



CHAPTER

2

THE RECORDING PROCESS

The Account

- An account is an individual accounting record of increases and decreases in a specific asset, liability, or owner's equity item.
- A company will have separate accounts for such items as cash, salaries expense, accounts payable, and so on.

Debit and Credit

The terms debit and credit mean left and right, respectively.

The act of entering an amount on the left side of an account is called debiting the account and making an entry on the right side is crediting the account.

When the debit amounts exceed the credits, an account has a debit balance; when the reverse is true, the account has a credit balance.

Basic Form of Account

- In its simplest form, an account consists of
 1. the title of the account,
 2. a left or debit side, and
 3. a right or credit side.
- The alignment of these parts resembles the letter T, and therefore the account form is called a T account.

Title of Account	
Left or debit side	Right or credit side
Debit balance	Credit balance

Tabular Summary Compared To Account Form

Tabular Summary

Cash
\$15,000
-7,000
1,200
1,500
-600
-900
-200
-250
600
-1,300

Account Form

Cash	
Debit	Credit
15,000	7,000
1,200	600
1,500	900
600	200
	250
	1,300
Balance	
8,050	

Debiting an Account

Cash	
15,000	

Example: The owner makes an initial investment of \$15,000 to start the business. Cash is debited and the owner's Capital account is credited.

Crediting an Account

Cash	
	7,000

Example: Monthly rent of \$7,000 is paid. **Cash** is credited and **Rent Expense** is debited.

Debiting and crediting an Account

Cash	
15,000	7,000
8,000	

Example: Cash is debited for \$15,000 and credited for \$7,000, leaving a debit balance of \$8,000.

Double-Entry System

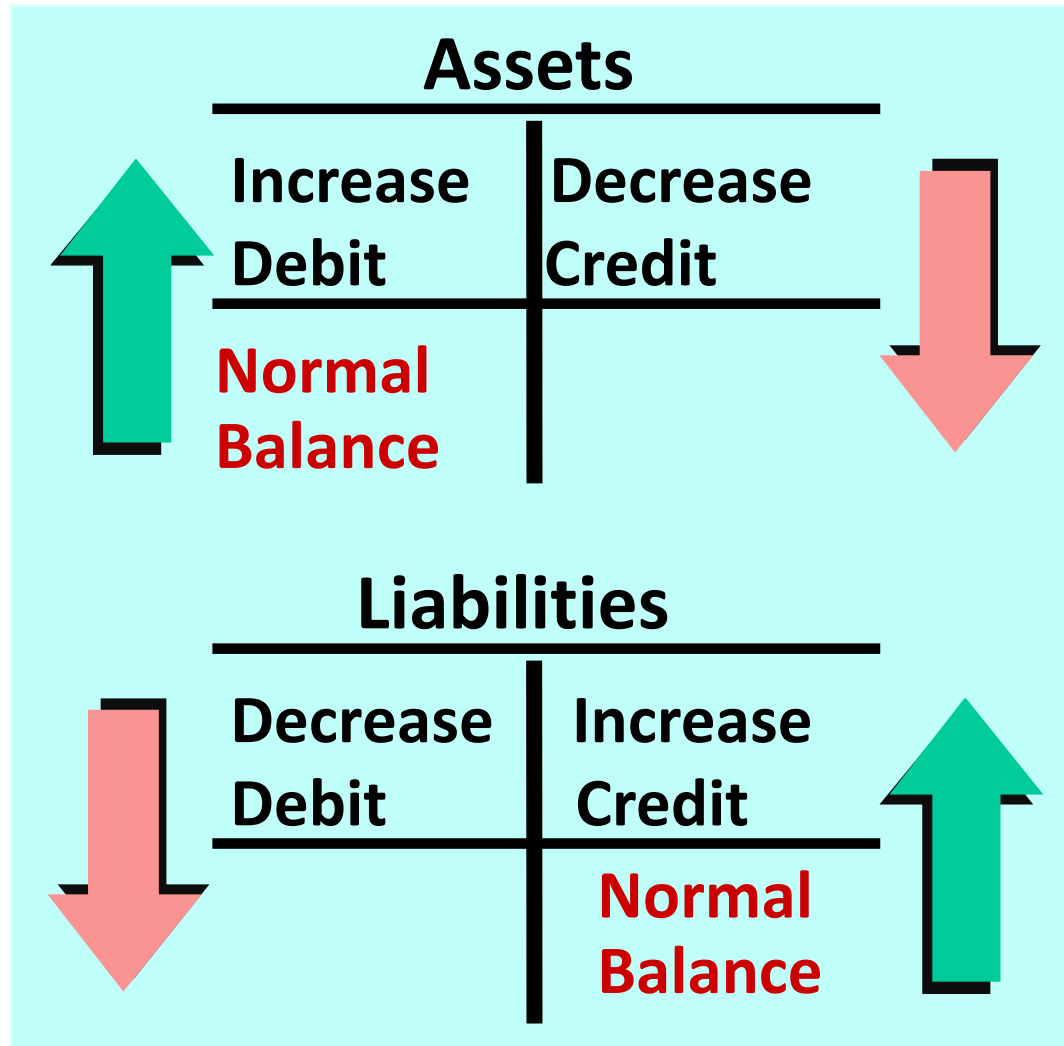
- In a double-entry system, equal debits and credits are made in the accounts for each transaction.
- Thus, the total debits will always equal the total credits and the accounting equation will always stay in balance.

$$\text{Assets} \quad \text{=} \quad \text{Liabilities} \quad \text{+} \quad \text{Equity}$$

NORMAL BALANCE

- Every account classification has a normal balance, whether it is a debit or credit.

NORMAL BALANCES — ASSETS AND LIABILITIES



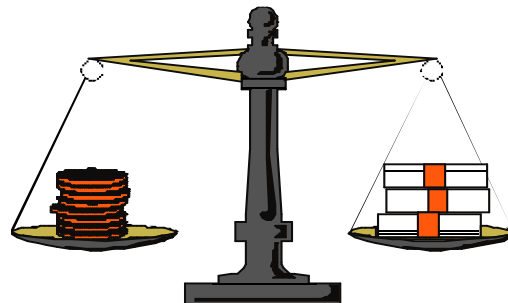
NORMAL BALANCE — OWNER'S CAPITAL

Owner's Capital

Decrease
Debit

Increase
Credit

**Normal
Balance**



NORMAL BALANCE — OWNER'S DRAWINGS

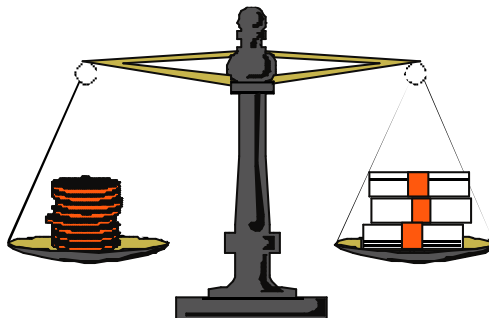
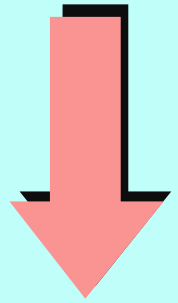
Owner's Drawings



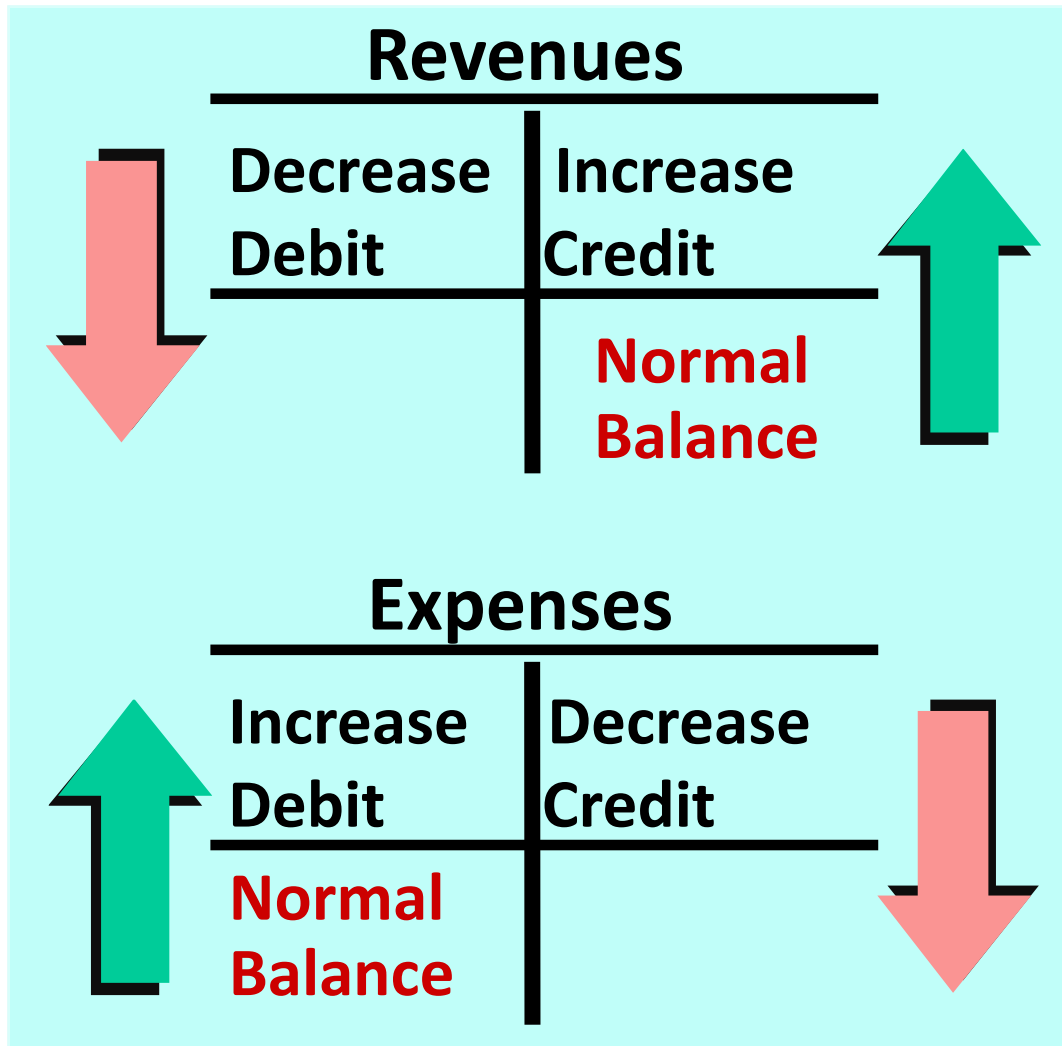
Increase
Debit

**Normal
Balance**

Decrease
Credit



NORMAL BALANCES — REVENUES AND EXPENSES



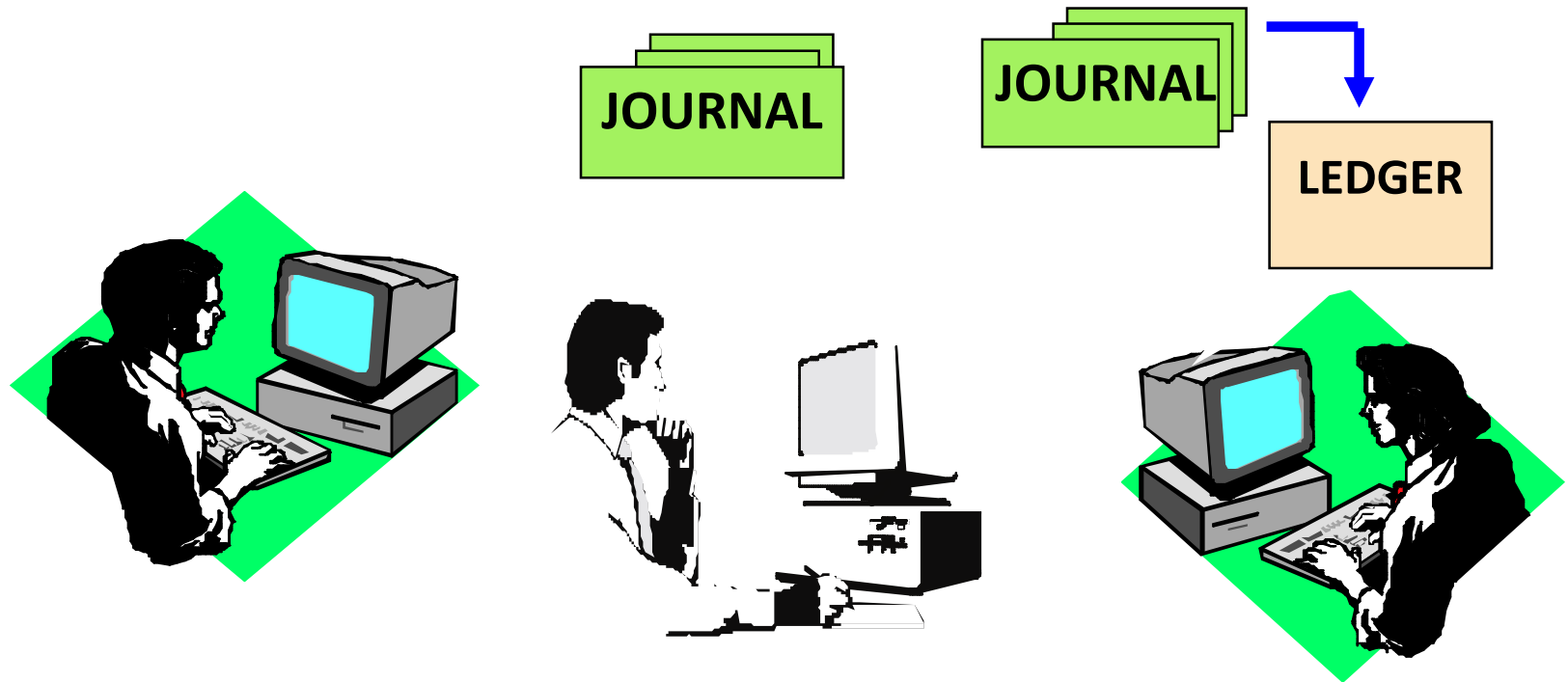
EXPANDED BASIC EQUATION AND DEBIT/CREDIT RULES AND EFFECTS

Assets	=	Liabilities	+	Owner's Equity
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Assets	=	Liabilities	+	Owner's Capital	-	Owner's Drawings
Dr. +		Dr. -		Dr. -		Dr. +
Cr. -		Cr. +		Cr. +		Cr. -

+	Revenues	-	Expenses
	Dr. -		Dr. +
	Cr. +		Cr. -

The Recording Process



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

The Journal

- Transactions are initially recorded in chronological order in a journal before being transferred to the accounts.
- Every company has a general journal which contains
 1. spaces for dates,
 2. account titles and explanations,
 3. references, and
 4. two money columns.

The Journal

The journal makes several significant contributions to the recording process:

1. It discloses, in one place, the complete effect of a transaction.
2. It provides a chronological record of transactions.
3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be readily compared.

JOURNALIZING

- Entering transaction data in the journal is known as journalizing.
- Separate journal entries are made for each transaction.
- A complete entry consists of
 1. the date of the transaction,
 2. the accounts and amounts to be debited and credited, and
 3. a brief explanation of the transaction.

TECHNIQUE OF JOURNALIZING

GENERAL JOURNAL

Date	Account Titles and Explanation	Ref	Debit	Credit
2002, Sep 1	Cash M Doucet capital (Invested cash in business)		15,000	15,000
	Equipment Cash (Purchased equipment for cash)		7,000	7,000

Points to be considered

- The date in the date column.
- The debit account title at the extreme left margin.
The credit account title is indented on the next line.
- The amounts for the debits and credit are recorded in the Debit column and Credit column respectively.
- A brief explanation of the transaction is given.
- The Ref. column is left blank at the time the journal entry is made and is used later when the journal entries are transferred to the ledger accounts.

SIMPLE AND COMPOUND JOURNAL ENTRIES

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

GENERAL JOURNAL

Date	Account Titles and Explanation	Ref.	Debit	Credit
2002 Oct. 2	Delivery Equipment Cash (Purchased truck for cash.)		14,000	14,000

COMPOUND JOURNAL ENTRY

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

GENERAL JOURNAL

J1				
Date	Account Titles and Explanation	Ref.	Debit	Credit
2002 Oct. 2	<div>1</div> Delivery Equipment		34,000	
	<div>2</div> Cash			8,000
	<div>3</div> Note Payable			26,000
	Purchased truck for cash and note payable.			

COMPOUND JOURNAL ENTRY

This is the wrong format; all debits must be listed before the credits are listed.

GENERAL JOURNAL J1				
Date	Account Titles and Explanation	Ref.	Debit	Credit
2002 Oct. 2	Cash Delivery Equipment Note Payable Purchased truck for cash and note payable.		34,000	8,000 26,000

COMPOUND JOURNAL ENTRY

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

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2002 Oct. 2	Delivery Equipment Cash Note Payable Purchased truck for cash and note payable.		34,000	8,000 26,000	

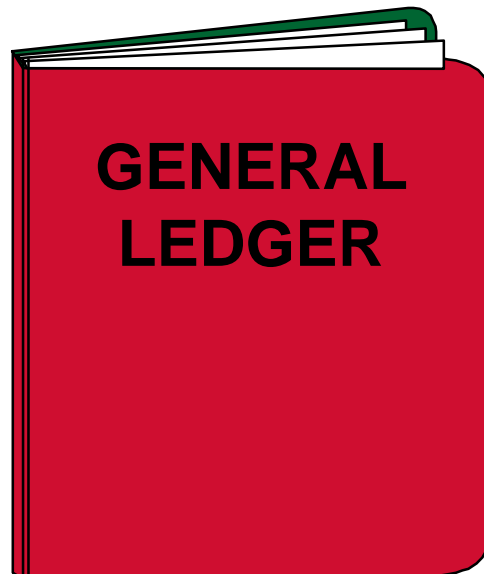
1

2

3

THE LEDGER

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



Forms of Account

1) The Simple **T-Account** form:

Title of Account	
Left or debit side	Right or credit side
Debit balance	Credit balance

2) The **Three-column** form:

Title of Account

Date	Explanation	Ref	Debit	Credit	Balance

Posting

Transferring journal entries to the ledger accounts is called **posting**. Posting involves the following steps.

1. In the **ledger**, in the appropriate columns of the **account(s) debited or credited**, enter the date, journal page, and debit or credit amount shown in the journal.
2. In the reference column of the **journal**, write **the account number to which the** debit or credit amount was posted.

THE TRIAL BALANCE

- A trial balance is a list of accounts and their balances at a given time.
- The primary purpose of a trial balance is to prove the mathematical equality of debits and credits after posting.
- A trial balance also uncovers errors in journalizing and posting.
- The procedures for preparing a trial balance consist of
 1. listing the account titles and their balances,
 2. totaling the debit and credit columns, and
 3. proving the equality of the two columns.

A TRIAL BALANCE

PIONEER ADVERTISING AGENCY
Trial Balance
October 31, 2002

	Debit	Credit
Cash	\$ 15,200	
Advertising Supplies	2,500	
Prepaid Insurance	600	
Office Equipment	5,000	
Notes Payable		\$ 5,000
Accounts Payable		2,500
Unearned Revenue		1,200
C. R. Byrd, Capital		10,000
C. R. Byrd, Drawings	500	
Service Revenue		10,000
Salaries Expense	4,000	
Rent Expense	900	
	<u>\$ 28,700</u>	<u>\$ 28,700</u>

**The total debits
must equal the
total credits.**

LIMITATIONS OF A TRIAL BALANCE

- **A trial balance does not prove that all transactions have been recorded or that the ledger is correct.**
- **Numerous errors may exist even though the trial balance columns agree.**
- **The 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 the transaction.**

THE END.....