	Ref.	Debit	Credit Balance
2002				
1-Sept		1 J1	15,000	2 15,000

The Trial Balance

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- q A T/B is a list of accounts and their balances at a given time.
- q The primary purpose of a T/B is to prove the mathematical equality of DR and CR after posting.
- q A T/B also uncovers errors in journalizing and posting.
- q The procedures for preparing T/B are:
 - à Listing the account titles and their balances
 - à Totaling the DR and CR columns
 - à Proving the equality of the two columns



Example Trial Balance

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PIONEER ADVERTISING AGENCY Trial Balance October 31, 2002		
	DEBIT	CREDIT
Cash	\$ 15,200	
Advertising Supplies	2,500	
Prepaid Insurance	600	
Office Equipment	5,000	
Notes Payable		\$ 5,000
Accounts payable		2,500
Unearned Revenue		1,200
C.R. Byrd, Capital		10,000
C.R. Drawings	500	
Service Revenue		10,000
Salaries Expense	4,000	
Rent Expense	900	
	28,700	28,700

The total credits MUST equal the total debits



The Trial Balance: Its Limitations

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- § A trial balance does not prove that all transactions have been recorded or that the ledger is correct.
- § Numerous errors may exist even though the T/B balances.
- § The T/B 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
 5. Offsetting errors are made in recording the amount of transaction.



Examples of Journal Entries

<ul style="list-style-type: none"> ✓ MM Clinic buys furniture for \$10,000 cash <div> DR Furniture 10,000 CR Cash 10,000 </div>	<ul style="list-style-type: none"> ✓ MM Clinic borrows \$15,000 from the bank <div> DR Cash 15,000 CR Bank Loan 15,000 </div>
<ul style="list-style-type: none"> ✓ MM Clinic buys computers for \$7,000 on credit <div> DR Computers 7,000 CR A/P 7,000 </div>	<ul style="list-style-type: none"> ✓ MM Clinic receives their internet bill of \$200 and then pays it a few days later <div> DR Internet 200 CR A/P 200 DR A/P 200 CR Cash 200 </div>

Examples of Journal Entries

<ul style="list-style-type: none"> ✓ A client pays \$500 cash for services <div> DR Cash 500 CR Revenue 500 </div>	<ul style="list-style-type: none"> ✓ MM Clinic pays \$300 cash for office supplies <div> DR Supplies 300 CR Cash 300 </div>
<ul style="list-style-type: none"> ✓ A client is billed \$1,000 for services <div> DR A/R 1000 CR Revenue 1000 </div>	<ul style="list-style-type: none"> ✓ MM Clinic receives a telephone bill for \$500 <div> DR Telephone 500 CR A/P 500 </div>

Examples of Journal Entries

<ul style="list-style-type: none"> ✓ MM puts in \$25,000 cash in MM Clinic as initial capital <div> DR Cash 25,000 CR MM, Capital 25,000 </div>	<ul style="list-style-type: none"> ✓ MM withdraws \$10,000 cash from MM Clinic <div> DR MM, Drawings 10,000 CR Cash 10,000 </div>
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