

FOR NON ACCOUNTANTS

# ACCOUNTING

THE RECORDING  
PROCESS



# **ACCOUNTING**

## **“FINANCIAL INFORMATION SYSTEM”**

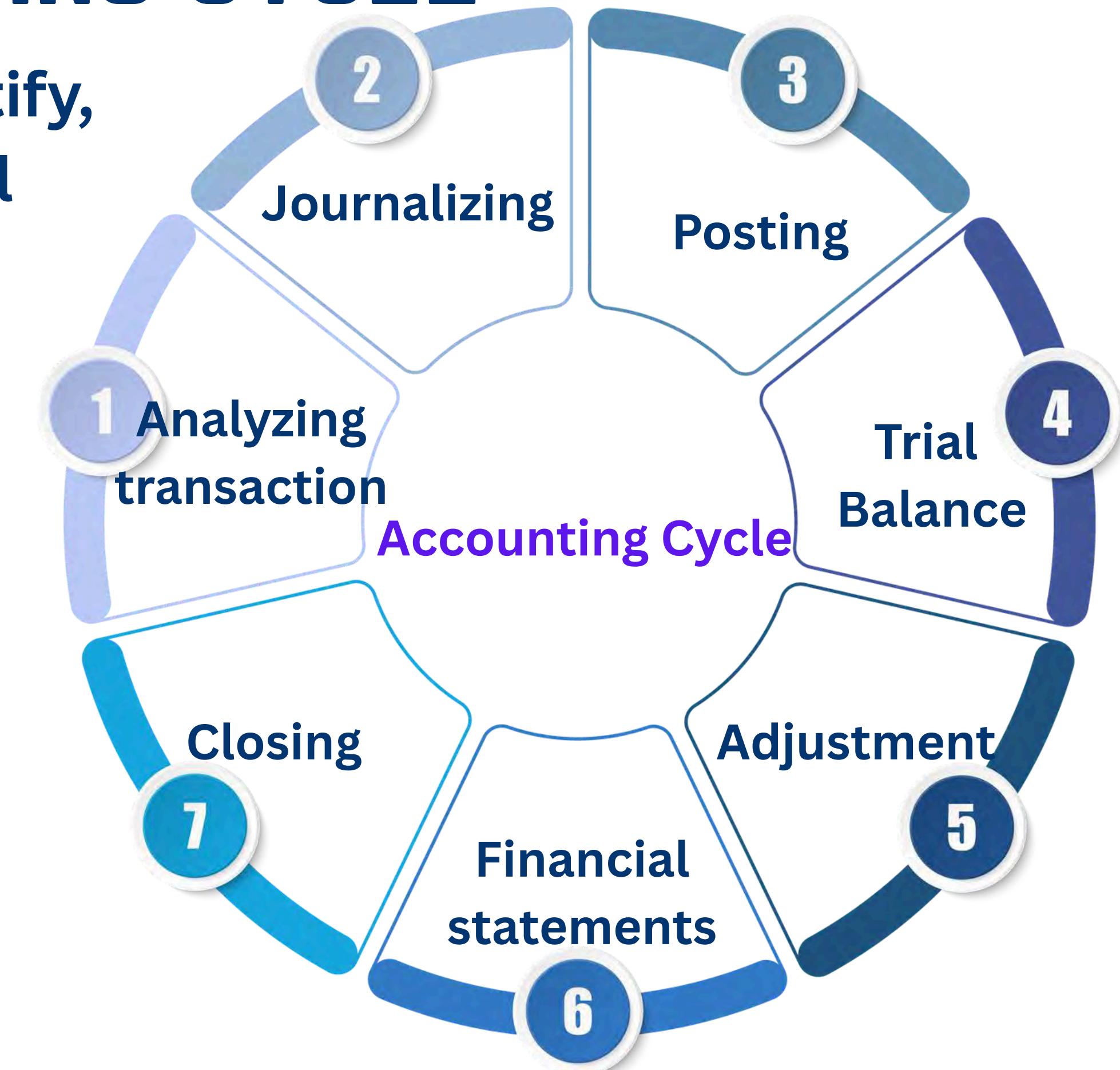
**Accounting is an information system that provides financial reports to users about economic activities of a business.**



# ACCOUNTING CYCLE

Step by step procedure to identify, record, and summarize financial transactions.

- Covers one month period.
- Continue every month until business is closed.



## **STEP 2: JOURNALIZING**



# JOURNALIZING

# Recording transactions in a journal

# Journal: A record of financial transactions in order by date

# JOURNALIZING

## Journal Entry: Record of a transaction in a journal

- A transaction affects at least two accounts
- **Double-entry bookkeeping** is a system where every business transaction is recorded in two accounts – one as a debit and the other as a credit – to keep the accounts balanced.
- Journal entry uses at least **1 debit and 1 credit**: an account to be debited and an account to be credited.



# DEBIT & CREDIT

- Terms used to describe if an account is increased or decreased.
- ! • Debit/Credit can mean increase or decrease based on the account they are affected.

Assets = Liabilities + Owner's Equity

This must always stay balanced.

Debit & Credit = Directions

- Debit = Left Side
- Credit = Right Side

Why Debit Increases Assets?

- Assets are on the left, so increasing them = debit
- Example: You get ₹100 cash → Debit Cash

Why Credit Increases Equity?

- Equity is on the right, so increasing it = credit
- Example: You earn income → Revenue ↑ → Credit

Left Side	Right Side
Assets (Debit +)	Liabilities (Credit +), Owner's Equity (Credit +)

# Debits/Credits Rules

Normal Balance  
**Debit**

Normal Balance  
**Credit**

## Liabilities

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

## Assets

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

Chapter  
3-23

## Expense

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

Chapter  
3-27

## Owner's Equity

Owner's Equity

↓	↑
Normal Balance	

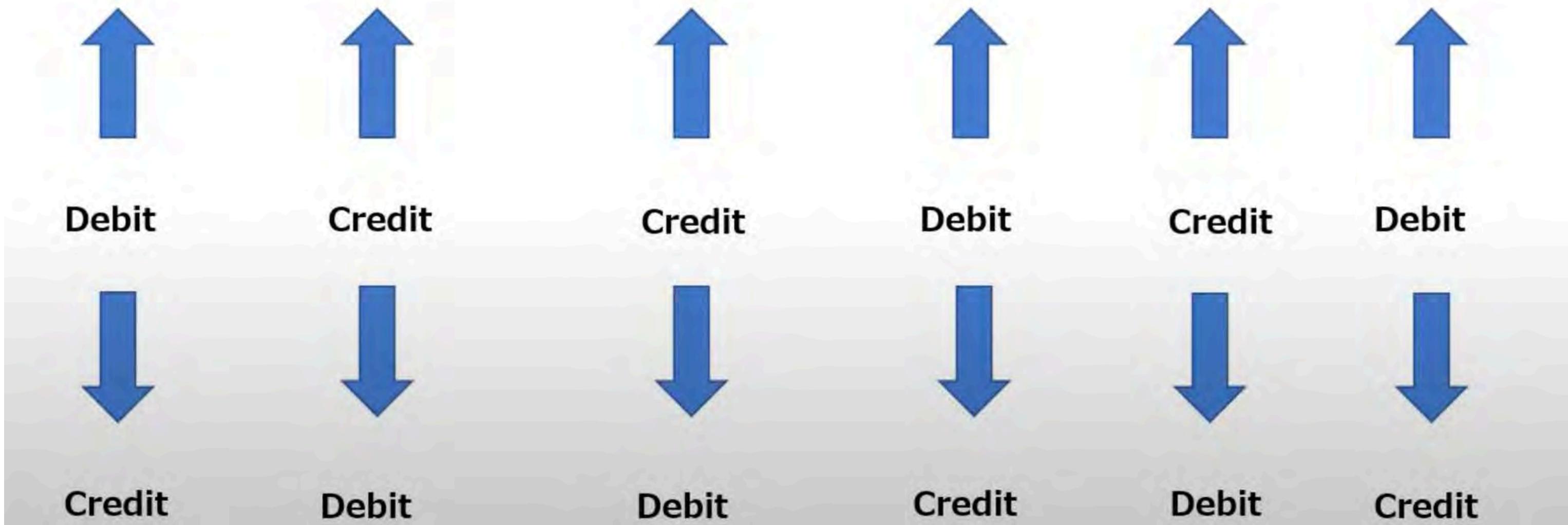
## Revenue

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

Chapter  
3-26

# Rules of Debit & Credit

$$\text{ASSETS} = \text{LIABILITIES} + (\text{OWNER'S CAPITAL} - \text{OWNER'S WITHDRAWAL}) + \text{INCOME} - \text{EXPENSES}$$



Assets, expenses, and withdrawals increase on the left (debit) side because they're on the left side of extended equation

# JOURNALIZING

## **Steps in Journalizing transaction:**

1. Write date
2. Write accounts to be debited
3. Write amounts to be debited
4. Write accounts to be credited
5. Write amounts to be credited
6. Write a brief description about the transaction

## **Things to Remember:**

1. Total debit=Total credit
2. Indent credits and description to distinguish from debit
3. Data in the posting reference column will be written after posting (next step after journalizing).



# JOURNALIZING

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

**Illustration:** On September 1, Ray Neal invested \$15,000 cash in the business, and Softbyte purchased computer equipment for \$7,000 cash.

Illustration 2-13

GENERAL JOURNAL				
Date	Account Title	Ref.	Debit	Credit
Sept. 1	Cash		15,000	
	Owner's Capital			15,000
	Equipment		7,000	
	Cash			7,000

# JOURNALIZING

## SIMPLE AND COMPOUND ENTRIES

**Illustration:** On July 1, Butler Company purchases a delivery truck costing \$14,000. It pays \$8,000 cash now and agrees to pay the remaining \$6,000 on account.

Illustration 2-14  
Compound journal entry

GENERAL JOURNAL				
Date	Account Title	Ref.	Debit	Credit
July 1	Equipment		14,000	
	Cash			8,000
	Accounts payable			6,000

# EXAMPLES OF TRANSACTIONS AND HOW TO JOURNALIZE THEM

Analyze the following 2024 transactions of “X” consulting Services and enter the transactional information in a Journal

**March 1**

- Owner invested ₱100,000 cash to establish a business consultancy firm.

**March 2:** Paid ₱3,500 for the business permit and BIR registration.

**March 4:** Purchased a desktop computer for ₱25,000 on credit to be used in the business.

March 4: Purchased bond paper, pens, pencils, or cash a purchased bond papers, pens, pencils, memo and other supplies for cash amounting to ₱3200

March 4: Paid rent in advance for 3 months, ₱15,000.

**March 6:** Purchased tables, chairs and cabinets amounting to ₱20,000. He paid ₱5,000 and the balance payable in 3 equal monthly installments.



*March 7* Paid ₦3,000 for advertisement in a radio station to promote the business.

*10* Rendered a business consulting service to an IT company for ₦10,000.

*12* Paid ₦10,000 to partially settle the account from the purchase of desktop computer (March 4)

*15* Completed a marketing consulting service to a newly-established business for ₦50,000. The business collected ₦20,000 and the balance to be received next month.

*17* Rendered a consulting service on credit to a retail store, ₦25,000.

*19* Paid the monthly installment for the purchase of tables, chairs and cabinets (March 6).

*20* Received ₦40,000 in advance from a client for marketing consulting engagement.

*March 22* Completed a consulting service for a manufacturing company for ₱50,000, 50% was collected and the balance to be received next month.

26 Paid the water bill for the month, ₱300.

30 Paid the salary of his assistant, ₱4,000.

30 Collected the ₱25,000 account of the retail store.

(March 17)

30 Attended a seminar in Manila. The cost of transportation and accommodation are ₱1,700 and ₱1,500 respectively.

31 Withdraw ₱2,000 for personal use.

31 Received ₱8,000 for a business consulting service.

31 Received the electric bill amounting to ₱1,000

# **STEP 3: POSTING**



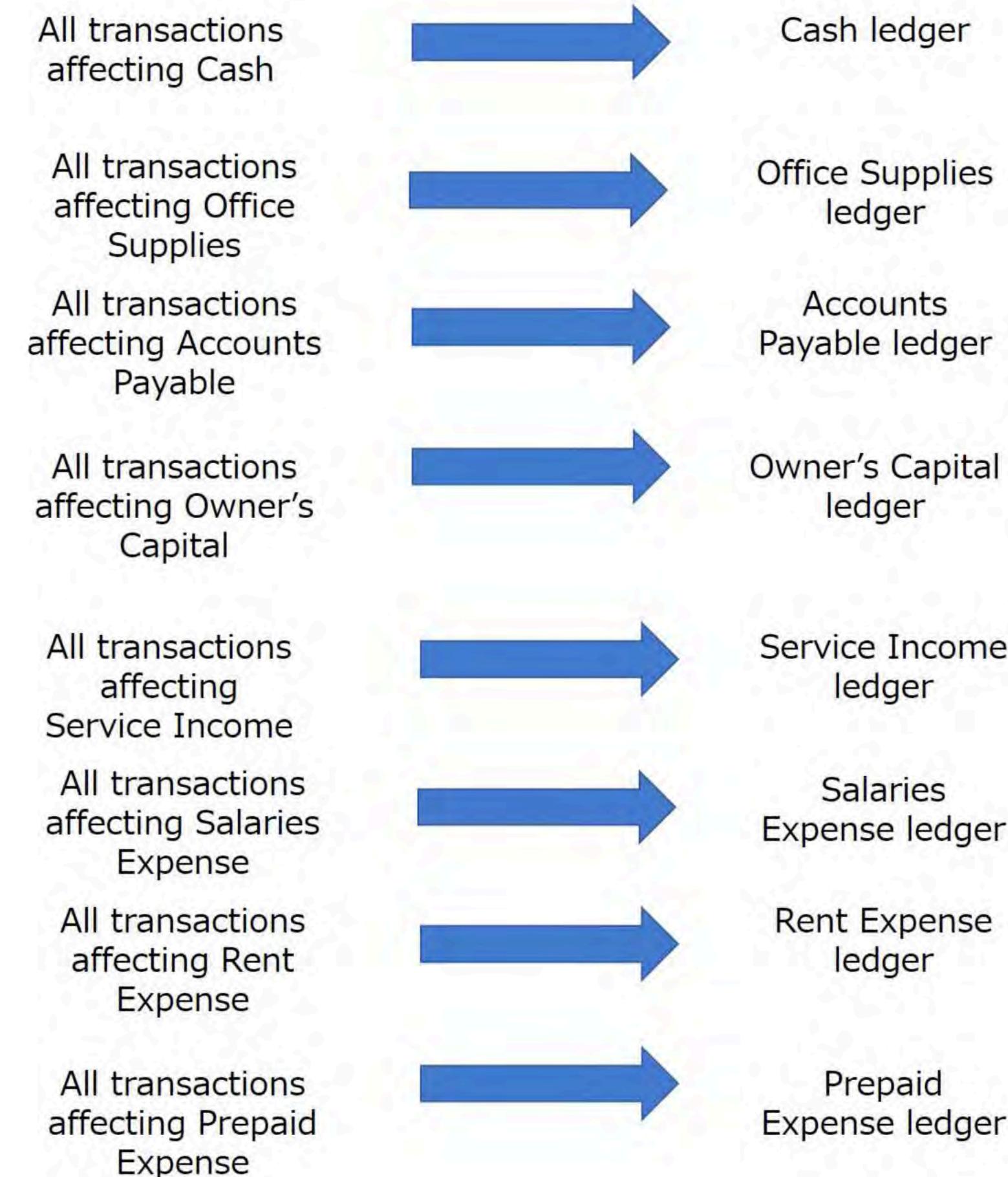
# POSTING

# Transferring the balance of the accounts from the journal to the Ledger

**Ledger:** A record where transactions affecting an account is summarized (grouped) for the month

- One ledger per account
  - Shows balance of an account for the month.

# Ledger: A record where transactions affecting an account is summarized (grouped) for the month



# JOURNAL VS LEDGER

JOURNAL	LEDGER
<ul style="list-style-type: none"><li>• Record of Transaction by date</li></ul>	<ul style="list-style-type: none"><li>• Record that groups transactions by account</li></ul>

## Why ledger is needed?

It is difficult to know the **balance of an account** for the month from journal as it is the record of transactions by date.



# **STEPS IN POSTING**

## **Steps in Posting transaction:**

1. Search for appropriate ledger account
2. Write the date
3. Write the description
4. Write the posting reference (page number of Journal)
5. Write the amount
6. Compute the balance

## **Things to Remember:**

1. Do not forget to write the posting reference in the journal.
2. Refer to the account number of the account posted.



# Ledger

**POSTING**  
Transferring  
journal entries  
to the ledger  
accounts.

The diagram illustrates the posting process. A red bracket labeled 1 points from the journal date to the ledger date. A red bracket labeled 2 points from the journal reference to the ledger reference. A red bracket labeled 3 points from the journal debit amount to the ledger debit amount. A red bracket labeled 4 points from the journal credit amount to the ledger credit amount.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2017 Sept.1	Cash Owner's Capital (Owner's investment of cash in business)	101 301	15,000	15,000	

GENERAL LEDGER					
Cash					No.101
Date	Explanation	Ref.	Debit	Credit	Balance
2017 Sept.1		J1	15,000		15,000

Owner's Capital					No.301
Date	Explanation	Ref.	Debit	Credit	Balance
2017 Sept.1		J1		15,000	15,000

**Illustration 2-17**  
Posting a journal entry

Key:

- 1 Post to debit account—date, journal page number, and amount.
- 2 Enter debit account number in journal reference column.
- 3 Post to credit account—date, journal page number, and amount.
- 4 Enter credit account number in journal reference column.

# Chart of Accounts

Illustration 2-18

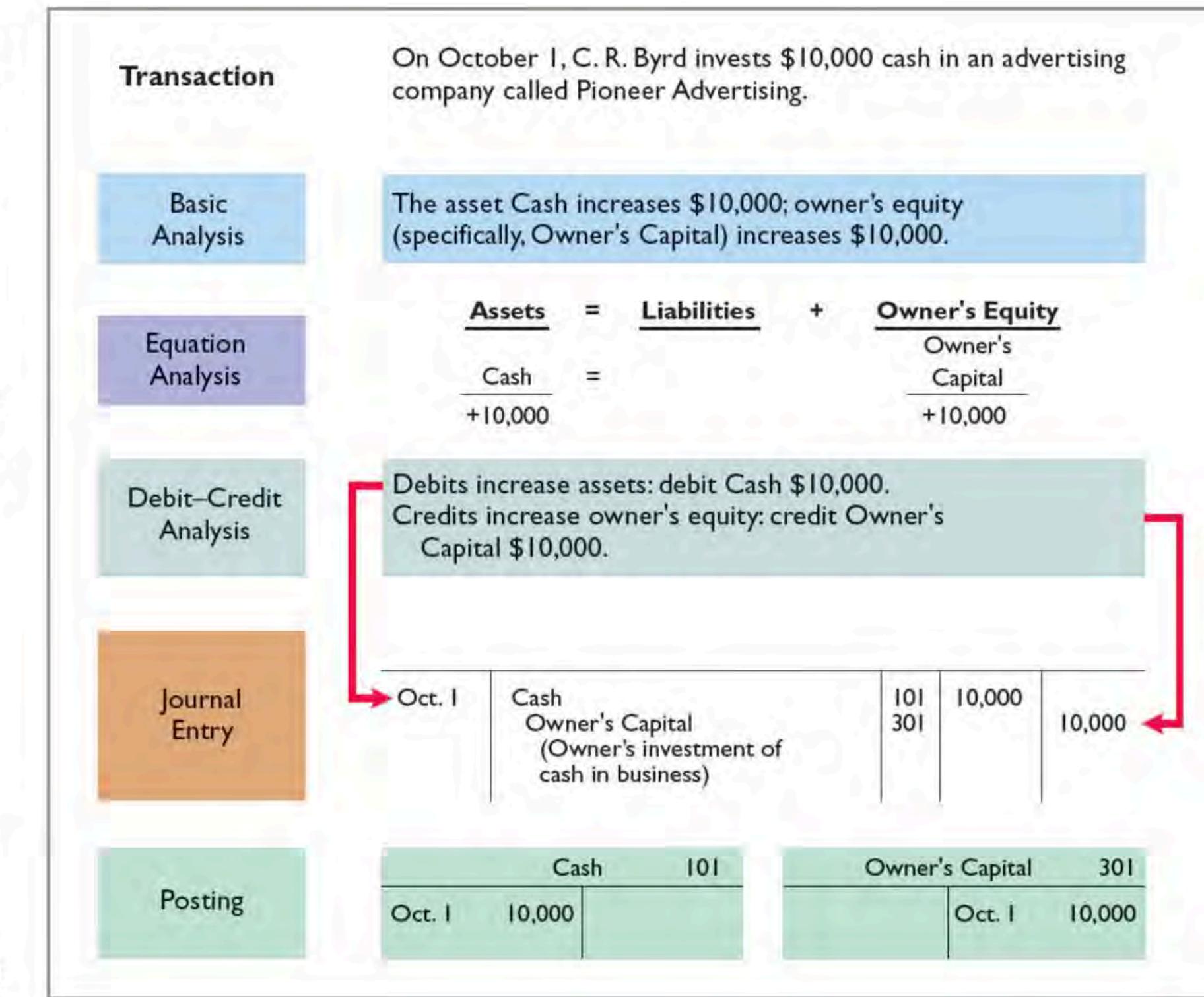
PIONEER ADVERTISING Chart of Accounts	
<b>Assets</b>	<b>Owner's Equity</b>
101 Cash	301 Owner's Capital
112 Accounts Receivable	306 Owner's Drawings
126 Supplies	350 Income Summary
130 Prepaid Insurance	
157 Equipment	
158 Accumulated Depreciation—Equipment	
<b>Liabilities</b>	<b>Revenues</b>
200 Notes Payable	400 Service Revenue
201 Accounts Payable	
209 Unearned Service Revenue	
212 Salaries and Wages Payable	
230 Interest Payable	
	<b>Expenses</b>
	631 Supplies Expense
	711 Depreciation Expense
	722 Insurance Expense
	726 Salaries and Wages Expense
	729 Rent Expense
	732 Utilities Expense
	905 Interest Expense

# The Recording Process Illustrated

## 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.

Illustration 2-19



## Transaction

On October 2, Pioneer receives a \$1,200 cash advance from R. Knox, a client, for advertising services that are expected to be completed by December 31.

### Basic Analysis

The asset Cash increases \$1,200; the liability Unearned Service Revenue increases \$1,200 because the service has not been performed yet. That is, when Pioneer receives an advance payment, it should record an unearned revenue (a liability) in order to recognize the obligation that exists. Note also that although most liabilities have the word “payable” in their title, unearned revenue is considered a liability because the liability is satisfied by providing a product or performing a service.

### Equation Analysis

$$\begin{array}{rcl} \textbf{Assets} & = & \textbf{Liabilities} + \textbf{Owner's Equity} \\ & & \text{Unearned Service} \\ \text{Cash} & = & \text{Revenue} \\ +1,200 & & +1,200 \end{array}$$

### Debit–Credit Analysis

Debits increase assets: debit Cash \$1,200.  
Credits increase liabilities: credit Unearned Service Revenue \$1,200.

### Journal Entry

Oct. 2	Cash Unearned Service Revenue (Received cash from R. Knox for future service)	101 209	1,200	1,200
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### Posting

Cash		101	Unearned Service Revenue		209
Oct. 1	10,000				
2	1,200			Oct. 2	1,200

## Transaction

On October 3, Pioneer pays office rent for October in cash, \$900.

### Basic Analysis

The expense account Rent Expense increases \$900 because the payment pertains only to the current month; the asset Cash decreases \$900.

### Equation Analysis

$$\begin{array}{rcl} \textbf{Assets} & = & \textbf{Liabilities} + \textbf{Owner's Equity} \\ \hline \text{Cash} & = & \text{Rent} \\ & -900 & \text{Expense} \\ & & -900 \end{array}$$

### Debit–Credit Analysis

Debits increase expenses: debit Rent Expense \$900. Credits decrease assets: credit Cash \$900.

### Journal Entry

Oct. 3	Rent Expense Cash (Paid October rent)	729 101	900	900
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### Posting

	Cash	101	Rent Expense	729
Oct. 1	10,000			
2	1,200	900	900	

## Transaction

### Basic Analysis

On October 4, Pioneer pays \$600 for a one-year insurance policy that will expire next year on September 30.

The asset Prepaid Insurance increases \$600 because the payment extends to more than the current month; the asset Cash decreases \$600. Payments of expenses that will benefit more than one accounting period are prepaid expenses or prepayments. When a company makes a payment, it debits an asset account in order to show the service or benefit that will be received in the future.

### Equation Analysis

<u>Assets</u>		=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Cash	+ Prepaid Insurance				
-600			+600		

### Debit–Credit Analysis

Debits increase assets: debit Prepaid Insurance \$600.  
Credits decrease assets: credit Cash \$600.

### Journal Entry

Oct. 4	Prepaid Insurance Cash (Paid one-year policy; effective date October 1)	130 101	600	600
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### Posting

Cash		101	Prepaid Insurance	130
Oct. 1 2	10,000 1,200		Oct. 3 4	900 600
			Oct. 4	600

## Illustration 2-23 Payment for insurance

## Transaction

On October 5, Pioneer purchases an estimated 3-month supply of advertising materials on account from Aero Supply for \$2,500.

### Basic Analysis

The asset Supplies increases \$2,500; the liability Accounts Payable increases \$2,500.

### Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
		Accounts		
Supplies	=	Payable		
+2,500		+2,500		

### Debit–Credit Analysis

Debits increase assets: debit Supplies \$2,500.  
Credits increase liabilities: credit Accounts Payable \$2,500.

### Journal Entry

Oct. 5	Supplies Accounts Payable (Purchased supplies on account from Aero Supply)	126 201	2,500	2,500
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### Posting

	Supplies	126		Accounts Payable	201
Oct. 5	2,500			Oct. 5	2,500

### Illustration 2-24

Purchase of supplies on credit

# The Recording Process Illustrated

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## Event

On October 9, Pioneer hires four employees to begin work on October 15. Each employee is to receive a weekly salary of \$500 for a 5-day work week, payable every 2 weeks—first payment made on October 26.

## Basic Analysis

A business transaction has not occurred. There is only an agreement between the employer and the employees to enter into a business transaction beginning on October 15. Thus, a debit–credit analysis is not needed because there is no accounting entry. (See transaction of October 26 for first entry.)

### Work Begins (October 15):

- The employees start working.
- They will earn \$500 per week each, so over two weeks (October 15–26), they each earn:
- \$1,000 ( $2 \text{ weeks} \times \$500$ )
- Total salary for all 4 employees:  $4 \times \$1,000 = \$4,000$

### First Payment (October 26):

- On this day, Pioneer pays the employees for the first 2 weeks of work.

Transaction	<p>On October 20, C. R. Byrd withdraws \$500 cash for personal use.</p>																																		
Basic Analysis	<p>The owner's equity account Owner's Drawings increases \$500; the asset Cash decreases \$500.</p>																																		
Equation Analysis	$\begin{array}{rcl} \textbf{Assets} & = & \textbf{Liabilities} & + & \textbf{Owner's Equity} \\ \hline \text{Cash} & = & & & \text{Owner's Drawings} \\ & -500 & & & \hline & & & & -500 \end{array}$																																		
Debit–Credit Analysis	<p>Debits increase drawings: debit Owner's Drawings \$500. Credits decrease assets: credit Cash \$500.</p>																																		
Journal Entry	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%; text-align: right; padding-right: 10px;">Oct. 20</td> <td style="width: 60%; vertical-align: bottom; padding-bottom: 10px;">           Owner's Drawings            Cash            (Withdrew cash for personal use)         </td> <td style="width: 10%; text-align: right; vertical-align: bottom; padding-bottom: 10px;">306 101</td> <td style="width: 10%; text-align: right; vertical-align: bottom; padding-bottom: 10px;">500</td> <td style="width: 10%; text-align: right; vertical-align: bottom; padding-bottom: 10px;">500</td> </tr> </table>					Oct. 20	Owner's Drawings Cash (Withdrew cash for personal use)	306 101	500	500																									
Oct. 20	Owner's Drawings Cash (Withdrew cash for personal use)	306 101	500	500																															
Posting	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%; text-align: center; background-color: #e6f2ff;"></th> <th style="width: 30%; text-align: center; background-color: #e6f2ff;">Cash</th> <th style="width: 10%; text-align: center; background-color: #e6f2ff;">101</th> <th colspan="2" style="width: 30%; text-align: center; background-color: #e6f2ff;">Owner's Drawings</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">Oct. 1</td> <td style="text-align: right;">10,000</td> <td style="text-align: right;">101</td> <td style="text-align: right;">Oct. 20</td> <td style="text-align: right;">500</td> </tr> <tr> <td style="text-align: right;">2</td> <td style="text-align: right;">1,200</td> <td style="text-align: right;">4</td> <td style="text-align: right;">500</td> <td style="text-align: right;">600</td> </tr> <tr> <td style="text-align: right;">3</td> <td style="text-align: right;">900</td> <td style="text-align: right;">20</td> <td style="text-align: right;">500</td> <td style="text-align: right;">500</td> </tr> <tr> <td style="text-align: right;">4</td> <td style="text-align: right;">600</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">20</td> <td style="text-align: right;">500</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>						Cash	101	Owner's Drawings		Oct. 1	10,000	101	Oct. 20	500	2	1,200	4	500	600	3	900	20	500	500	4	600				20	500			
	Cash	101	Owner's Drawings																																
Oct. 1	10,000	101	Oct. 20	500																															
2	1,200	4	500	600																															
3	900	20	500	500																															
4	600																																		
20	500																																		

### **Illustration 2-26**

#### Withdrawal of cash by owner

## Transaction

### Basic Analysis

On October 26, Pioneer owes employee salaries of \$4,000 and pays them in cash. (See October 9 event.)

### Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Cash	=			Salaries and Wages Expense
-4,000				-4,000

### Debit–Credit Analysis

Debits increase expenses: debit Salaries and Wages Expense \$4,000.

Credits decrease assets: credit Cash \$4,000.

### Journal Entry

Oct. 26	Salaries and Wages Expense Cash (Paid salaries to date)	726 101	4,000	4,000
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### Posting

Cash		101	Salaries and Wages Expense	726
Oct. 1	10,000	Oct. 3	900	
2	1,200	4	600	
		20	500	
		26	4,000	

Illustration 2-27  
Payment of salaries

## Transaction

On October 31, Pioneer receives \$10,000 in cash from Copa Company for advertising services performed in October.

### Basic Analysis

The asset Cash increases \$10,000; the revenue account Service Revenue increases \$10,000.

### Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Cash	=			Service Revenue
+10,000				+10,000

### Debit–Credit Analysis

Debits increase assets: debit Cash \$10,000.  
Credits increase revenues: credit Service Revenue \$10,000.

### Journal Entry

Oct. 31	Cash Service Revenue (Received cash for services performed)	101 400	10,000	10,000
---------	--	------------	--------	--------

### Posting

	Cash	101	Service Revenue	400
Oct. 1	10,000	Oct. 3	900	
2	1,200	4	600	
31	10,000	20	500	
		26	4,000	Oct. 31 10,000

Illustration 2-28

Receipt of cash for services performed

# Summary Journalizing and Posting

Illustration 2-29

GENERAL JOURNAL				PAGE J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
2017				
Oct. 1	Cash Owner's Capital (Owner's investment of cash in business)	101 301	10,000	10,000
1	Equipment Notes Payable (Issued 3-month, 12% note for office equipment)	157 200	5,000	5,000
2	Cash Unearned Service Revenue (Received cash from R. Knox for future service)	101 209	1,200	1,200
3	Rent Expense Cash (Paid October rent)	729 101	900	900

## GENERAL JOURNAL

PAGE J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
4	Prepaid Insurance Cash (Paid one-year policy; effective date October 1)	130 101	600	600
5	Supplies Accounts Payable (Purchased supplies on account from Aero Supply)	126 201	2,500	2,500
20	Owner's Drawings Cash (Withdrew cash for personal use)	306 101	500	500
26	Salaries and Wages Expense Cash (Paid salaries to date)	726 101	4,000	4,000
31	Cash Service Revenue (Received cash for services performed)	101 400	10,000	10,000

## GENERAL LEDGER

Cash			No. 101			Accounts Payable			No. 201		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 1		J1	10,000		10,000	2017 Oct. 5		J1		2,500	2,500
2		J1	1,200		11,200						
3		J1		900	10,300	<b>Unearned Service Revenue</b>			<b>No. 209</b>		
4		J1		600	9,700						
20		J1		500	9,200						
26		J1		4,000	5,200						
31		J1	10,000		15,200						
Supplies			No. 126			Owner's Capital			No. 301		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 5		J1	2,500		2,500	2017 Oct. 1		J1		10,000	10,000
Prepaid Insurance			No. 130			Owner's Drawings			No. 306		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 4		J1	600		600	2017 Oct. 20		J1	500		500
Equipment			No. 157			Service Revenue			No. 400		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 1		J1	5,000		5,000	2017 Oct. 31		J1		10,000	10,000
Notes Payable			No. 200			Salaries and Wages Expense			No. 726		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 1		J1		5,000	5,000	2017 Oct. 26		J1	4,000		4,000
Illustration 2-30						Rent Expense			No. 729		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 3		J1			900	2017 Oct. 3		J1	900		900

# **STEP 4: TRIAL BALANCE**



# TRIAL BALANCE

**List of accounts from the ledger with balance**

## Purpose of Trial Balance:

- To prove that the debit and credit balanced in the ledger are equal
- Debit=Credit
- If not equal, review journal and ledger

## Steps for preparing a Trial Balance:

- List the account titles and their balances in appropriate debit or credit column
- Total the debit and credit columns
- Prove the equality of the two columns



## GENERAL LEDGER

Cash			No. 101			Accounts Payable			No. 201		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 1		J1	10,000		10,000	2017 Oct. 5		J1		2,500	2,500
2		J1	1,200		11,200						
3		J1		900	10,300	<b>Unearned Service Revenue</b>			<b>No. 209</b>		
4		J1		600	9,700						
20		J1		500	9,200						
26		J1		4,000	5,200						
31		J1	10,000		15,200						
Supplies			No. 126			<b>Owner's Capital</b>			<b>No. 301</b>		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 5		J1	2,500		2,500	2017 Oct. 1		J1		10,000	10,000
Prepaid Insurance			No. 130			<b>Owner's Drawings</b>			<b>No. 306</b>		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 4		J1	600		600	2017 Oct. 20		J1	500		500
Equipment			No. 157			<b>Service Revenue</b>			<b>No. 400</b>		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 1		J1	5,000		5,000	2017 Oct. 31		J1		10,000	10,000
Notes Payable			No. 200			<b>Salaries and Wages Expense</b>			<b>No. 726</b>		
Date	Explanation	Ref.	Debit	Credit	Balance	Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 1		J1		5,000	5,000	2017 Oct. 26		J1	4,000		4,000
Illustration 2-30											
Rent Expense			No. 729			Date	Explanation	Ref.	Debit	Credit	Balance
						2017 Oct. 3		J1	900		900

## Prepare a trial balance.



## PIONEER ADVERTISING

Trial Balance

October 31, 2017

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 15,200	
Supplies	2,500	
Prepaid Insurance	600	
Equipment	5,000	
Notes Payable		\$ 5,000
Accounts Payable		2,500
Unearned Service Revenue		1,200
Owner's Capital		10,000
Owner's Drawings	500	
Service Revenue		10,000
Salaries and Wages Expense	4,000	
Rent Expense	900	
	<u><u>\$28,700</u></u>	<u><u>\$28,700</u></u>

# Trial Balance

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## Limitations of a Trial Balance

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.
5. Offsetting errors are made in recording the amount of a transaction.

### ETHICS NOTE

An *error* is the result of an unintentional mistake; it is neither ethical nor unethical. An *irregularity* is an intentional misstatement, which is viewed as unethical.

# Dollar Signs and Underlining

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## Dollar Signs

- Do not appear in journals or ledgers.
- Typically used only in the trial balance and the financial statements.
- Shown only for the first item in the column and for the total of that column.

## Underlining

- A single line is placed under the column of figures to be added or subtracted.
- Totals are double-underlined.