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FINANCIAL ACCOUNTING

3e

IFRS EDITION

Prepared by
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University of California, Santa Barbara
Westmont College



المعادلة

Accounting Equation

$$A = Li$$



J

1

2 3

Assets = Liabilities + ~~CO.E~~

Assets = Liabilities + ~~CO.E~~

$$A = Li + \cancel{O.E}$$

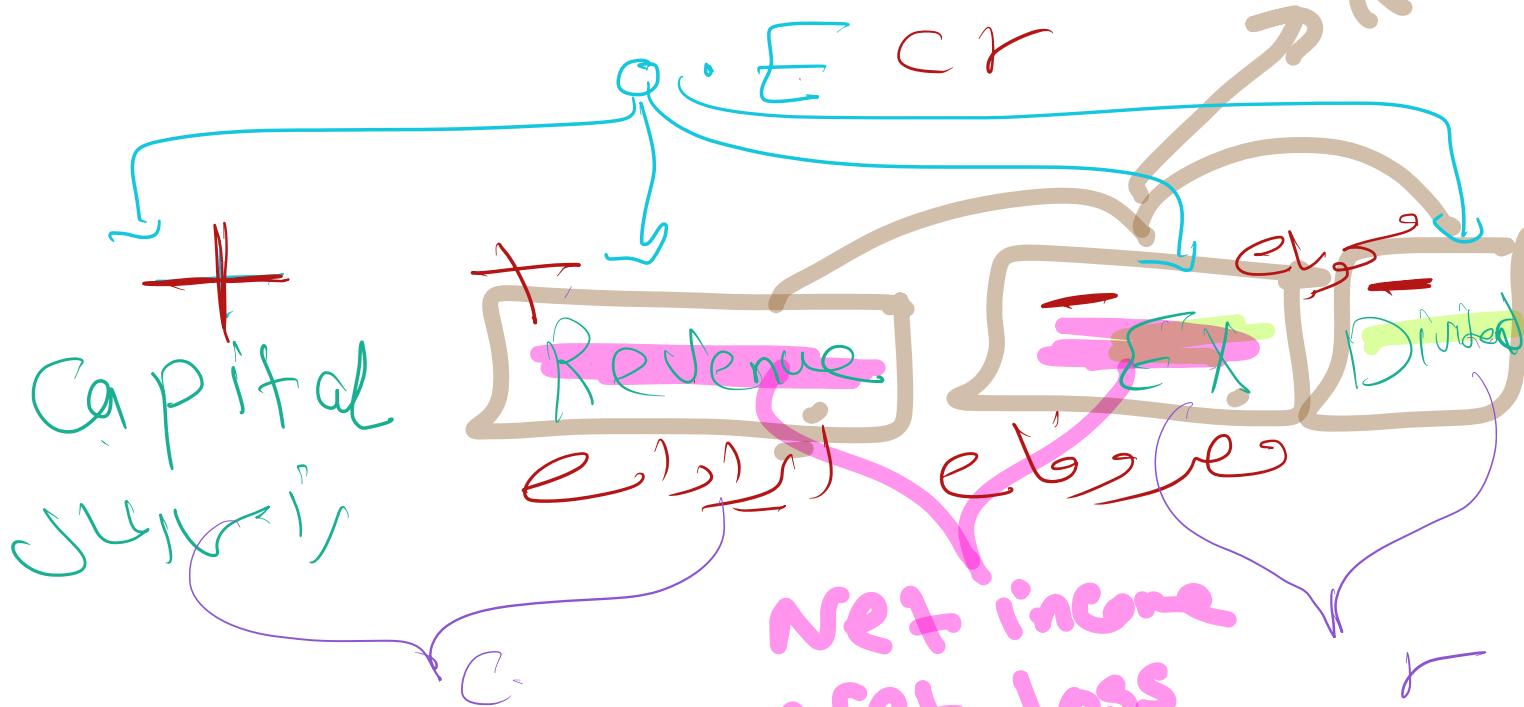
Dr ↑

Cr ↑

Cr ↓

Dr ↓

RE



Net loss

Dr

Asset

Ex

Dividend

Loss

Cr

Capital

Revenue

Credit

R.E at begin ¹¹
Rev 30 - Ex 20 = 10

+ Net income 10

- Dividend (5)

= R.E at end 15

PREVIEW OF CHAPTER 2

THE RECORDING PROCESS		
The Account	Steps in the Recording Process	The Trial Balance
<ul style="list-style-type: none">• Debits and credits• Equity relationships• Summary of debit/credit rules	<ul style="list-style-type: none">• Journal• Ledger• Posting• The recording process illustrated• Summary illustration of journalizing and posting	<ul style="list-style-type: none">• Limitations of a trial balance• Locating errors• Currency signs and underlining

Financial Accounting
IFRS 3rd Edition
Weygandt • Kimmel • Kieso

CHAPTER

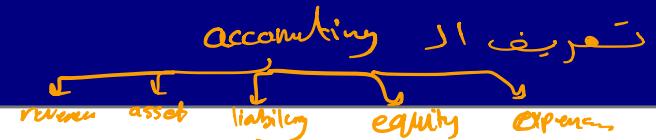
2 | The Recording Process

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Explain what an account is and how it helps in the recording process.
2. Define debits and credits and explain their use in recording business transactions.
3. Identify the basic steps in the recording process.
4. Explain what a journal is and how it helps in the recording process.
5. Explain what a ledger is and how it helps in the recording process.
6. Explain what posting is and how it helps in the recording process.
7. Prepare a trial balance and explain its purposes.

The Account



Learning Objective 1

Explain what an account is and how it helps in the recording process.

- ◆ Record of increases and decreases in a specific asset, liability, stockholders' equity, revenue, or expense item.
- ◆ Debit = "Left"
- ◆ Credit = "Right"

An account can be illustrated in a T-account form.

T الحساب



Debit/Dr.	Credit/Cr.

Debits and Credits

DEBIT AND CREDIT PROCEDURES

Double-entry 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 at least one other account.
- ◆ **DEBITS must equal CREDITS.**

Or
— — —

Cr
— — —

Debits دینار
more سوچ
equal متساوی
credits درجات

Debits and Credits

If the sum of Debit entries are **greater than** the sum of Credit entries, the account will have a debit balance.

	Debit/Dr	Credit/Cr	
Transaction #1	\$10,000	\$3,000	Transaction #2
Transaction #3	8,000		
Balance	\$15,000		

15,000 > 3000

Debits and Credits

If the sum of Credit entries are **greater than** the sum of Debit entries, the account will have a **credit balance**.

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

Debits and Credits

$$\text{Assets} = \text{liabilities} + \text{equity}$$

↓ Dr ↓ Cr

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

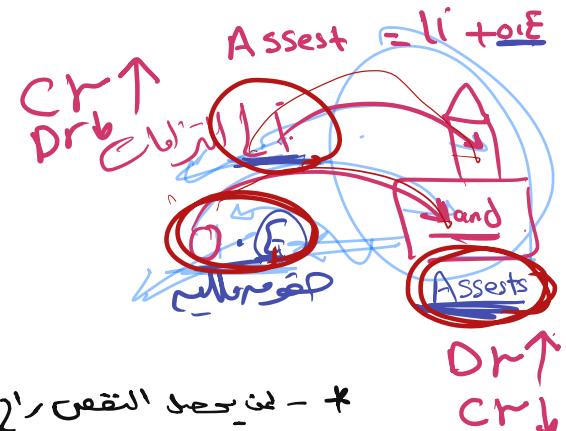
Liabilities	
Debit/Dr	Credit/Cr.
↓	↑
Normal Balance	

- ◆ **Asset** credits. + جاری Debits should exceed credits.
- ◆ **Liabilities – Credits** should exceed debits.
- ◆ **Normal balance** is on the increase side.

الإئتمان: هي بالامثل بالزيادة
في اذ تتفق بفتحه الى اذ credit

اما الالتزامات فهو العكس

* - هنا يحدد التفاصيل في حسابها .



$$\underline{O \cdot E} < \underline{Li}$$

Assest

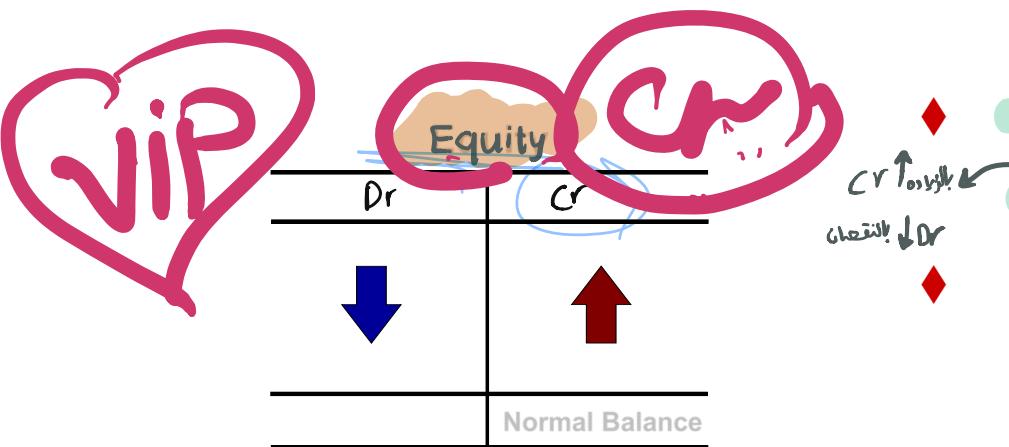
CR مقدار مسحوب
DR مقدار مدفوع

$$\underline{\text{Assest}} = Li + O \cdot E$$

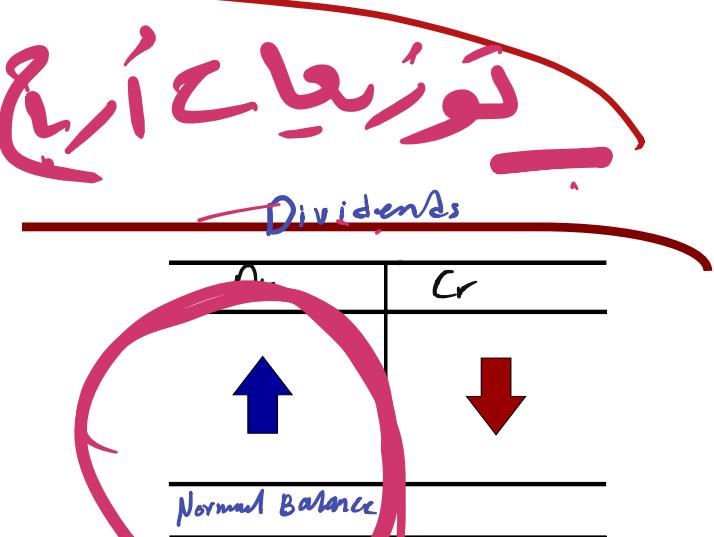
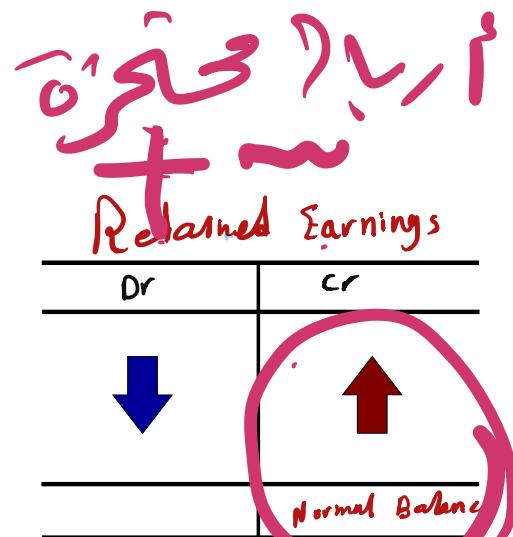
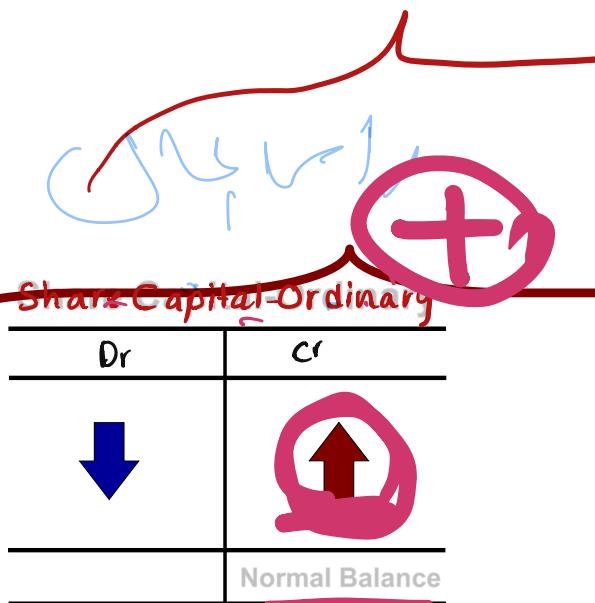
$\uparrow DR$ $\uparrow CR$
 $\downarrow CV$ $\downarrow DR$

$$A = L + E + O - ex$$

Debits and Credits



- Issuance of share capital** and **revenues** increase equity (credit).
Dividends and **expenses** decrease equity (debit).



Debits and Credits

Dr

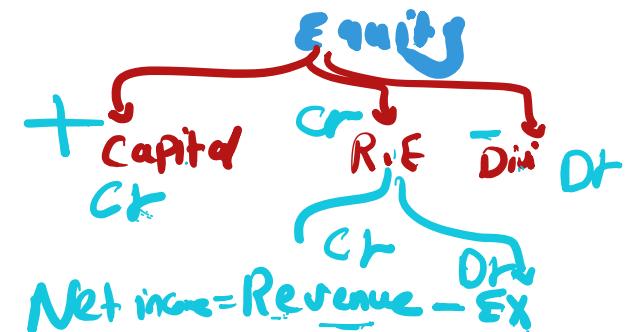
Revenues	
Dr	Cr
↓	↑
Normal Balance	

per 131
Géely

↪ Dr
↪ Cr

Expenses	
Dr	Cr
↑	↓
Normal Balance	

- ♦ The purpose of earning **revenues** is to **benefit** the shareholders.
- ♦ The effect of debits and credits on revenue accounts is the **same as** their effect on equity.
- ♦ **Expenses** have the opposite effect: expenses **decrease** equity.



Debits and Credits

Normal
Balance
Debit

Normal
Balance
Credit

Liabilities

Dr	Cr
----	----



Normal Balance

Assets

Dr	Cr
Normal Balance	

Equity

Dr	Cr
	Normal Balance

Expenses

Dr	Cr
Normal Balance	

Revenues

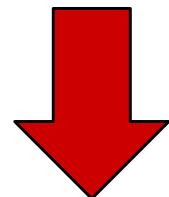
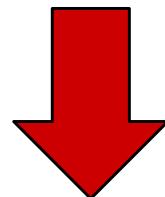
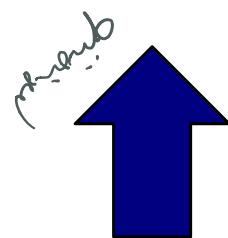
Dr	Cr
	Normal Balance

Summary of Debit/Credit Rules

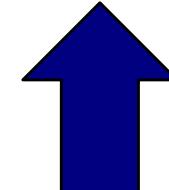
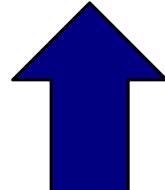
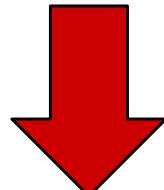
Statement of Financial Position

$$\text{Asset} = \text{Liability} + \text{Equity}$$

Debit

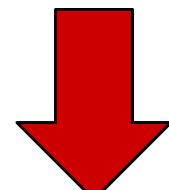
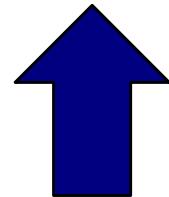
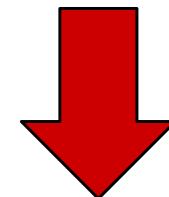


Credit



Income Statement

$$\text{Revenue} - \text{Expense}$$

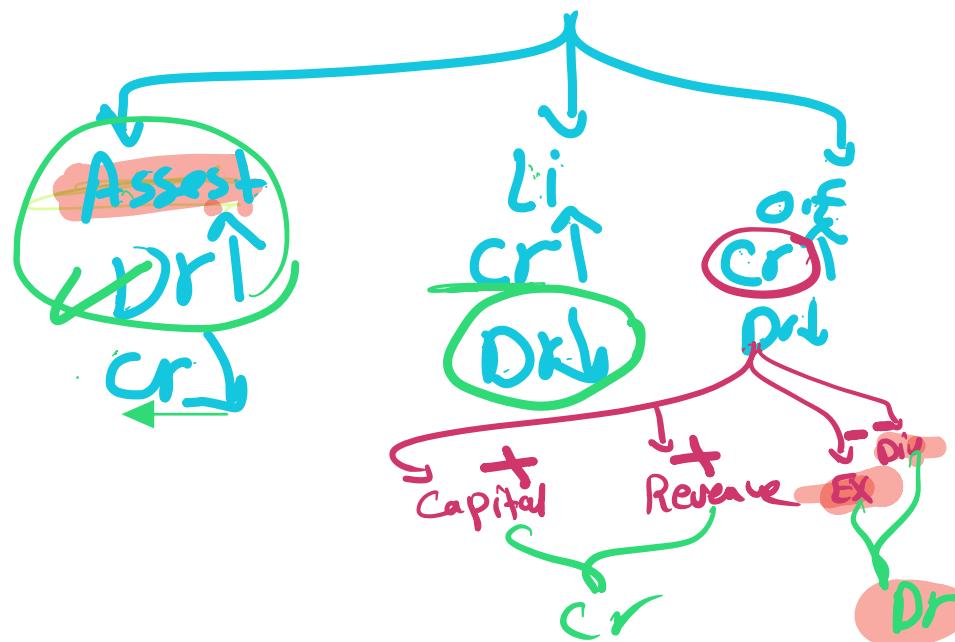


Summary of Debit/Credit Rules

Question

Debits:

- a. increase both assets and liabilities.
- b. decrease both assets and liabilities.
- c. increase assets and decrease liabilities.
- d. decrease assets and increase liabilities.



Summary of Debit/Credit Rules

Question

Accounts that **normally** have debit balances are:

- a. assets, expenses, and revenues.
- b. assets, expenses, and equity.
- c. assets, liabilities, and dividends.
- d. assets, dividends, and expenses.



INVESTOR INSIGHT Keeping Score

The **Brothers Elephants** (TWN) baseball team probably has these major revenue and expense accounts:

Revenues Expenses

Admissions (ticket sales) Players' salaries

Concessions Administrative salaries

Television and radio Travel

Advertising Stadium maintenance

Do you think that the **Manchester United** (GBR) football (soccer) club would be likely to have the same major revenue and expense accounts as Brother Elephants?

Equity Relationships

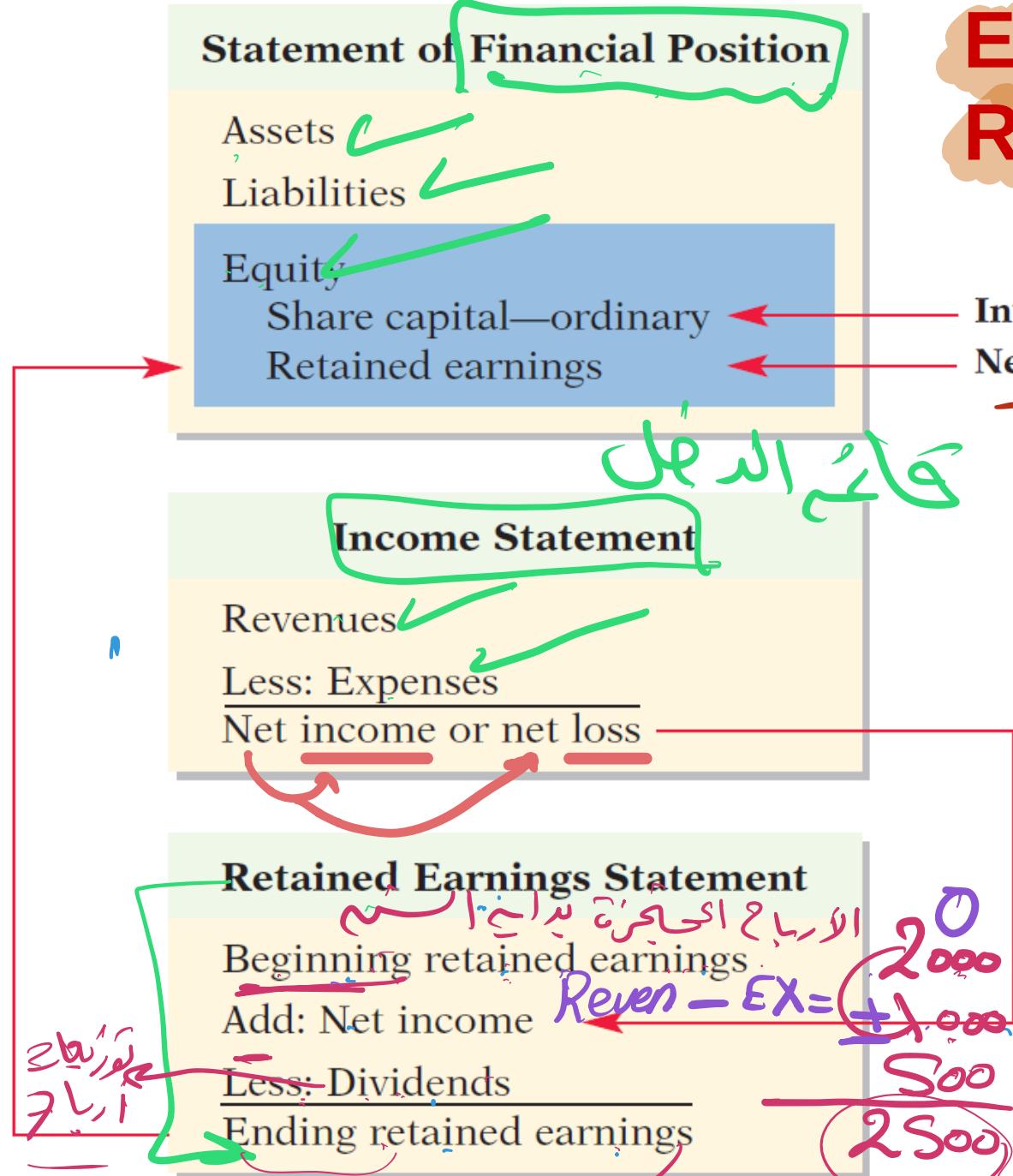


Illustration 2-11
Equity relationships

Summary of Debit/Credit Rules

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

Illustration 2-12
Summary of debit/credit rules

Basic Equation	Assets = Liabilities + Equity												
Expanded Equation	Assets	=	Liabilities	+	Share Capital	+	Retained Earnings	-	Dividends	+	Revenues	-	Expenses
Debit/Credit Effects	Dr. + Cr. -		Dr. - Cr. +		Dr. - Cr. +		Dr. - Cr. +		Dr. + Cr. -		Dr. - Cr. +		Dr. + Cr. -

The equation must be in balance after every transaction.
Total **Debits** must equal total **Credits**.

Kate Browne, president of Hair It Is Company SA, has just rented space in a shopping mall in which she will open and operate a beauty salon. A friend has advised Kate to set up a double-entry set of accounting records in which to record all of her business transactions.

Identify the balance sheet accounts that Hair It Is Company will likely use to record the transactions needed to establish and open the business. Also, indicate whether the normal balance of each account is a debit or a credit.

Assets	Liabilities	Equity
Cash (debit)	Notes Payable (credit)	Share Capital—Ordinary (credit)
Supplies (debit)	Accounts Payable (credit)	
Equipment (debit)		

The Account

Business documents, such as a sales receipt, a check, or a bill, provide evidence of the transaction.

Learning Objective 3
Identify the basic steps in the recording process.

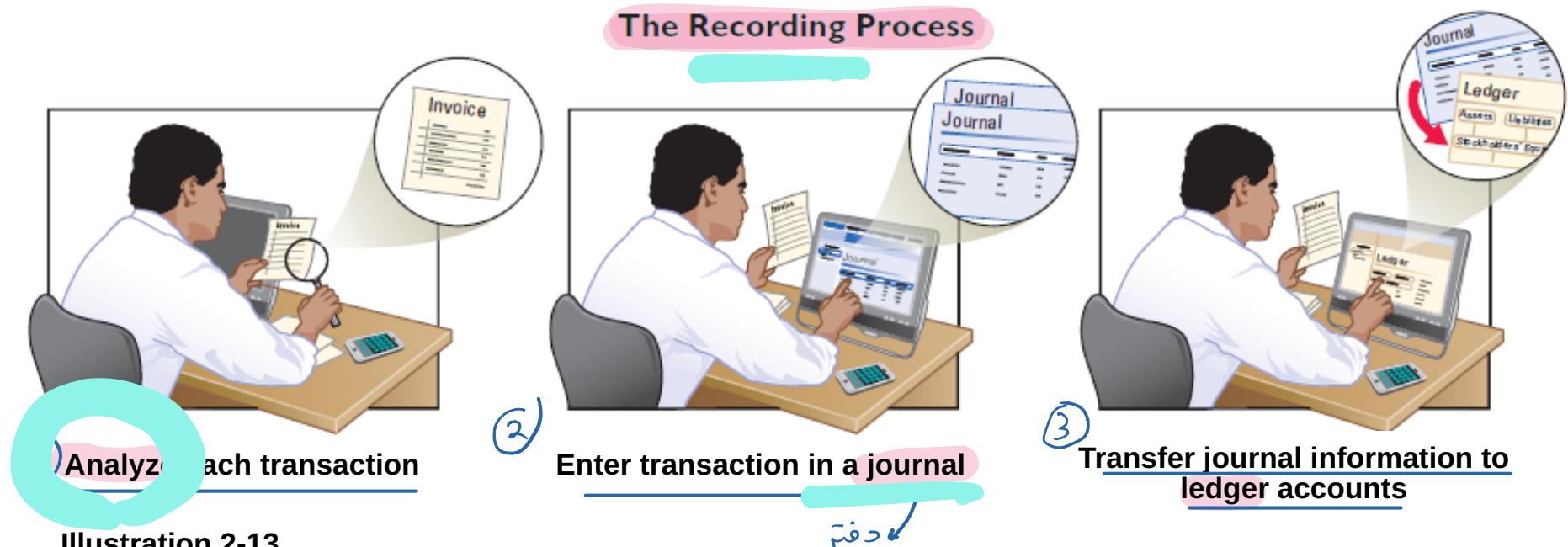


Illustration 2-13
The recording process

Steps in the Recording Process

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.

Learning Objective 4

Explain what a journal is and how it helps in the recording process.

The Journal

Cash *Capital* *cr*

JOURNALIZING - Entering transaction data in the journal.

Illustration: On September 1, shareholders invested €15,000 cash in the corporation in exchange for ordinary shares, and Softbyte purchased computer equipment for €7,000 cash.

Illustration 2-14

GENERAL JOURNAL				
Date	Account Title	Ref.	Debit	Credit
Sept. 1	Cash asset \rightleftharpoons Debit		15,000	
	Share Capital—Ordinary equity \rightleftharpoons Cr			15,000
	Equipment Asset \uparrow		7,000	
	Cash Asset \downarrow			7,000

Invest = De Posit = Transfe
from his Account

	Dr	Cr
Cash	Boos	Boos
Capital		Boos
Equipment	7000	7000
Cash		

The Journal

SIMPLE AND COMPOUND ENTRIES

Illustration: On July 1, Tsai Company purchases a delivery truck costing NT\$420,000. It pays NT\$240,000 cash now and agrees to pay the remaining NT\$180,000 on account.

A J P

Illustration 2-15
Compound journal entry

GENERAL JOURNAL				
Date	Account Title	Ref.	Debit	Credit
July 1	Equipment		420,000	
	Cash		240,000	
	Accounts Payable			180,000

$$\begin{array}{r} 420 - 180 \\ \hline = 240 \end{array}$$

(جاگہ کے لئے)

(جاگہ کے لئے)

Equipment

	Dr	Cr
Cash	420,000	
A/P		24,900
		180,000

Purchase

Pay

Buy

Account

A/P

As president and sole shareholder, Kate Browne engaged in the following activities in establishing her salon, Hair It Is Company SA.

1. Opened a bank account in the name of Hair It Is Company SA and deposited €20,000 of her own money in this account in exchange for ordinary shares.
2. Purchased equipment on account (to be paid in 30 days) for a total cost of €4,800.
3. Interviewed three applicants for the position of beautician.

Prepare the entries to record the transactions.

Cash		20,000	
	Capital		20,000



DO IT!

NO entry

Prepare the entries to record the transactions.

Cr ← Capital ✓ cash → Dr

1. Opened a bank account and deposited €20,000.

Dr = Cr
20,000 20,000
cash share capital

2. Purchased equipment on account (to be paid in 30 days) for a total cost of €4,800.

Equipment 4,800
Accounts Payable 4,800

3. Interviewed three applicants for the position of beautician.

جاءت 3 تطبيقات بحث عن موظف

No entry

LO 4

LO 4

YAZICI ADVERTISING A.S.

Chart of Accounts

مدون
للس

Assets

- 101 Cash ✓
- 112 Accounts Receivable
- 126 Supplies
- 130 Prepaid Insurance
- 157 Equipment
- 158 Accumulated Depreciation—
Equipment

Liabilities

- 200 Notes Payable
- 201 Accounts Payable
- 209 Unearned Service Revenue
- 212 Salaries and Wages Payable
- 230 Interest Payable

→ Loan

→ Bond Sclu



Equity

- 311 Share Capital—Ordinary
- 320 Retained Earnings
- 332 Dividends
- 350 Income Summary

Revenues

- 400 Service Revenue
- Sales fees earn
- Commission Expenses

- 631 Supplies Expense ✓
- 711 Depreciation Expense ✓
- 722 Insurance Expense ✓
- 726 Salaries and Wages Expense
- 729 Rent Expense
- 732 Utilities Expense
- 905 Interest Expense

Cost of goods
sold

Illustration 2-19

Chart of accounts for Yazici Advertising A.S.,

Steps in the Recording Process

The Ledger

- ◆ **General Ledger** contains ~~all the asset, liability, and equity accounts.~~

Learning Objective 5
Explain what a ledger is and how it helps in the recording process.

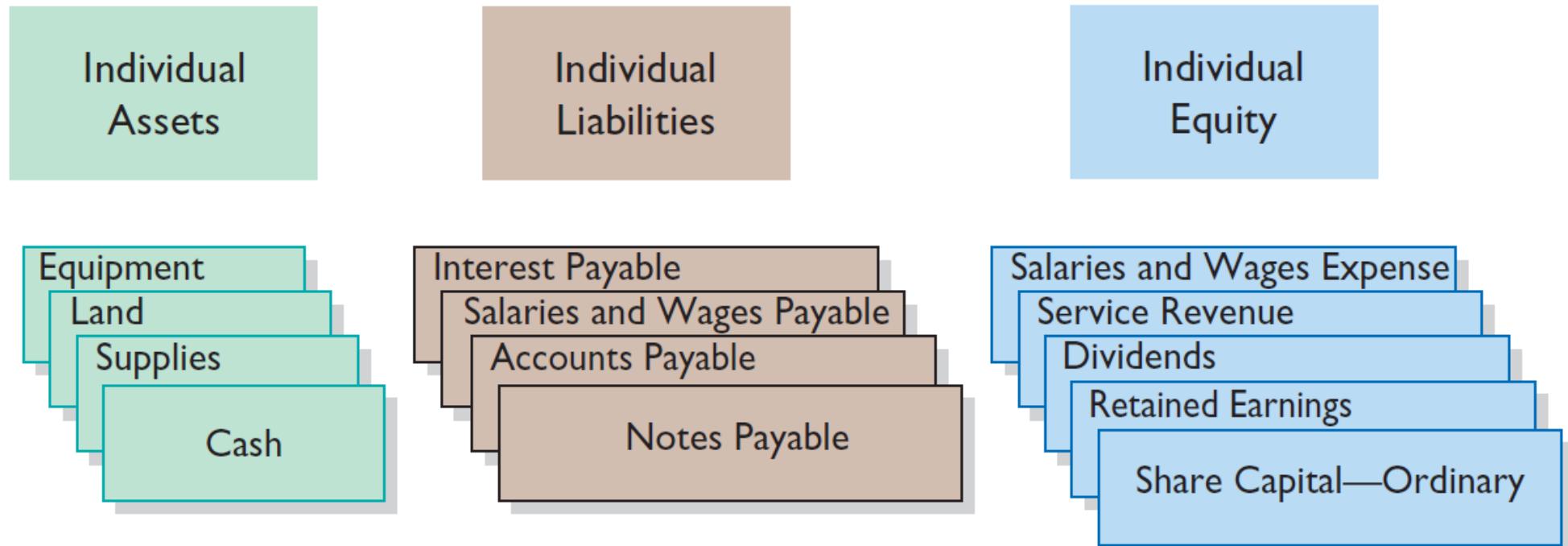


Illustration 2-16
The general ledger

The Ledger

يساعدني الوصول الى
كل حساب بالترتيب

STANDARD FORM OF ACCOUNT

Illustration 2-17
Three-column form
of account

هذا للقىز بغير

		CASH	NO. 101		
Date	Explanation	Ref.	Debit	Credit	Balance
2017					
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

Learning Objective 6
Explain what posting is and how it helps in the recording process.

Transferring journal entries to the ledger accounts.

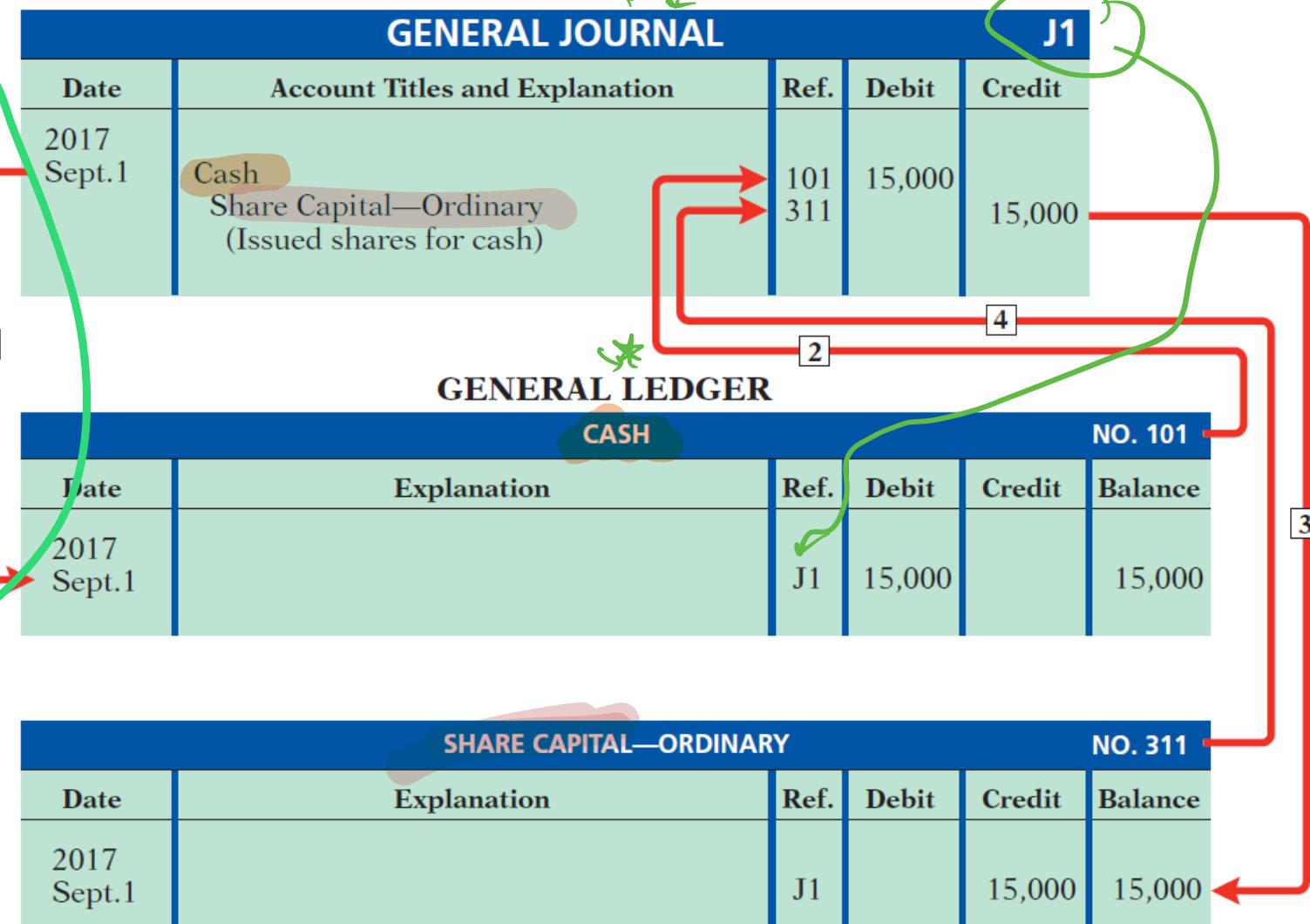


Illustration 2-18
 Posting a journal entry

- Key:**
- Post to debit account—date, journal page number, and amount.
 - Enter debit account number in journal reference column.
 - Post to credit account—date, journal page number, and amount.
 - Enter credit account number in journal reference column.

Posting

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

Cash

Capital

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 2-20
Investment of cash
by shareholders

Transaction

On October 1, C. R. Yazici invests ₺10,000 cash in an advertising company to be known as Yazici Advertising A.Ş.

The asset Cash increases ₺10,000; equity (specifically, Share Capital—Ordinary) increases ₺10,000.

Basic Analysis

Equation Analysis

Debit–Credit Analysis

Journal Entry

Posting

Assets = **Liabilities** + **Equity**

Cash = Share Capital ↑

+10,000 +10,000 Issued Shares

Debits increase assets: debit Cash ₺10,000.
Credits increase equity: credit Share Capital—Ordinary ₺10,000.

Oct. 1 | Cash | Share Capital—Ordinary (Issued shares for cash) | Dr | cr |
101 | 10,000 | 311 | 10,000 |

	Cash	101	
Oct. 1	10,000		

	Share Capital—Ordinary	311
Oct. 1		10,000

Purchase

Pay

on
a count

Cash

AIR

NP

Transaction

Basic Analysis

Equation Analysis

Debit–Credit Analysis

Journal Entry

Posting

On October 1, Yazici Advertising purchases office equipment costing ₺5,000 by signing a 3-month, 12%, ₺5,000 note payable.

The asset Equipment increases ₺5,000; the liability Notes Payable increases ₺5,000.

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
Equipment	=	Notes Payable		
+5,000		+5,000		

Debits increase assets: debit Equipment ₺5,000.
Credits increase liabilities: credit Notes Payable ₺5,000.

Oct. 1	Equipment Asset ↑ Notes Payable Liability ↑ (Issued 3-month, 12% note for office equipment)	Dr 157 200	Cv 5,000
			5,000

Equipment	157
Oct. 1 5,000	

Notes Payable	200
Oct. 1 5,000	

Transaction

Basic Analysis

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

Illustration 2-22
Receipt of cash for future service

Equation Analysis

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

Debit–Credit Analysis

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

Journal Entry

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

Posting

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

Transaction

On October 3, Yazici Advertising pays office rent for October in cash, ₺900.

Basic Analysis

Rent Expense increases ₺900 because the payment pertains only to the current month; the asset Cash decreases ₺900.

Equation Analysis

$$\begin{array}{c} \text{Assets} \\ \hline \text{Cash} \\ \hline -900 \end{array} = \begin{array}{c} \text{Liabilities} \\ + \\ \text{Equity} \\ \hline \text{Expenses} \\ \hline -900 \end{array} \quad \text{Rent Expense}$$

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)	Dr 729 101 900	Cr 900

Posting

Cash	101	Rent Expense	729
Oct. 1 10,000 2 1,200	Oct. 3 900	Oct. 3 900	

Pay Dr
rent

rent EX

Pay chas Dr
Land

Land
Asset

Assst
Pre Paid
advance

ann Mai

Transaction

On October 4, Yazici Advertising pays ₺600 for a one-year insurance policy that will expire next year on September 30.

Basic Analysis

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.

Illustration 2-24
Payment for insurance

Equation Analysis

Assets		=	Liabilities	+	Equity
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	600	Dr	cr
--------	--	-----	-----	----	----

Posting

Dr	Cash	CR	101	Dr	Prepaid Insurance	cr	130
Oct. 1 10,000			101	Oct. 4 600			
2 1,200							

Transaction

On October 5, Yazici Advertising 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.

$$\begin{array}{c} \text{Assets} \\ \hline \text{Supplies} \\ \hline +2,500 \end{array} = \begin{array}{c} \text{Liabilities} \\ \hline \text{Accounts} \\ \text{Payable} \\ \hline +2,500 \end{array} + \begin{array}{c} \text{Equity} \end{array}$$

Equation Analysis

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
--------	---	------------	-------	-------

Posting

Supplies	126
Oct. 5 2,500	

Accounts Payable	201
	Oct. 5 2,500

The Recording Process Illustrated

Event

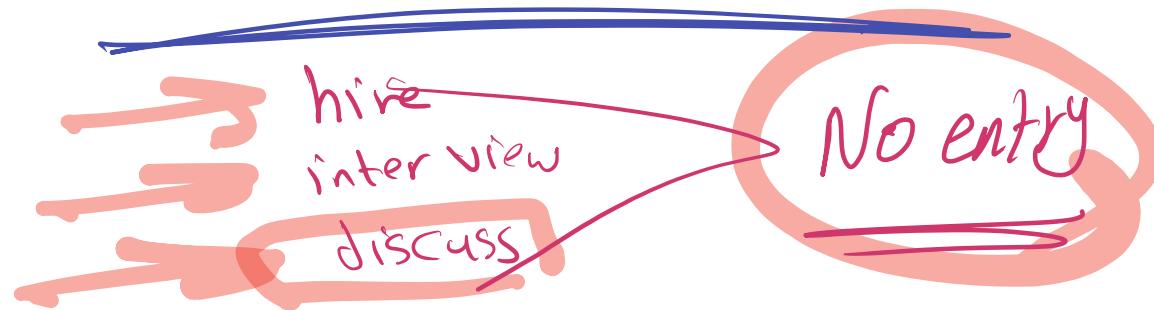
On October 9, Yazici Advertising hires four employees to begin work on October 15. Each employee is to receive a weekly salary of \$500 for a 5-day work week, payable every 2 weeks—first payment made on October 26.

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.)

Illustration 2-26
Hiring of employees

No entry



Transaction

Basic Analysis

On October 20, Yazici Advertising's board of directors declares and pays a ₺500 cash dividend to shareholders.

The Dividends account increases ₺500; the asset Cash decreases ₺500.

$$\begin{array}{c} \text{Assets} \\ \hline \text{Cash} \\ \hline -500 \end{array} = \begin{array}{c} \text{Liabilities} \\ \hline \\ \hline \end{array} + \begin{array}{c} \text{Equity} \\ \hline \text{Dividends} \\ \hline -500 \end{array}$$

Debit–Credit Analysis

Debits increase dividends: debit Dividends ₺500.
Credits decrease assets: credit Cash ₺500.

Journal Entry

Oct. 20	Dividends Cash	332 101	500	500
(Declared and paid a cash dividend)				

Posting

		Cash	101
Oct. 1	10,000		
2	1,200		
		Oct. 3	900
		4	600
		20	500

		Dividends	332
Oct. 20	500		

Transaction

Basic Analysis

On October 26, Yazici Advertising owes employee salaries of ₺4,000 and pays them in cash. (See October 9 event.)

Salaries and Wages Expense increases ₺4,000; the asset Cash decreases ₺4,000.

$$\begin{array}{c} \text{Assets} = \text{Liabilities} + \text{Equity} \\ \hline \text{Cash} = \text{ } \quad \text{Expenses} \\ -4,000 \qquad \qquad \qquad -4,000 \quad \text{Salaries and Wages Expense} \end{array}$$

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
---------	---	------------	-------	-------

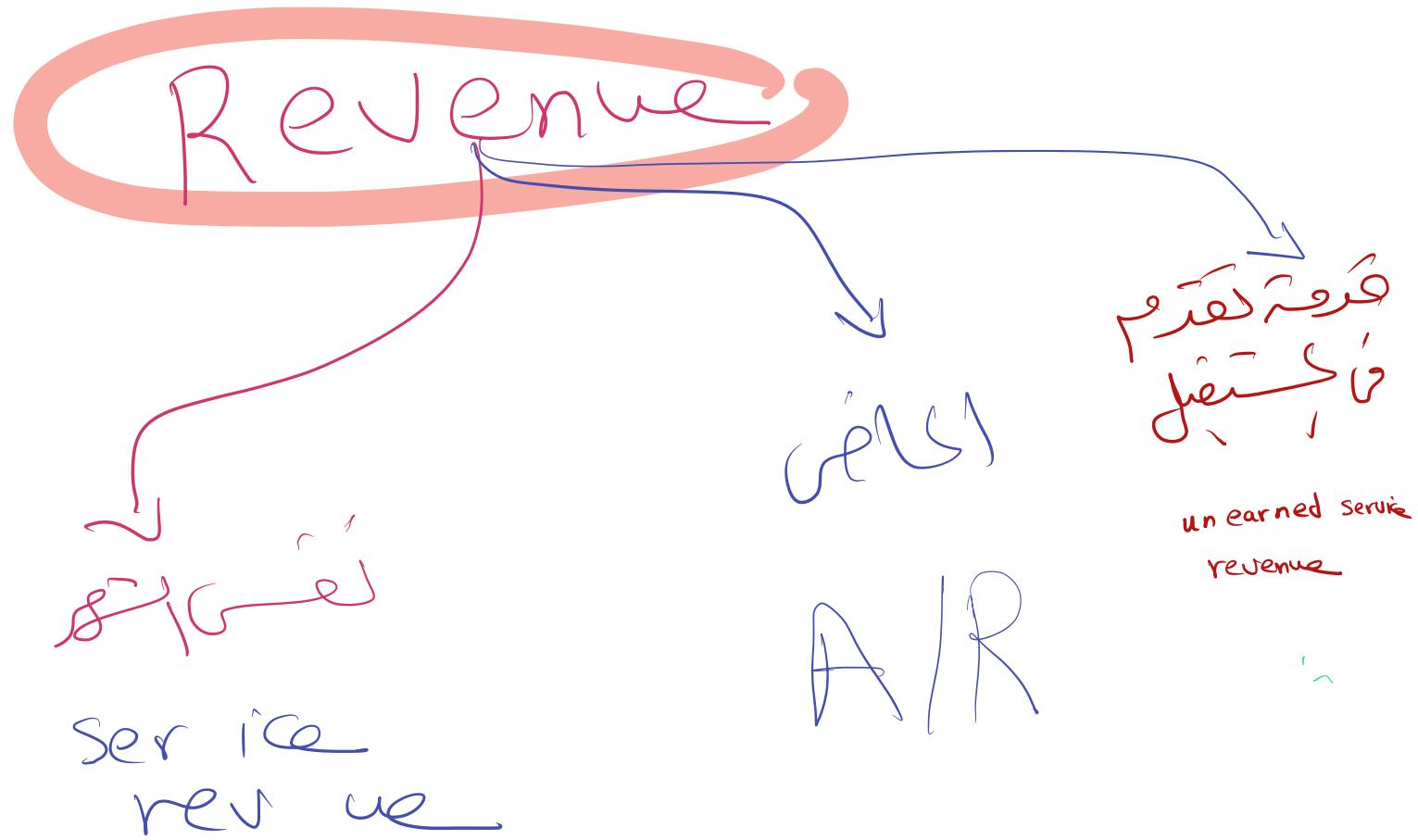
Posting

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

Salaries and Wages Expense		726
Oct. 26	4,000	

Transaction	On October 31, Yazici Advertising 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	$ \begin{array}{c} \text{Assets} = \text{Liabilities} + \text{Equity} \\ \hline \text{Cash} = \text{Revenues} \\ +10,000 \qquad \qquad \qquad +10,000 \text{ Service Revenue} \end{array} $																																				
Debit–Credit Analysis	Debits increase assets: debit Cash ₺10,000. Credits increase revenues: credit Service Revenue ₺10,000.																																				
Journal Entry	<table border="1"> <tr> <td style="text-align: right;">Oct. 31</td> <td>Cash Service Revenue (Received cash for services performed)</td> <td style="text-align: right;">101 400</td> <td style="text-align: right;">10,000</td> <td style="text-align: right;">10,000</td> </tr> </table>	Oct. 31	Cash Service Revenue (Received cash for services performed)	101 400	10,000	10,000																															
Oct. 31	Cash Service Revenue (Received cash for services performed)	101 400	10,000	10,000																																	
Posting	<table border="1"> <thead> <tr> <th colspan="2">Cash</th> <th>101</th> <th colspan="2">Service Revenue</th> <th>400</th> </tr> </thead> <tbody> <tr> <td>Oct. 1</td> <td>10,000</td> <td></td> <td>Oct. 3</td> <td>900</td> <td></td> </tr> <tr> <td>2</td> <td>1,200</td> <td></td> <td>4</td> <td>600</td> <td></td> </tr> <tr> <td>31</td> <td>10,000</td> <td></td> <td>20</td> <td>500</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>26</td> <td>4,000</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td>Oct. 31 10,000</td> </tr> </tbody> </table>	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
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																																

to give



Ex- Paid in Capital

The Second Question:

On Jan 1, 2013, Sara Haword established a shipping service company. During the month, Sara completed the following transactions related to the business:

- Jan 1, Sara transferred cash from a personal bank account to an account to be used for the business, \$20,000.
- Jan 4, Paid the building rent, \$1,500.
- Jan 13, Purchased equipment on account, \$7,200.
- Jan 14, Purchased supplies for cash, \$1,200.
- Jan 27, Paid utilities expense, \$300.
- Jan 30, Recorded fees earned \$5,000 on account for services provided.
- Jan 29, Received cash from customers on account, \$600.
- Jan 31, Withdraw cash for personal use, \$2,000.

Instructions: Journalize each transaction for Jan. For personal use

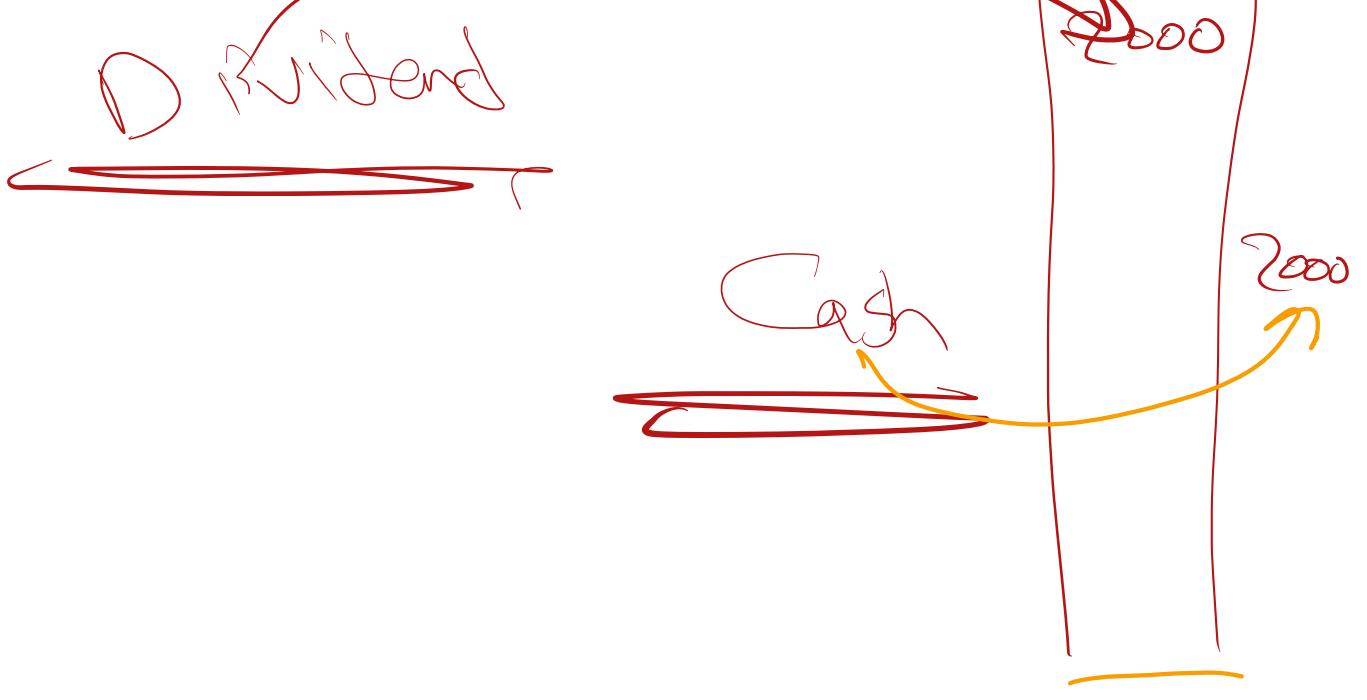
1. Journalize each transaction for Jan:

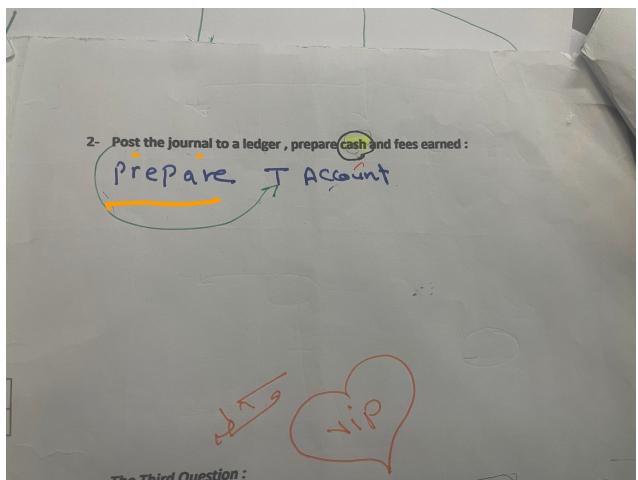
Cash Journal

Drawing

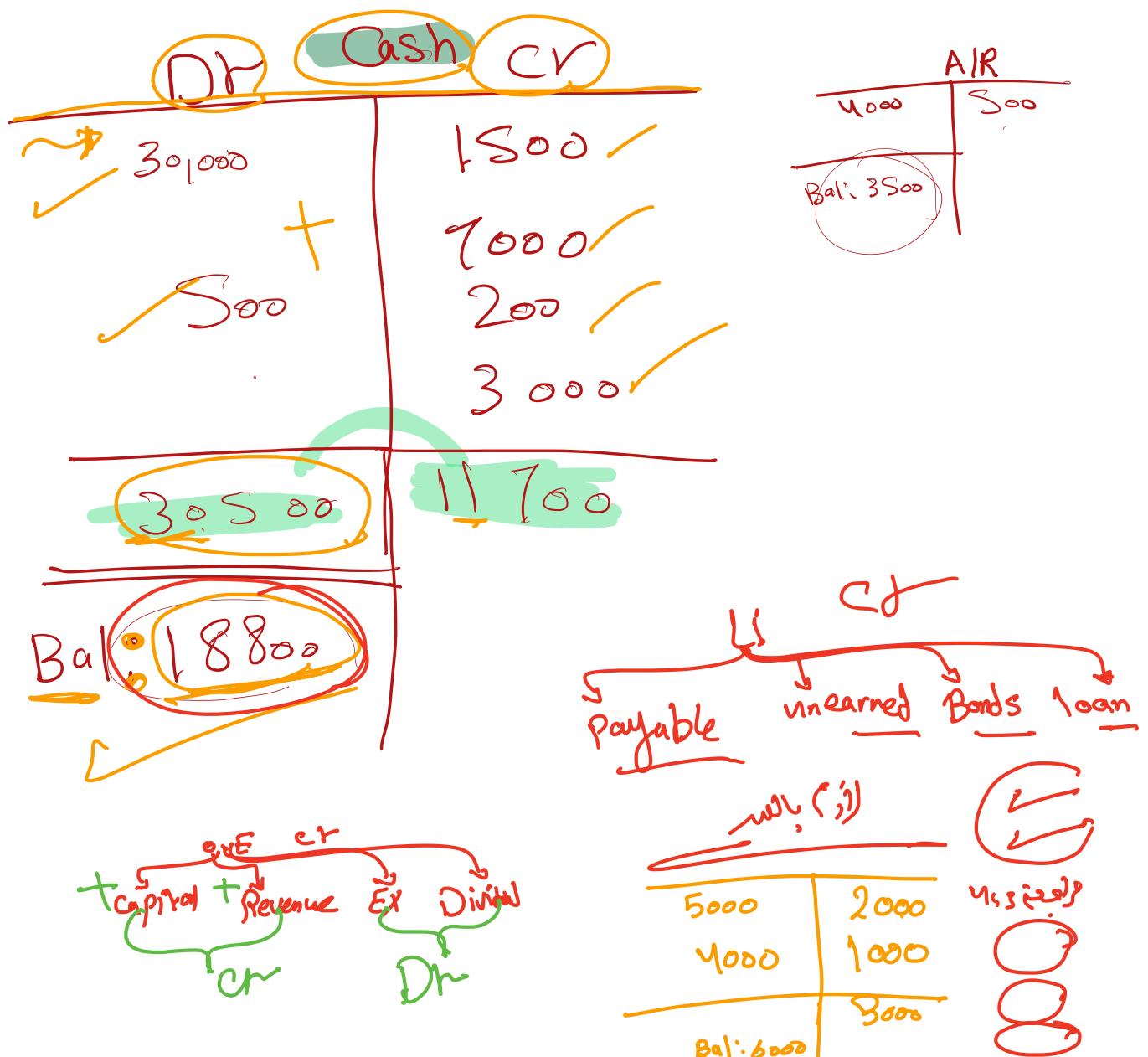
intentionally omitted.

DR		CR
Cash ✓		20,000
	Capital ✓	20000
rent EX		1500
	Cash	1500
Equipment		7000
AIP ✓		7000
Supplies		1200
	Cash	(1200)
Utilities EX		300
	Cash	300
AIR		5000
	Cash	5000
	Service revenue	3000
Cash		6800
AIR		6800





Dr	Capital Cr
	30,000
	Bal: 30,000



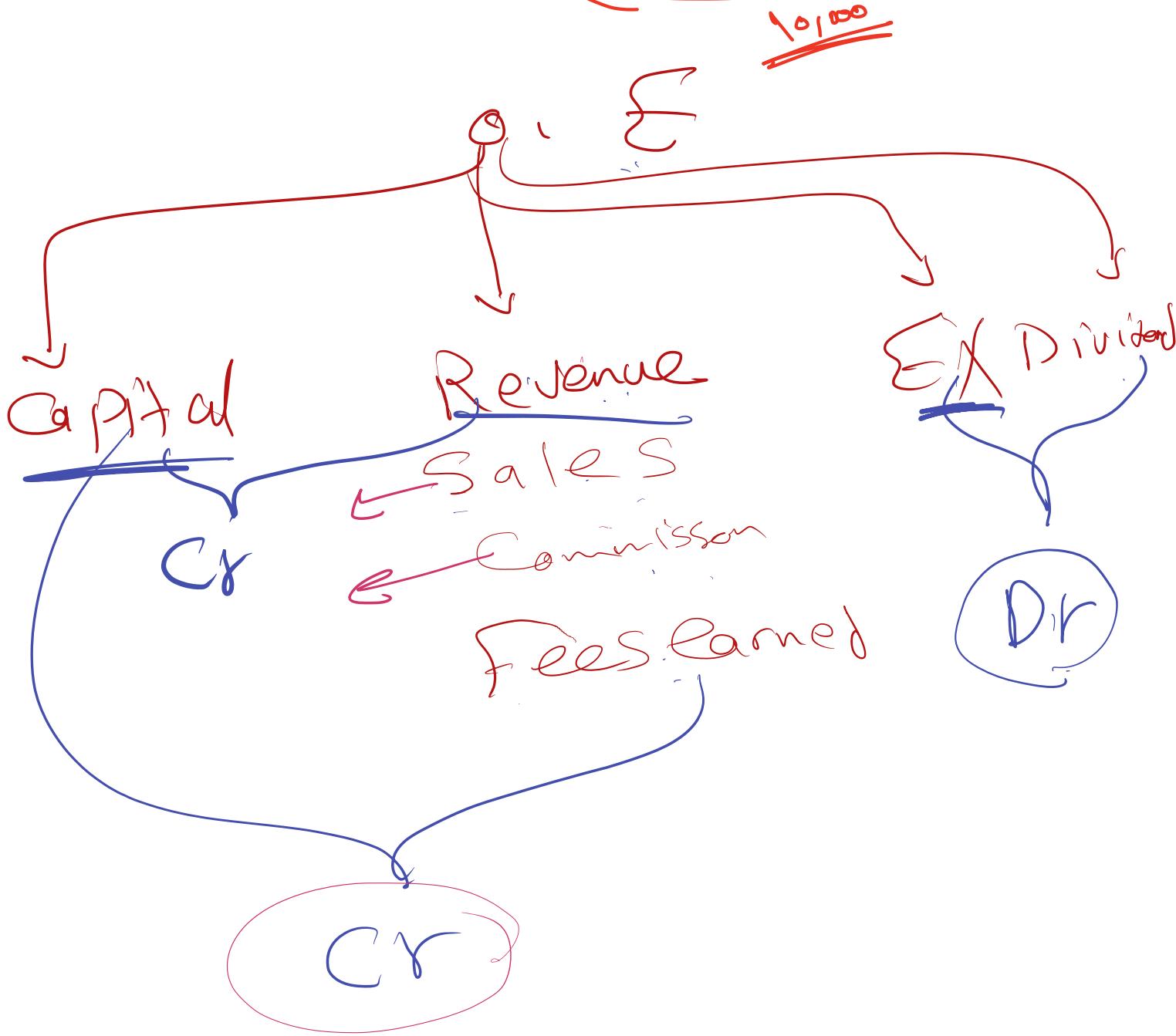
The Third Question:

The accounts in the ledger of Southwest Co. as of December 31, 2013, are listed many accounts. All accounts have normal balances. The balance of the cash account has been intentionally omitted.

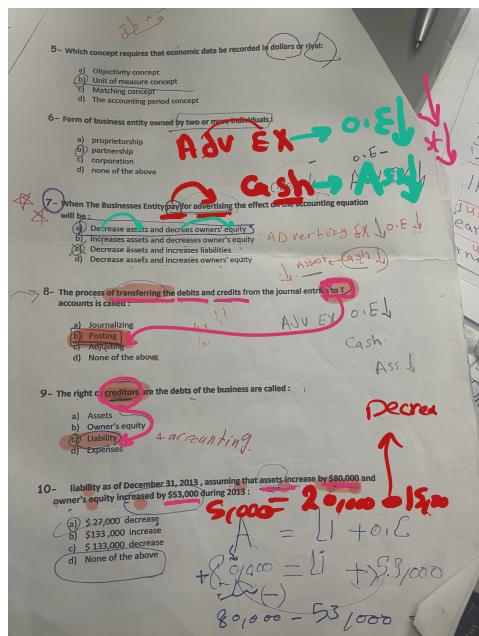
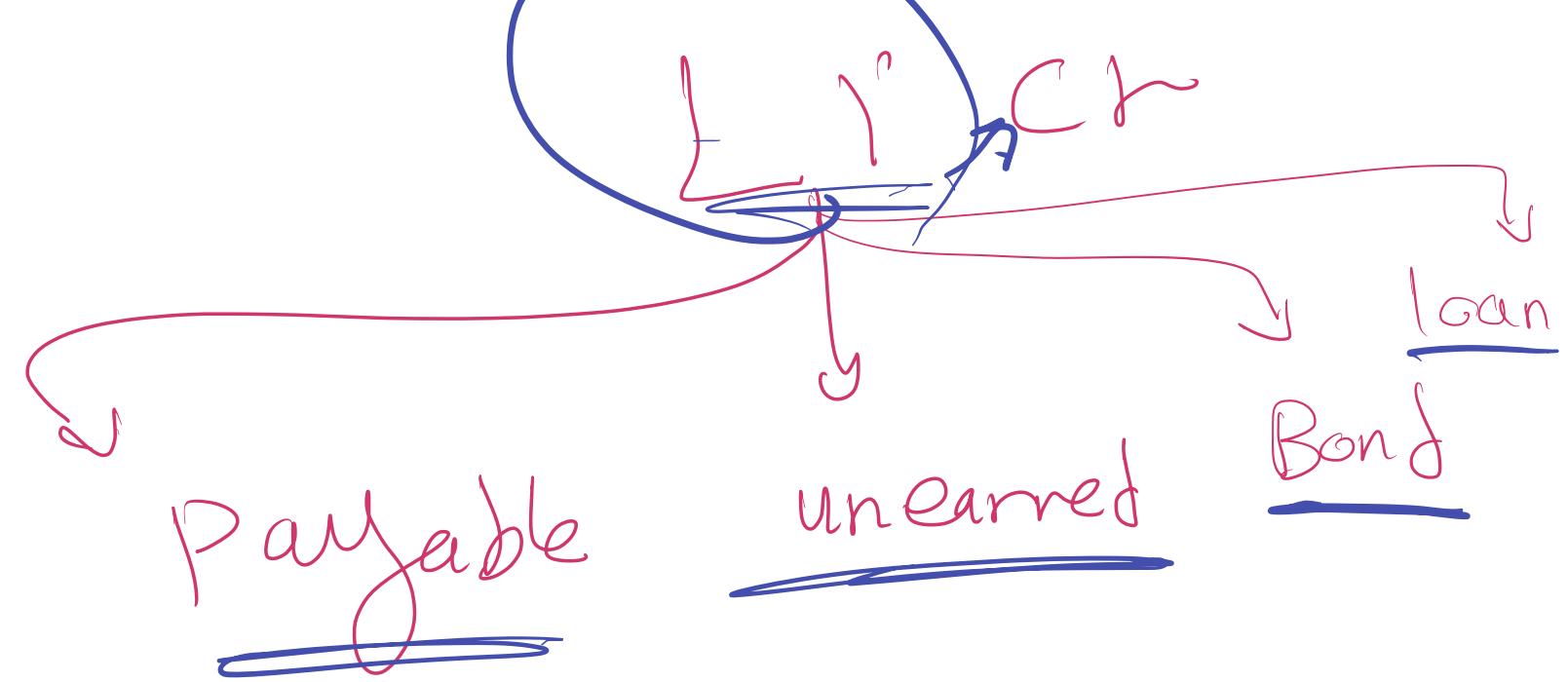
Cash	\$???
Account receivable	\$18,000
Wages expenses	\$25,000
Capital	\$30,000
Notes payable	\$5,000
Furniture	\$5,000
Unearned rent	\$13,000
Sales commission	\$10,000
Instructions:	unadjusted trial balance
	Prepare an unadjusted trial balance, and inserting the missing figure for Cash.

The accounts in the ledger of Southwest Co. as of December 31, 2013, are listed many accounts. All accounts have normal balances. The balance of the cash account has been intentionally omitted.

Cash	\$10,000
AIR	\$18,000
Furn	\$5,000
N.J.P.	\$13,000
Unearned rent	\$10,000
Capital	\$30,000
Sales	\$25,000
	\$10,000
Instructions:	unadjusted trial balance
	Prepare an unadjusted trial balance, and inserting the missing figure for Cash.



	Southwest	Trial balance	Dec 31, 2013
	Debit	Credit	
Cash	Y 25,000	10,000	
Account Receivable	18,000	5,000	
Furniture		Y 5,000	
Note Payable		13,000	
Unearned Rent		30,000	
Capital		10,000	
Sales Commission	25,000		
Wages EX			
	Y 58,000	Y 58,000	



Purch Land Cas

Land ↑ Assesl
Cash ↓ Assesl ↓

$$A = L + E$$

$$+ 20,000 - 50,000$$

$$= -30,000$$

* The First Question
Choose the correct answer, fill in the following table :

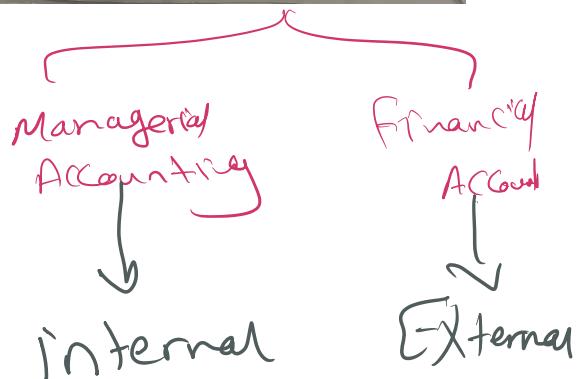
1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

1- The difference between the amount received from customers for goods or services and the amount paid for these goods or services is :
 a) Business *(Business)*
 b) Accounting *(Business)*
 c) Profit *Earnings*
 d) None of the above *Profit*

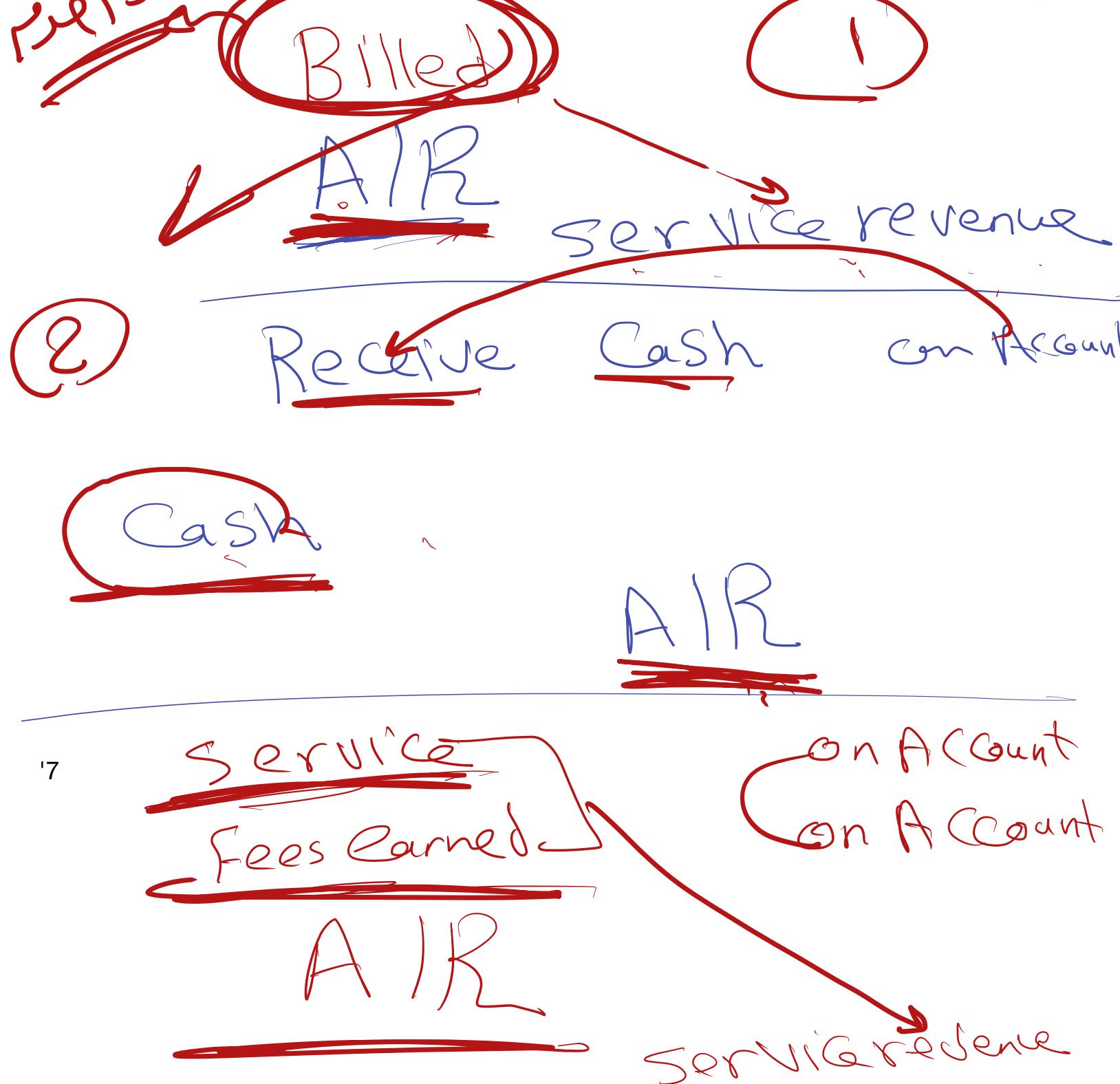
2- Which of the following is the Accounting Equation :
 a) Assets + Liabilities = Owner's Equity *A = L + O.E.*
 b) Assets + Owner's Equity = Liabilities *A + O.E. = L*
 c) Assets = Liabilities - Owner's Equity *A = L - O.E.*
 d) None of the above *A = L + O.E.*

3- The rent revenue is 6,000 total expenses is 2000 the net income is :
 a) 6000
 b) 4000 *4000*
 c) 8000
 d) 2000 *2000*

4- The area of accounting that provides internal users with information is :
 a) Managerial accounting *Managerial accounting*
 b) Financial accounting
 c) Advance accounting
 d) None of the above



جودة



>

DO IT!

Como Company SpA recorded the following transactions in a general journal during the month of March. Post these entries to the Cash account.

Mar.	4	Cash	2,280
		Service Revenue	
		Bal.: 2280	

Cash	
Dr	Cr
2,280	2280
400	400
	92

15 Salaries and Wages Expense

19 Utilities Expense 92

Bal.: 1788

Cash	92	Cash
3/1	600	

2) post journal entries

GENERAL JOURNAL

PAGE J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2017 Oct. 1	Cash Share Capital—Ordinary (Issued shares for cash)	101 311	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
4	Prepaid Insurance Cash (Paid one-year policy; effective date October 1)	130 101	600	600

GENERAL JOURNAL

PAGE J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
5	Supplies Accounts Payable (Purchased supplies on account from Aero Supply)	126 201	2,500	2,500
20	Dividends Cash (Declared and paid a cash dividend)	332 101	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

Illustration 2-30
General journal entries

GENERAL LEDGER

		Cash		No. 101	
Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 1		J1	10,000		10,000
2		J1	1,200		11,200
3		J1		900	10,300
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	
Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 5		J1	2,500		2,500

		Prepaid Insurance		No. 130	
Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 4		J1	600		600

		Equipment		No. 157	
Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 1		J1	5,000		5,000

		Notes Payable		No. 200	
Date	Explanation	Ref.	Debit	Credit	Balance
2017 Oct. 1		J1		5,000	5,000

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

2017 Oct. 5		J1		2,500	2,500
----------------	--	----	--	-------	--------------

		Unearned Service Revenue		No. 209	
Date	Explanation	Ref.	Debit	Credit	Balance

2017 Oct. 2		J1		1,200	1,200
----------------	--	----	--	-------	--------------

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

2017 Oct. 1		J1		10,000	10,000
----------------	--	----	--	--------	---------------

		Dividends		No. 332	
Date	Explanation	Ref.	Debit	Credit	Balance

2017 Oct. 20		J1	500		500
-----------------	--	----	-----	--	------------

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

2017 Oct. 31		J1		10,000	10,000
-----------------	--	----	--	--------	---------------

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

2017 Oct. 26		J1	4,000		4,000
-----------------	--	----	-------	--	--------------

		Rent Expense		No. 729	
Date	Explanation	Ref.	Debit	Credit	Balance

2017 Oct. 3		J1	900		900
----------------	--	----	-----	--	------------

Illustration 2-31
General ledger

The Trial Balance

A trial balance

- ◆ is a list of accounts and their balances at a given time.
- ◆ proves the mathematical equality of debits and credits after posting.

Learning Objective 7
Prepare a trial balance and explain its purposes.

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.

Trial Balance

Illustration 2-32
A trial balance

YAZICI ADVERTISING A.Ş.
Trial Balance
October 31, 2017

Debit	Credit
₺ 15,200	₺ 5,000
2,500	2,500
600	1,200
5,000	10,000
500	10,000
4,000	
900	
₺28,700	₺28,700

Assets

- Cash
- Supplies
- Prepaid Insurance
- Equipment
- Notes Payable
- Accounts Payable
- Unearned Service Revenue
- Share Capital—Ordinary
- Dividends
- Service Revenue
- Salaries and Wages Expense
- Rent Expense

1
2
3
4

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 or posting.
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.



Currency Signs and Underlining

Currency 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.

INVESTOR INSIGHT

Why Accuracy Matters

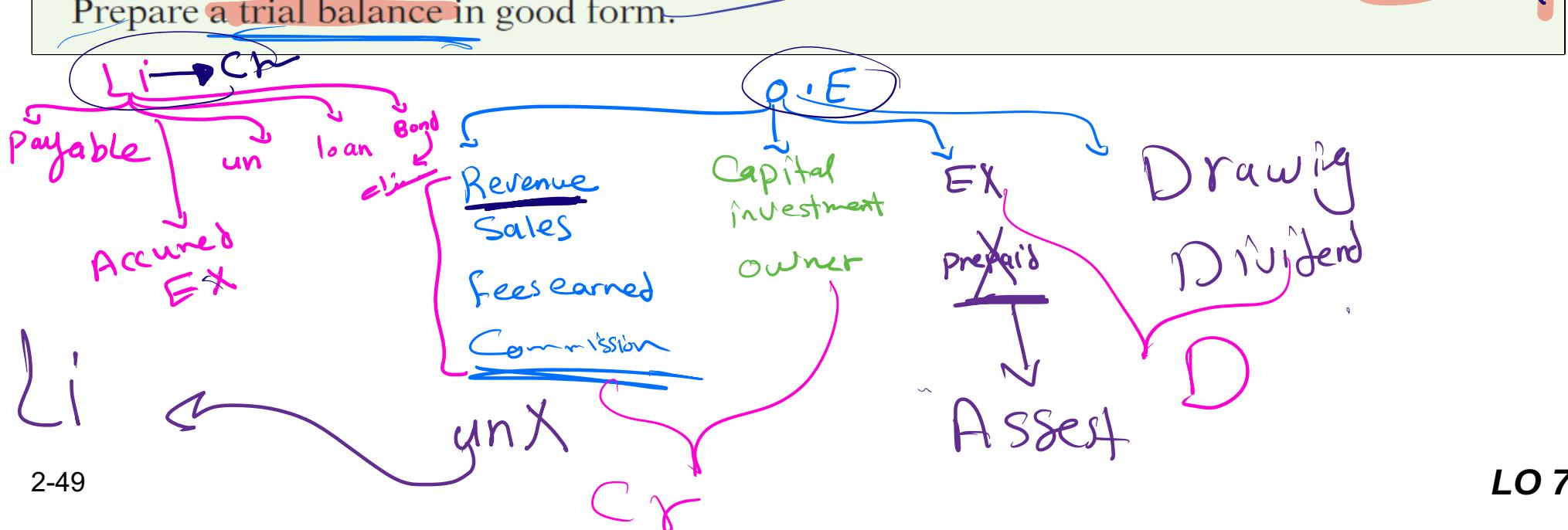
Recently, the German Finance minister, Wolfgang Schäuble, said that “statistical and communication problems” were to blame for a €55.5 billion error in the accounts of nationalized property lender **Hypo Real Estate Holding** (DEU). Mr. Schäuble referred to the error as “an annoying mistake.” This seems to be a considerable understatement considering that the error represented 2.6% of the German gross domestic product. Since the bank had been previously taken over by the German government, the error had resulted in an overstatement of the federal debt of €55.5 billion.)

How could this error have occurred?

The following accounts come from the ledger of SnowGo Company Ltd. at December 31, 2017 (Japanese yen in thousands).

157	Equipment	<u>A</u>	¥88,000	<u>E</u>	311	Share Capital—Ordinary	<u>O</u>	¥20,000
332	Dividends	<u>O</u>	8,000	<u>E</u>	212	Salaries and Wages Payable	<u>L</u>	2,000
201	Accounts Payable	<u>L</u>	22,000		200	Notes Payable	<u>L</u>	19,000
726	Salaries and Wages Expense	<u>O</u>	42,000	<u>E</u>	732	Utilities Expense	<u>O</u>	3,000
112	Accounts Receivable	<u>A</u>	4,000	<u>S</u>	130	Prepaid Insurance	<u>O</u>	6,000
400	Service Revenue	<u>O</u>	95,000	<u>E</u>	101	Cash	<u>A</u>	7,000

Prepare a trial balance in good form.



W.M. SNOWGO COMPANY LTD.

W.M. Trial Balance

W.M. December 31, 2017

W.M. (in thousands)

	<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
Share Capital—Ordinary		20,000
Dividends <i>(S)</i>	8,000	95,000
Service Revenue	3,000	
Utilities Expense	42,000	
Salaries and Wages Expense	<u>¥158,000</u>	<u>¥158,000</u>

LO 7

CHAPTER 2

The Recording Process

EXERCISE 2-4

- Oct. 1 Debits increase assets: debit Cash ¥200,000.
Credits increase equity: credit Share Capital—Ordinary ¥200,000.
- 2 No transaction.
- 3 Debits increase assets: debit Equipment ¥19,000.
Credits increase liabilities: credit Accounts Payable ¥19,000.
- Oct. 6 Debits increase assets: debit Accounts Receivable ¥32,000.
Credits increase revenues: credit Service Revenue ¥32,000.
- 27 Debits decrease liabilities: debit Accounts Payable ¥8,500.
Credits decrease assets: credit Cash ¥8,500.
- 30 Debits increase expenses: debit Salaries and Wages Expense ¥25,000.
Credits decrease assets: credit Cash ¥25,000.

EXERCISE 2-5

General Journal

Date	Account Titles	Ref.	Debit	Credit
Oct. 1	Cash.....		200,000	
	Share Capital—Ordinary.....			200,000
2	No entry.			
3	Equipment		19,000	
	Accounts Payable			19,000
6	Accounts Receivable		32,000	
	Service Revenue.....			32,000
27	Accounts Payable		8,500	
	Cash			8,500
30	Salaries and Wages Expense		25,000	
	Cash			25,000

PROBLEM 2-2A

(a)

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2017				
May 1	Cash 101 20,000			
	Share Capital—Ordinary 311 20,000			
	(Issued shares for cash)			
2	No entry—not a transaction.			
3	Supplies 126 1,500			
	Accounts Payable 201 1,500			
	(Purchased supplies on account)			
7	Rent Expense 729 900			
	Cash 101 900			
	(Paid office rent)			
11	Accounts Receivable 112 2,800			
	Service Revenue 400 2,800			
	(Billed client for services performed)			
12	Cash 101 3,500			
	Unearned Service Revenue 209 3,500			
	(Received cash for future services)			
17	Cash 101 1,200			
	Service Revenue 400 1,200			
	(Received cash for services performed)			
31	Salaries and Wages Expense 726 2,000			
	Cash 101 2,000			
	(Paid salaries)			

PROBLEM 2-2A (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 31	Accounts Payable (€1,500 X 40%).....	201	600	
	Cash (Paid creditor on account)	101		600

(b)

Cash	No. 101
------	---------

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
May 1		J1	20,000		20,000
7		J1		900	19,100
12		J1	3,500		22,600
17		J1	1,200		23,800
31		J1		2,000	21,800
31		J1		600	21,200

Accounts Receivable	No. 112
---------------------	---------

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
May 11		J1	2,800		2,800

Supplies	No. 126
----------	---------

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
May 3		J1	1,500		1,500

Accounts Payable	No. 201
------------------	---------

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
May 3		J1		1,500	
31		J1	600		900

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

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
May 12		J1		3,500	3,500

PROBLEM 2-2A (Continued)

Share Capital—Ordinary					No. 311
Date	Explanation	Ref.	Debit	Credit	Balance
2017					
May 1		J1		20,000	20,000
Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
2017					
May 11		J1		2,800	2,800
17		J1		1,200	4,000
Salaries and Wages Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
2017					
May 31		J1	2,000		2,000
Rent Expense					No. 729
Date	Explanation	Ref.	Debit	Credit	Balance
2017					
May 7		J1	900		900

(c) **LENA FOHN AG**
Trial Balance
May 31, 2017

	<u>Debit</u>	<u>Credit</u>
Cash	€21,200	
Accounts Receivable	2,800	
Supplies	1,500	
Accounts Payable		€ 900
Unearned Service Revenue		3,500
Share Capital—Ordinary		20,000
Service Revenue		4,000
Salaries and Wages Expense	2,000	
Rent Expense	900	
	<u>€28,400</u>	<u>€28,400</u>