FUNDAMENTALS OF ACCOUNTING

Ishmael Y. Reyes

Aldon M. Francia

Bachelor of Science in Tourism Management
College of Entrepreneurship, Management and Accountancy

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Course Code: **ACCTG 1**

Course Description: This is an introductory course in accounting, business and management data analysis that will develop student's appreciation of accounting as a language of business and an understanding of basic accounting concept and principles that will help them analyze business transactions.

Course Intended Learning Outcomes (CILO):

At the end of the course, students should be able to:

1. define accounting and identify its importance in the decision-making function in the business;
2. apply the fundamental concepts and principles, particularly the elements of accounting, the rules of debits and credits and the double-entry system, in recording transactions of service oriented and merchandising businesses;
3. analyze and prepare entries in the general journal and in the special journals, as well as adjusting entries and closing entries, post theses entries to the general ledger, trial balance and worksheet; and
4. prepare statement of financial position, statement of changes in equity, income statement and cash flow statements.

Course Requirements:

- **Assessment Tasks - 60%**
- **Major Exams - 40%**

Periodic Grade 100%

PRELIM GRADE : 60% (Activity 1-4) + 40% (Prelim exam)
MIDTERM GRADE : 30% (Prelim Grade) + 70 % [60% (Activity 5-7) + 40% (Midterm exam)]
FINAL GRADE : 30% (Midterm Grade) + 70 % [60% (Activity 8-10) + 40% (Final exam)]

MODULE 1
ACCOUNTING INTRODUCTION

Introduction

Accounting is a hard but an exciting subject. This course will help us to deepen and sharpen our analysing skills. This will also guide us how to compute the costs of a certain product or activity and the income as well.

The basic accounting concepts, principles and terminologies are the main focus in this module. The basic accounting equation will also be introduced herein.

Learning Outcomes

After completing the module, the student should be able to:

1. Define the meaning and roles of accounting in business;
2. distinguish the different activities of business organizations;
3. explain the fundamental concepts and principles of accounting;
4. define the financial statements elements; and
5. manipulate the basic accounting equation.

Lesson 1. Basic Accounting Terms and Concepts (Ballada, 2019)

Definitions of Accounting

Accounting has very broad definitions. These definitions are set by various bodies included in the book entitled Basic Financial Accounting and Reporting, to wit:

According to the definitions set by the Accounting Standards Council (ASC), “Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions”.

According to Financial Accounting Standards Board, “Accounting is an information system that measures, processes and communicates financial information about an economic system”.

Based from American Accounting Association, “Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information”.

According to American Institute of Certified Public Accountants, “Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof”.

From these definitions, we can see that accounting is a systematic approach in recording business transactions that is used in making economic decisions. Therefore, we have to really analyze every transaction involved in the daily operation of the business.

Types of Businesses

Although the fundamental business model does not vary, there are countless ways to apply it to the services and goods that comprises the business industry.

1. Services - sells people’s time (ex. software development, accounting, legal services)
2. Trader - buys and sells products (ex. wholesale, retail)

3. Manufacturer - design products, assembling finished products and aggregating components (ex. construction, media, vehicle assembly, pharmaceuticals, electricity, engineering, water, chemicals, and food and drinks)
4. Raw Material - extracts or grows raw materials (ex. oil, mining and farming)
5. Infrastructure – selling of infrastructure utilization (ex. transport, property management, hotels, and telecoms)
6. Financial - receives deposits, lends and money investment (ex. bank and house investment)
7. Insurance - pools the premiums of many individuals to meet the claims of few people (ex. insurance)

Forms of Business Organization

A business generally assumes one of the three forms of business organization:

1. Sole Proprietorship - this business organization has one owner called the sole proprietor and who is the manager also.
2. Partnership - it is an undertaking owned and operated by two or more individuals who are required to contribute capital, industry or property to a common fund in order to divide the income among themselves.
3. Corporation - A corporation is an organization owned by its shareholders. It is referred to as an artificial being established by statute, possessing the rights of succession, property and attributes specifically authorized by law to exist.

Fundamental Concepts

1. Entity Concept - An agency or part of an entity is distinct from other organizations, individuals and groups
2. Periodicity Concept – equal reportable time periods
3. Stable Monetary Concept - At any time every peso has the same purchasing power
4. Going Concern - Financial statements are prepared assuming the company will remain in service for the near future

The Generally Accepted Accounting Principles (GAAP)

A collection of policies and procedures govern the reporting of business transactions, the preparation of financial statements and the accounting process in general. The set of rules, procedures, assumptions, postulates, and concepts followed in recording business transactions and events, and in the preparation of general purpose financial statements is called GAAP.

This GAAP is being used by every practitioner, as a standard or guideline, in the preparation and creation of various financial statements. Without the GAAP, the practitioners may develop different statements that are non-comparable which may raise confusion.

Lesson 2. Financial Statements Elements

Elements in the Statement of Financial Position/Balance Sheet (Ballada, 2019)

Asset – current economic resources controlled by an entity as a result of past transactions.

Liability – a present obligation of the entity to transfer an economic resource as a result of past events

Equity - the residual interest in the assets of the entity after deducting its liabilities

Elements in the Statement of Financial Performance/ Income Statement

Income –is money (or any equivalent amount) earned by a person or company, typically in exchange for the provision of a product or service, or by the expenditure of capital. (Kagan, 2020).

Expenses - is the operating costs incurred by a company to make profits (Liberto, 2019).

Lesson 3. The Accounting Equation (Averkamp, 2020)

The Basic Equation

Each business transaction would impact the financial status of a company from the big, multi-national organization down to the small one. A company's financial position is calculated with the following elements:

1. Assets (what the company owns)
2. Liabilities (what the company owes to others)

3. Owner's Equity (the difference between the assets and the liabilities)

The accounting equation provides us with a clear explanation of how these three (3) amounts contribute to one another. For a sole proprietorship the accounting equation is:

Assets = Liabilities + Owner's Equity (A = L + E)

Remember that the assets are opposite the liabilities on the left side of the equation, and the equity of the lender. This equation explains why asset increases and decreases are recorded in the opposite manner as accounts for liabilities and owner's equity. Transactions can include additions on both sides, subtractions on both sides and an addition and subtraction on the same side, but equality must be retained in all situations.

Once a corporation reports a financial transaction, an accounting method is not entered, per se. Alternatively, transactions are reported in the general ledger containing unique accounts. -- known as an account of assets, liabilities, owner's equity, income, expenditures, gains or losses. The general ledger accounts are also used during the accounting periods to compile the balance sheets and statement of income.

The Expanded Accounting Equation

Assets = Liabilities + Owner's Capital - Owner's Drawings + Income - Expenses

Owner's Equity if broken down is made up of the owner's capital less his drawings from the period plus or minus the net loss or net income (income - expenses) for the period. Income and expenses are elements that are available in the income statement. If income is greater than the expenses, the statement will present a positive amount or a net income for the period.

Activities

Activity 1: Multiple Choice

1. Which is a trading business?
   a) clinic
   b) a law firm
   c) a pharmacy
   d) telecommunications company
2. Which statements is false
   a) A sole proprietor has limited risk with respect to the amount of resources he invests in his business
   b) A sole proprietorship has only one owner
   c) A sole proprietorship is easy to set up
   d) A sole proprietorship may not be able to obtain loans easily
3. A business which prepares financial statements every year is following the ___concept
   a) Accounting entity
   b) Periodicity
   c) going concern
   d) objectivity
4. The ___ concept assumes that the business has an indefinite economic life.
   a) accounting entity
   b) accounting period
   c) going concern
   d) objectivity
5. Which of the following processes will best defines accounting?
   a) Measuring economic activities
   b) Communicating results to interested parties
   c) Preventing fraud
   d) Both a and b.
6. If assets total P700,000 and liabilities total P400,000, how much is net assets?
   a) P300,000
   b) P400,000
   c) P700,000
   d) P1,100,000

7. What are increases in resources that a company earns by providing services or goods to its clients?
   a) Assets
   b) Revenue
   c) Expenses
   d) Liabilities
8. If assets increase by P100,000 and liabilities decrease by P30,000, owner's equity must
   a) remain unchanged.
   b) increase by P130,000
   c) decrease by P70,000.
   d) decrease by P130,000.

Activity 2: Fill in the Missing Amounts

Compute the amount of the missing element of financial position.

	Assets	Liabilities	Owner's Equity
1	845,000	____________	542,000
2	____________	15,000	80,000
3	65,000	17,000	____________
4	89,000	____________	50,000
5	1,450,000	465,000	____________

Activity 3: Fill in the Missing Amounts

Compute the amount of the missing element of financial performance..

	Income	Expenses	Net Income (Net Loss)
1	70,000	____________	(65,000)
2	45,000	53,000	____________
3	150,000	____________	78,000
4	____________	120,000	40,000
5	____________	89,000	(40,000)

Assessment Task 1

Compute for the missing elements.

	Assets	Liabilities	Equity			
			Capital	Income	Expenses	Net Income (Loss)
1	855,000.00		600,000.00	90,000.00	75,000.00	
2		450,000.00	541,000.00	87,100.00	90,000.00	
3	25,000.00	12,000.00		5,000.00		2,000.00
4	330,000.00	190,700.00			50,800.00	15,000.00
5	5,020,000.00	1,994,000.00		900,000.00		311,000.00

Summary

Accounting helps the management in organizing the financial aspect of a business. It also aids them in analysing the financial aspect of the business that leads them in making economic decisions that is beneficial to the organization as a whole.

There are different transactions that must be first identified in order to start the accounting process. Each transaction must be analysed correctly so that the final balances at the end of the process will be correct and balance. Of course, it is only possible if one can fully grasp the accounting fundamental concepts and principles including the accounting equation. The accounting equation is the basic tool used in accounting. The right and left side of the equation must always be balanced therefore, the use of the accounting equation is necessary.

Then the preparation of the financial statements – statement of financial position, income statement, statement of cash flow, statement of changes in owner's equity and notes to financial statements -- follows where the management uses it as a guide in making business decisions.

References

Averkamp, H. (2020). *Accounting Basics.* accountingcoach.com.

Ballada, W. et.al. (2019). *Basic Financial Accounting and Reporting.* Sampaloc, Manila, Philippines. DomDane Publishers.

Kagan, J. (2020). *What is Income*. https://www.investopedia.com/terms/i/income.asp

Liberto, D. (2019). *Expense*. https://www.investopedia.com/terms/e/expense.asp

MODULE 2
THE DOUBLE-ENTRY SYSTEM

Introduction

Debits and credits are terms used in the financial records of accountants and bookkeepers when reporting transactions. The balance in each transaction must be deposited in one account as a debit (left side of the account), and in another as a credit (right side of the account). This double entry program ensures consistency in the firm's accounting records.

The initial challenge is to consider which account will receive the debit input and which account will receive the credit input. Once the accounting and bookkeeping debits and credits are explained and illustrated, we must discuss the accounts in which the debits and credits must be entered or published.

Learning Outcomes

After completing the module, the student should be able to:

1. explain what is an account;
2. explain how the double-entry system adheres to accounting equation rules; and
3. define the debits and credits and outlines the debit and credit rules applicable to accounts of balance sheets and income statement.

Lesson 1. The Account (Averkamp, 2020)

What Is an Account?

In order to keep the financial data of a business organized, accountants created a system which sorts transactions into records called accounts. When a company's accounting system is set up, it defines and lists the accounts most likely to be impacted by the company's transactions. This list is called the chart of accounts of the company. The chart of accounts may list as few as thirty accounts, or as many as thousands, depending on the size of a company and the complexity of its operations. A company has the versatility to customize its account map to best suit its needs.

The balance sheet accounts are listed first within the chart of accounts, followed by the revenue statement accounts. In other words, the accounts in the Account Chart are organized as follows:

- Assets
- Liabilities
- Owner's (Stockholders') Equity
- Revenues or Income
- Expenses

Typical Account Titles Used

- Assets - Current (Cash, Cash equivalents, Notes Receivable, Accounts Receivable, Inventories, Prepaid Expenses,) Non-Current (Property, Plant and Equipment, Accumulated Depreciation, Intangible Assets)
- Liabilities - Current (Accounts Payable, Notes Payable, Unearned Revenues, Current Portion of long-term debt) Non Current (Mortgage Payable, Bonds Payable)
- Owner's Equity - Capital, Withdrawals, Income Summary
- Income - Service Income, Sales
- Expenses - Cost of Sales, Salaries or Wages, Utilities, Rent, Supplies, Insurance, Depreciation, Uncollectible Accounts Expense, Interest)

Lesson 2. Double-Entry Accounting (Averkamp, 2020)

As any business transaction involves at least two accounts, our accounting system is regarded as a system of double entry. (You should refer to the company's account chart to pick the correct accounts. Accounts can be added to the account chart when a suitable account cannot be found.)

For example, if a company borrowed P1,000 from a bank, the transaction affects the cash account of the company and notes payable account. These accounts will also be affected when the client repays the loan.

When an organization bought supplies, it affects the supplies and cash accounts. If the company buys the supplies on account/credit, the accounts affected are the supplies and accounts payable.

When a business pays rent for the month, the two accounts affected will be the rent expense and cash.

When a company offers a service and allows the customer 30 days to pay it back, it will affect the company’s Service Revenue account and Accounts Receivable.

Also if the system is called double-entry, a transaction may require more than two accounts. An example of a transaction involving three accounts is a loan payment of P3,000 made by a business to their bank. The agreement would contain the following accounts: Cash, Interest Expense and Payable Notes.

Debits and Credits (Fizi, n.d.)

After you have identified the two or more accounts involved in a business transaction, you must debit at least one account and credit at least one account.

For debiting an account it means entering a number on the account's left side. To credit an account means entering a number on the right side.

The normal balance of an account refers to the side, either in the debit or credit side, where the account increases.

Table 1. Summary of Debit and Credit Rules

	Increases		Normal Balance	
Account Category	Debit	Credit	Debit	Credit
Assets	/		/	
Liabilities		/		/
Owner's Equity				
Capital		/		/
Withdrawal	/		/	
Income		/		/
Expense	/		/	

For an account to decrease, you must do the opposite. An asset account increases with a debit hence, it will decrease through a credit.

DR is the abbreviation for DEBIT and CR for CREDIT.

Debits and Credits using T-accounts

Bookkeepers and accountants usually use T-accounts as a visual reference to see the impact of the transaction or entry on the accounts involved.

As an illustration, the cash and notes payable is used below.

Cash (Asset)

Debit	Credit
Increases an Asset	Decreases an Asset
Received Cash	Paid Cash

Notes Payable (Liability)

Debit	Credit

Decreases a Liability	Increases a Liability
Repaid Loan	Borrowed More

Let's illustrate two transactions using these T-accounts:

A Polo Company is borrowing P5,000 from their bank on 1 June 2019. As a result, P5,000 must increase the company 's cash asset and an increase of P5,000 in its liability Notes Payable will be recorded as well. The account needs to be debited to raise the asset Cash. The Notes Payable account has to be credited to increase it. When debits and credits are entered the T-accounts look this way:

Cash (Asset)

Debit	Credit
Increases an Asset	Decreases an Asset
Received Cash	Paid Cash
June 1 5,000	

Notes Payable (Liability)

Debit	Credit
Decreases a Liability	Increases a Liability
Repaid Loan	Borrowed More
	5,000 June 1

Polo Company repays P2,000 from bank loan on June 2 , 2019. As a result, P2,000 must decrease the asset Cash and liability Notes Payable as well. In order to decrease the cash account, a credit of P2,000 is needed. The Notes Payable account needs to be debited for P2,000 to decrease the liability. Now the T-accounts look this way:

Cash (Asset)

Debit		Credit	
Increases an Asset		Decreases an Asset	
Received Cash		Paid Cash	
June 1	5,000		
		2,000	June 2
June 2 bal	3,000		

Notes Payable (Liability)

Debit		Credit	
Decreases a Liability		Increases a Liability	
Repaid Loan		Borrowed More	
		5,000	June 1
June 2	2,000		
		3,000	June 2 bal

Activities (Ballada, 2019)

Activity 1: Multiple Choice Questions

1. These are the gains in revenue a business receives by providing its consumers with products or services
   a) Assets
   b) Income
   c) Expenses
   d) Liabilities
2. How many parts does the T-account have?
   a) One

b) Two
c) Three
d) Four

3. Which of the following statement is true?
   a) The debit is on the right side of an asset account.
   b) The debit is on the left side of an asset account.
   c) The credit is on the left side of a liability account.
   d) The debit is on the right side of an expense account.
4. Which of the following account has a normal debit balance?
   a) Accounts Payable
   b) Notes Payable
   c) Consulting Revenues
   d) Advertising Expense
5. Which of the following account is increased by a credit?
   a) Accounts Receivable
   b) Sales
   c) Withdrawals
   d) Advertising Expense
6. Which of the following is true?
   a) A debit will increase a liability account.
   b) A credit will increase an asset account.
   c) A credit will increase a revenue account.
   d) A debit will decrease an expense account.
7. In applying the rules of debits and credits, which of the following statements is correct?
   a) The word "debit" means to increase, and the word "credit" means to decrease.
   b) Asset, expense and capital accounts are debited for increases.
   c) Liability, revenue and capital accounts are debited for increases.
   d) Asset, expense and withdrawals are debited for increases.
8. Which of the following is correct under the double-entry system?
   a) Asset amount must be equal to liability amount.
   b) The change in asset must be compensated by a change in liability
   c) The change in a debit-side entry must be compensated by a change in credit side entry

d) An increase in asset must be compensated by a decrease in asset.

9. Which of the following statements, regarding the double-entry system, is incorrect?
   a) An increase in asset means a credit entry in assets account
   b) A decrease in liability means a debit entry in liabilities account
   c) An increase in drawings means a debit entry in capital account.
   d) A decrease in non-current asset means a credit entry in assets account
10. Which of the following transactions affects the total value of liabilities of a firm?
    a) a goods purchased from suppliers by cash
    b) interest received from bank
    c) office equipment bought on credit
    d) goods sold to customers on credit

Activity 2: The Accounting Equation

The following are some transactions of Orellano Services:

		A	L	OE
a.	Received cash as additional investment	_____	_____	_____
b.	Purchased supplies on account.	_____	_____	_____
c.	Charged customers for services made on account	_____	_____	_____
d.	Rendered services to cash customers	_____	_____	_____
e.	Paid cash for rent on building.	_____	_____	_____
f.	Collected on account receivable in full.	_____	_____	_____
g.	Paid cash for supplies	_____	_____	_____
h.	Returned supplies purchased on account.	_____	_____	_____
i.	Paid cash to settle accounts	_____	_____	_____
j.	Paid cash to owner for personal use.	_____	_____	_____

Required for each transaction: Indicate whether the assets (A), liabilities (L) or owner's equity (OE) increased (+), decreased (-) or did not change (0) by placing the appropriate sign in the appropriate column.

Activity 3: The Accounting Equation

The following selected transactions were completed by Victory Delivery Service during July 2019

1. Cash received from delivery services, P92,700.
2. Paid creditors on account. P20,000
3. Received cash from owner as additional investment, P600,000
4. Paid advertising expense, P5,000
5. Billed customers for delivery services on account, P55,200
6. Purchased supplies for cash, P5,000
7. Paid rent for July, P20,000
8. Received cash from customers on account, P25,440
9. Determined that the cost of supplies on hand was P1,440 so P4,560 of supplies were used during the month
10. Owner withdrew cash for personal use, P20,000

Indicate the effects of each transaction.

A. increase an asset, decrease another asset
B. Increase an asset, increase a liability
C. Increase an asset, increase owner's equity
D. Decrease an asset decrease a liability
E. Decrease an asset decrease owner's equity

Assessment Task 2

To increase the balance in the following accounts, would you debit (DR) the account or would you credit (CR) the account? (Answer with DR or CR only.)

1. Cash
2. Land
3. Notes Payable
4. Accounts Receivable
5. Mary Smith, Capital
6. Supplies Expense
7. Prepaid Insurance

8. Service Revenue
9. Mary Smith, Drawing
10. Unearned Revenue (Liability)

Summary

In accounting, there are different terms we encounter. The terms we used in accounting are called an account. This account is being used in the preparation of various financial statements. The accountant or bookkeeper creates a list called chart of accounts which serves as the standard of account to be used every period. Without this chart, the accountant or bookkeeper might use different account title which may cause confusion to its user.

The proper use of account titles help its preparer and user to be familiar with the accounting equation. Remember that we have the accounts for assets, liabilities, capital/owner's equity, revenue/income, expenses and depreciation (ALCRED). We have to carefully select the account title applicable to each account.

We have the basic accounting equation, assets equals liabilities plus owner's equity (A=L+OE). Where the increase in assets increases the left side of the equation and increases in liabilities and/or capital increases the right side of the equation. The double-entry system states that there must be two (2) or more account titles affected to consider it as an accounting transaction.

The assets, expenses and depreciation has normal debit balances which increases the left side of the equation. While the liabilities, owner's equity/capital and revenue/income has normal credit balances which increases the right side of the equation.

References

Averkamp, H. (2020). *Accounting Basics*. Retrieved from accountingcoach.com.

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Fizi (n.d.). Introduction to Debits and Credits. https://accountancyworld.blogspot.com/2010/07/introduction-to-debits-and-credits.html

MODULE 3
RECORDING BUSINESS TRANSACTIONS: JOURNALIZING

Introduction

The definition of accounting provided by the Committee on Accounting Terminology of the AICPA identifies the basic phases of accounting: the mechanical phase (recording, classifying, summarizing) and the analytical phase (interpreting). In one accounting period, the whole accounting process basically starts with recording and ends with the preparation and issuance of financial statements.

Learning Outcomes

After completing the module, the student should be able to:

1. list and explain in brief the sequential steps in the accounting cycle;
2. analyze the impact of transactions on the elements and the specific accounts;
3. apply the rules of debits and credits in analyzing business transactions; and
4. journalize transactions in proper form.

Lesson 1. The Accounting Cycle (Ballada, 2019)

The accounting cycle refers to a series of sequential steps or procedures performed to accomplish the accounting process.

1. Identification of Events to be Recorded
2. Transactions are Recorded in the Journal
3. Journal Entries are Posted to the Ledger
4. Preparation of a Trial Balance
5. Preparation of the Worksheet including Adjusting Entries
6. Preparation of the Financial Statements
7. Adjusting Journal Entries are Journalized and Posted
8. Closing Journal Entries are Journalized and Posted
9. Preparation of a Post-Closing Trial Balance
10. Reversing Journal Entries are Journalized and Posted

Lesson 2. Identification of Events to be Recorded (Ballada, 2019)

Transactions and events are the starting points in the accounting cycle. By relying on the source documents, transactions and events can be analyzed as to how they will affect performance and financial position. Source documents identify and describe transactions and events entering the accounting process. These original written evidences contain information about the nature and the amounts of the transactions. These are the bases for the journal entries; some of the more common source documents are sales invoices, cash register tapes, official receipts, bank deposit slips, bank statements, checks, purchase orders, time cards and statements of account.

Lesson 3. The Journal (Averkamp, 2020)

Another way to visualize business transactions is to write a general journal entry.

The journal is a chronological record of the entity’s transactions. A journal entry shows all the effects of a business transaction in terms of debits and credit. Each transaction is initially recorded in a journal rather than directly in the ledger. A journal is called the book of original entry.

Each general journal entry lists the date, the account title(s) to be debited and the corresponding amount(s) followed by the account title(s) to be credited and the corresponding amount(s). The accounts to be credited are indented. Let's illustrate the general journal entries for the two transactions that were shown in the T-accounts in the previous section.

June 1, 2019	Cash	5,000	
	Notes Payable		5,000
June 2, 2019	Notes Payable	2,000	
	Cash		2,000

When Cash Is Debited and Credited

Whenever cash is received, debit Cash. Whenever cash is paid out, credit Cash.

With the knowledge of what happens to the Cash account, the journal entry to record the debits and credits is easier. Let's assume that a company receives P500 on June 3, 2019 from a customer who was given 30 days in which to pay. (In May the company had recorded the sale and an accounts receivable.) On June 3 the company will debit Cash, because cash was received. The amount of the debit and the credit is P500. Entering this information in the general journal format, we have:

June 3, 2019	Cash	500	
	???		500

All that remains to be entered is the name of the account to be credited. Since this was the collection of an account receivable, the credit should be Accounts Receivable. (Because the sale was already recorded in May, you cannot enter Sales again on June 3.).

On June 4 the company paid P300 to a supplier for merchandise the company received in May. (In May the company recorded the purchase and the accounts payable.) On June 4 the company will credit Cash, because cash was paid. The amount of the debit and credit is P300. Entering them in the general journal format, we have:

June 4, 2019	???	300	

Cash 300

All that remains to be entered is the name of the account to be debited. Since this was the payment on an account payable, the debit should be Accounts Payable. (Because the purchase was already recorded in May, you cannot enter Purchases or Inventory again on June 4.)

Revenues and Gains Are Usually Credited

Revenues and gains are recorded in accounts such as Sales, Service Revenues, Interest Revenues (or Interest Income), and Gain on Sale of Assets. These accounts normally have credit balances that are increased with a credit entry. In a T-account, their balances will be on the right side.

The exceptions to this rule are the accounts Sales Returns, Sales Allowances, and Sales Discounts—these accounts have debit balances because they are reductions to sales. Accounts with balances that are the opposite of the normal balance are called contra accounts; hence contra revenue accounts will have debit balances.

Let's illustrate revenue accounts by assuming your company performed a service and was immediately paid the full amount of P250 for the service. The debits and credits are presented in the following general journal format:

Cash	250	
Service Revenues		250

Whenever cash is received, the asset account Cash is debited and another account will need to be credited. Since the service was performed at the same time as the cash was received, the revenue account Service Revenues is credited, thus increasing its account balance.

Let's illustrate how revenues are recorded when a company performs a service on credit (i.e., the company allows the client to pay for the service at a later date, such as 30 days from the date of the invoice). At the time the service is performed the revenues are considered to have been earned and they are recorded in the revenue account Service

Revenues with a credit. The other account involved, however, cannot be the asset Cash since cash was not received. The account to be debited is the asset account Accounts Receivable. Assuming the amount of the service performed is P400, the entry in general journal form is:

Accounts Receivable	400	
Service Revenues		400

Accounts Receivable is an asset account and is increased with a debit; Service Revenues is increased with a credit.

Expenses and Losses are Usually Debited

Expenses normally have debit balances that are increased with a debit entry. Since expenses are usually increasing, think "debit" when expenses are incurred. (We credit expenses only to reduce them, adjust them, or to close the expense accounts.) Examples of expense accounts include Salaries Expense, Wages Expense, Rent Expense, Supplies Expense, and Interest Expense. In a T-account, their balances will be on the left side.

To illustrate an expense let's assume that on June 1 your company paid P800 to the landlord for the June rent. The debits and credits are shown in the following journal entry:

Rent Expense	800	
Cash		800

Since cash was paid out, the asset account Cash is credited and another account needs to be debited. Because the rent payment will be used up in the current period (the month of June) it is considered to be an expense, and Rent Expense is debited. If the payment was made on June 1 for a future month (for example, July) the debit would go to the asset account Prepaid Rent.

As a second example of an expense, let's assume that your hourly paid employees work the last week in the year but will not be paid until the first week of the next year. At the end of the year, the company makes an entry to record the amount the employees earned but have not been paid. Assuming the employees earned P1,900 during the last week of the year, the entry in general journal form is:

Wages Expense	1,900	
Wages Payable		1,900

As noted earlier, expenses are almost always debited, so we debit Wages Expense, increasing its account balance. Since your company did not yet pay its employees, the Cash account is not credited, instead, the credit is recorded in the liability account Wages Payable. A credit to a liability account increases its credit balance.

Activities (Ballada, 2019)

Jackielyn Magpantay organized Eternal Images, a photography and portrait studio, on Oct 1, 2019. The studio completed the following transactions during the month:

Oct. 1 Deposited P350,000 in a bank account in the name of the business.
3 Paid two month's rent deposit and one-month advance, P40,500.
5 Transferred to the business personal photography equipment valued at P129,000.
7 **Ordered** additional photography equipment, P75,000.
8 Purchased office equipment for cash, P54,000.
10 Received and paid for the photography equipment **ordered on Oct. 7**, P75,000 .
12 Purchased photography supplies **on credit**, P21,000.
13 Received cash for previously **unbilled** portraits, P11,400.
17 Billed customers for portraits, P22,500.
19 Paid fifty percent of the supplies purchased on Oct. 12, P10,500.
25 Paid the electricity bill for Oct., P3,600.
26 Paid the telephone bill for Oct., P2,100.
28 Received payments from the customers **billed on Oct. 17**, P7,500.
29 Paid salaries to personnel, P12,000.
30 Received an advance payment from a customer, P1,500.
31 Withdrew P16,000 from the business for a personal emergency.

Required: Prepare the journal entries for the following transactions for October.

Assessment Task 3

Jay Omotoy opened a plumbing service, Alabang Plumbing. Operations began on Apr. 1, 2020, and the following transactions were completed during the month:

Apr. 1 Withdrew P67,000 from a personal savings account and used it to open a new account in the name of Alabang Plumbing

2 Acquired a service vehicle costing P81,000. A payment of P17,500 in cash was made and a note payable given for the P63,500 remainder. (compound entry; two credits)

3 Paid rent for the month, P7,150.

6 Acquired plumbing supplies on account P15,700.

7 Paid for three months of advertising and recorded Prepaid Advertising in the amount of P6,000.

8 Cash in the amount of P18,350 was received for plumbing services rendered

9 Acquired additional plumbing supplies for cash, P8,050.

11 Paid salaries, P11,600.

15 Rendered plumbing services and billed the customer, P42,200.

16 Paid P5,700 of the amount owed from the transaction of Apr. 6.

19 Paid miscellaneous expenses, P4,300.

20 Collected P21,000 from the customer on the Apr. 15 transaction.

21 Withdrew P14,500 from the business.

22 Paid salaries, P14,100.

24 Paid the first installment of the note payable, P3,850.

25 Paid telephone expense, P1,250.

27 Billed the Clement Resort for plumbing services rendered, P14,150.

The following are listed in the company's chart of accounts: Cash; Accounts Receivable; Plumbing Supplies; Prepaid Advertising; Service Vehicle; Notes Payable; Accounts Payable; Omotoy, Capital; Omotoy, Withdrawals; Plumbing Revenues; Salaries Expense; Rent Expense; Telephone Expense; and Miscellaneous Expense.

Required: Prepare the journal entries for the month of April.

Summary

The accounting cycle starts with the identification of transactions to be recorded. Then they are entered into the journal, a chronological record of transactions. The accounts may be picked up from the chart of accounts of the company. The accounts entered into the journal follow the rules of debit and credit: assets, expenses, losses and withdrawals increase when debited, liabilities, capital, revenues and gains increase when credited.

References

Averkamp, H. (2020). *Accounting Basics.* Retrieved from accountingcoach.com.

Ballada, W. et.al. (2019). *Basic Financial Accounting and Reporting.* Sampaloc, Manila, Philippines. DomDane Publishers.

MODULE 4
RECORDING BUSINESS TRANSACTIONS: POSTING AND THE TRIAL BALANCE

Introduction

In the previous modules, you have identified transactions that can be accounted for and make journal entries in the general journal. This module will be focusing on the next step of the accounting cycle which are posting the entries to the ledger and creating a trial balance. These steps will help us analyze whether our account balances are balance and if the total debits is equal with the total credits.

Learning Outcomes

After completing the module, the student should be able to:

1. describe a general ledger and understand what purpose it serves;
2. post entries from the general journal to the general ledger; and
3. prepare and explain the use of a trial balance.

Lesson 1. The Ledger and Posting (Ballada, 2019)

The ledger accumulates all data necessary prior to the preparation of financial statements. All similar transactions recorded in the journal are grouped together in the ledger.

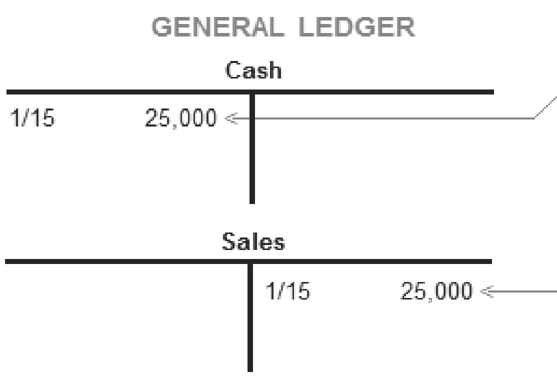
The ledger appears basically in the form of capital letter T. the left side of the ledger provides the data for debit entry, and the right side of it presents information about the credit entry.

The number of ledgers to be provided is highly dependent on the number of account titles used in the recording process. The ledgers are arranged in the following order of accounting elements: assets, liabilities, capital, income, and expense accounts. Actually, the arrangement of the ledger is in accordance with the listing in the chart of accounts.

Posting

GENERAL JOURNAL

Date	Account title and explanation	Debit	Credit
2015 Jan. 15	Cash	25,000	
	Sales		25,000
	(Sold goods for cash)		



Posting means transferring the amounts from the journal to the appropriate accounts in the ledger. Debits in the journal are posted as debits in the ledger, and credits in the journal as credits in the ledger.

At the end of an accounting period, the debit or credit balance of each account must be determined to enable us to come up with a trial balance.

After posting, the amounts of debit and credit are added. This process is technically referred to as footing. Footing is the process of adding the debit and the credit money columns of the ledger and finding their balances.

The **footing** of accounts ends the posting process. The next step in the accounting cycle which is the preparation of the trial balance may be started.

Lesson 2. The Trial Balance (Ballada, 2019)

The fourth step in the accounting cycle is the preparation of the trial balance. Trial balance is the listing of the debit and credit balances of accounts from general ledger. In other words, it is the aggregate of all the debits and credits at the end of the accounting period. A trial balance is, therefore, an informal accounting schedule that lists accounts appearing in the ledger with corresponding amounts.

The trial balance has the following purposes:

1. It proves the equality of debit and credit
2. It determined nominal accounts to be closed
3. It serves as a basis for making draft financial statements.

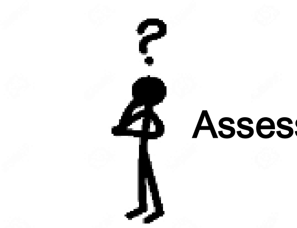
The term “trial balance itself suggests that this statement proves the fundamental concept that debit should be equal to credit in all instances.

The procedures in the preparation of a trial balance follow:

1. List all the account titles in numerical order
2. Obtain the account balance of each account from the ledger and enter the debit balances in the debit column and the credit balances in the credit column
3. Add the debit and credit columns
4. Compare the totals

Activities

Refer to the Module 3 activity. Post the entries to the ledger accounts and prepare the trial balance.



Assessment Task 4

Refer to the Module 3 assessment. Post the entries to the ledger accounts and prepare the trial balance.

Summary

The ledger accumulates all data necessary prior to the preparation of financial statements. All similar transactions recorded in the journal are grouped together in the ledger. These entries are then footed and listed in a trial balance to test the balance of total debits and credits.

Reference

Ballada, W. et.al. (2019). *Basic Financial Accounting and Reporting.* Sampaloc, Manila, Philippines. DomDane Publishers.