REVIEW OF TERMS TO DATE IN CHAPTER 4

Objectivity Principle: accounting data should be verifiable

Source Documents: business forms (papers) that give evidence of business transactions on a certain data.

Purchase Invoice - a copy of an invoice, received by the buyer, to give evidence of the purchase made

Sales Invoice - a source document that gives evidence of a sale

Remittance Slip - a source document proving the receipt of a customer's cheque

<u>REVIEW OF TERMS TO DATE IN CHAPTER 4</u>

Journal - a daily record of business transactions in debit and credit form; a book of <u>original entry</u>.

General Journal - a two column journal

Journalizing - the process of analyzing transactions into debits and credits, and recording the results in a journal.

Opening Entry - the first entry to establish an account

Compound Entry - an entry that involves more than two accounts

Topic 3 - <u>Posting Transaction Data</u>

A journal provides a <u>chronological</u> record of business transactions

in date order

From the journal can the owner tell with a quick glance

    How much cash is available in the bank?

    How much is owing from customers on account?

    How much is owing to the bank?

    How much is owing to creditors on accounts payable?

    How much revenue has been earned?

    How many expenses have been incurred?

No

The journal is a record of all transactions. How much time would it take to search the journal for all entries affecting one account?

Once debits and credits have been recorded in the journal, accounting information must be transferred from the journal to the individual accounts in the ledger. This process is called posting.

POSTING - transferring debits and credits from the journal to the ledger

Introducing the Modern Ledger

- we learned that transactions are analyzed and recorded in debit and credit form for the first time in the journal, thus it is called
     the book of original entry (Journal)

- the debits and credits are transferred to theledger, sometimes referred to as the secondary entry, but there will be no further transfer of debits or credits, thus we will call it
     the book of final entry   (Ledger)

LEDGER (1) - the book of secondary or final entry

- great deal of flexibility in adding, deleting and rearranging individual accounts or groups of accounts

Transaction Entry

Accounts Ledger

Balance: $43,362.00

Transactions | Chart of Transactions

ID	Date	Account	Description	W/drawal Amt	Deposit Amt	Taxable
1	1/2/2005	Transportation	Trip to LA	$5.00		☐
2	6/11/2005	Meals	Fancy Meal	$7.00		☐
5	1/2/2005	Lodging	Hotel	$35.00		☐
8	4/10/2005	Meals	Business Luncheon	$30.00		☐
9	9/2/2004	Transportation	Air Fare to Atlanta	$70.00		☐
18	11/20/2004	Meals	Dinner	$20.00		☐
19	11/20/2004	Transportation	Cab	$8.00		☐
22	6/1/2005	Meals	Client Luncheon	$55.00		☐
23	6/1/2005	Miscellaneous	Newspapers, Magazines	$5.00		☐
25	2/1/2005	Miscellaneous	Tip	$5.00		☐
26	2/1/2005	Lodging	Hotel	$60.00		☐
30	7/10/2005	Telephone Service	Telephone Bill	$34.00		☐
41	1/1/2005	Mutual Fund	First Mutual Fund		$250.00	☐
43	7/1/2004	Second Mutual Fur	Second Mutual Fund		$1,000.00	☐
46	2/4/2005	Power Bill	Power Bill	$200.00		☐
50	9/10/2004	Mutual Fund	First Mutual Fund	$250.00		☐
52	10/18/2004	Lodging	Hotel	$55.00		☐
53	6/1/2005	Miscellaneous	Newspapers, Magazines	$5.00		☐
54	2/1/2005	Rental Income	Housing Property		$1,000.00	☐
57	5/1/2005	Rental Income	Housing Property		$2,000.00	☐
90	4/18/2004	Second Mutual Fur	Second Mutual Fund		$20,000.00	☐
91	8/18/2004	Second Mutual Fur	Second Mutual Fund		$20,000.00	☐
96	6/10/2005	Telephone Service	Telephone Bill	$34.00		☐

Record: |◄ ◄ | 1 | ► ►| |►* of 24

Totals: $888.00 $44,250.00

Tasks
- View Reports

Setup
- Add or Delete Accounts
- Add or Delete Account Types
- Add or Delete Reports
- Provide Feedback

7

Figure 9-12 General Ledger Report.

```
Company: 10                                  GENERAL LEDGER REPORT              Period End: 10/X9    Page 1
Accounting Period: 10/X9
                                             Posting   Journal              Debit              Credit
   Batch     Reference      Seq  Description   Date      Type               Amount             Amount

Account: 1110-200  PETTY CASH/PRODUCTION                                     209.07

   102-011   OCT PETTY       01  REFRESH PETTY CASH      10/03/X9    R        500.00

                                             Ending Account Balance:         709.07

Account: 1120-900  PAYROLL CASH              Beginning Account Balance:    1,798,050.30

    98-001   10/03 PAYROLL   05  HOURLY PAYROLL          10/01/X9    R                         610,982.24
   104-001   10/10 PAYROLL   05  HOURLY PAYROLL          10/08/X9    R                         657,188.36
   107-001   10/17 PAYROLL   05  HOURLY PAYROLL          10/16/X9    R                         629,427.90
   108-014   WIRE TRANS 0071 01  ADD PAYROLL CASH        10/16/X9    R    2,700,000.00
   112-001   10/24 PAYROLL   05  HOURLY PAYROLL          10/22/X9    R                         630,485.74
   120-001   10/31 PAYROLL   05  HOURLY PAYROLL          10/30/X9    R                         612,922.26
   122-002   10/31 PAYROLL   07  MANAGER PAYROLL         10/30/X9    R                         913,823.56

                                             Ending Account Balance:      443,220.24

Account: 1130-900  OPERATING CASH            Beginning Account Balance:    5,347,008.00

   102-011   OCT PETTY       02  REFRESH PETTY CASH      10/03/X9    R                             500.00
   107-005   AR000182        01  AR SYSTEM CASH RECEIPTS 10/10/X9    R    1,987,490.74
   110-006   AR000183        01  AR SYSTEM CASH RECEIPTS 10/13/X9    R    1,398,740.87
   108-014   WIRE TRANS 0071 02  ADD PAYROLL CASH        10/16/X9    R                       2,700,000.00
   116-005   AR000184        01  AR SYSTEM CASH RECEIPTS 10/19/X9    R      980,229.40
   119-006   AR000185        01  AR SYSTEM CASH RECEIPTS 10/26/X9    R    2,098,290.30

                                             Ending Account Balance:    9,111,259.31

Account: 1210-310  AR - TRADE/USA MARKETING  Beginning Account Balance:   18,983,029.20

   104-007   INO098190       01  DAILY INVOICING         10/03/X9    R      680,981.19
   104-008   INO099390       01  DAILY INVOICING         10/04/X9    R      485,983.13
   104-009   INO102340       01  DAILY INVOICING         10/06/X9    R      835,392.62
   105-001   INO105366       01  DAILY INVOICING         10/10/X9    R    1,326,300.70
   107-005   AR000182        02  AR SYSTEM CASH RECEIPTS 10/10/X9    R                       2,005,378.16
   108-009   INO105628       01  DAILY INVOICING         10/11/X9    R      335,393.44
   108-013   INO107581       01  DAILY INVOICING         10/13/X9    R      627,302.57
   110-006   AR000183        02  AR SYSTEM CASH RECEIPTS 10/13/X9    R                       1,410,909.92
   111-009   INO107688       01  DAILY INVOICING         10/15/X9    R      737,313.54
   114-001   INO109560       01  DAILY INVOICING         10/17/X9    R      828,312.60
   116-005   AR000184        02  AR SYSTEM CASH RECEIPTS 10/19/X9    R                         989,149.49
   117-008   INO112451       01  DAILY INVOICING         10/22/X9    R      438,789.63
   117-009   INO116728       01  DAILY INVOICING         10/23/X9    R      434,302.21
   117-018   INO120536       01  DAILY INVOICING         10/25/X9    R      626,605.97
   119-006   AR000185        02  AR SYSTEM CASH RECEIPTS 10/26/X9    R                       2,116,965.08

                                             Ending Account Balance:   19,817,304.16
```

CASH					ACCOUNT # 100		
Date	Comments	Ref.	Debit Amount	Date	Comments	Ref.	Credit Amount
Jan. 1	Investment	GJ-1	$50,000	Jan. 1	Inventory	GJ-1	$3,000
				Jan. 1	Land	GJ-1	$2,000
				Jan. 1	Insurance	GJ-1	$2,400
	Total		$50,000		Total		$7,400
	Balance		$42,600				

INVENTORY					ACCOUNT # 140		
Date	Comments	Ref.	Debit Amount	Date	Comments	Ref.	Credit Amount
Jan. 1		GJ-1	$4,500				
	Total		$4,500				

PREPAID INSURANCE					ACCOUNT # 150		
Date	Comments	Ref.	Debit Amount	Date	Comments	Ref.	Credit Amount
Jan. 1	Cash	GJ-1	$2,400				
	Total		$2,400				

LAND					ACCOUNT # 170		
Date	Comments	Ref.	Debit Amount	Date	Comments	Ref.	Credit Amount
Jan. 1		GJ-1	$20,000				
	Total		$20,000				

ACCOUNTS PAYABLE					ACCOUNT # 200		
Date	Comments	Ref.	Debit Amount	Date	Comments	Ref.	Credit Amount
				Jan. 1	Inventory	GJ-1	$1,500
					Total		$1,500

MORTGAGE PAYABLE					ACCOUNT # 270		
Date	Comments	Ref.	Debit Amount	Date	Comments	Ref.	Credit Amount
				Jan. 1	Land	GJ-1	$18,000
					Total		$18,000

OWNERS EQUITY					ACCOUNT # 300		
Date	Comments	Ref.	Debit Amount	Date	Comments	Ref.	Credit Amount
				Jan. 1	Initial Investment	GJ-1	$50,000
					Total		$50,000

The modern ledger, is a group of accounts filed according to the method of data process used by the business.

Ledger (2) - a group or file of accounts; the book of final entry

Exploring the Need for a Formal Ledger Account
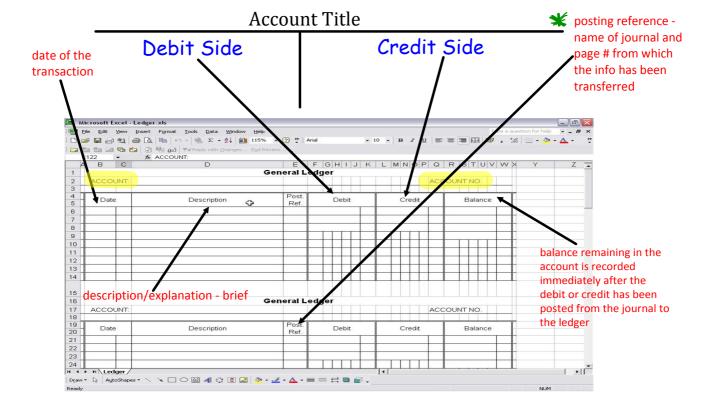
- Chapter 3 we used T- accounts
            - not an efficient method for recording numerous entries and the account's final balance.

It is however, still used as a valuable tool to assist with the visual analysis of a troublesome transaction. (Compound Entry)

- account form posted by hand will be quite different from one posted by computer

A widely used form is the three column form

Debit	Credit	Balance

Account Title

Debit Side   **Credit Side**

date of the transaction

posting reference - name of journal and page # from which the info has been transferred

description/explanation - brief

balance remaining in the account is recorded immediately after the debit or credit has been posted from the journal to the ledger

Balance Ledger form - a three column account with a "running balance" column (See the balance after each transaction)

General Ledger - the ledger filing those accounts which supply information for the preparation of financial statements

↳ Income Statement
↳ Balance Sheet

Organizing the Chart of Accounts (Index / Legend)

- the number given to each account identifies the account and the order in which the account is listed in the General Ledger

- the numbering is important, it will be used later to prepare financial statements

- a complete list of accounts with the number assigned to it is called the Chart of Accounts.
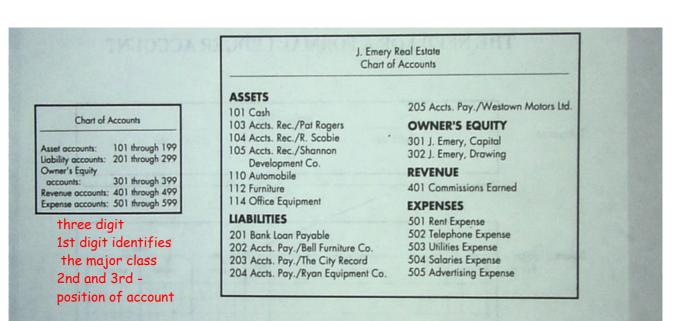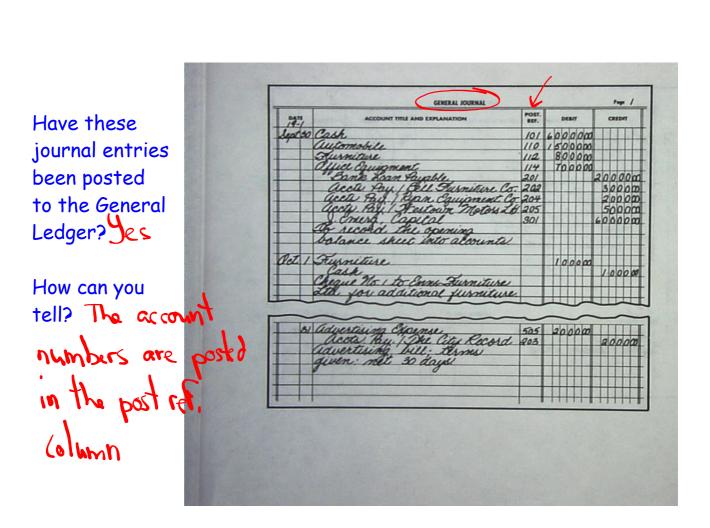
Chart of Accounts

Asset accounts: 101 through 199
Liability accounts: 201 through 299
Owner's Equity
  accounts: 301 through 399
Revenue accounts: 401 through 499
Expense accounts: 501 through 599

three digit
1st digit identifies
 the major class
2nd and 3rd -
position of account

J. Emery Real Estate
Chart of Accounts

ASSETS
101 Cash
103 Accts. Rec./Pat Rogers
104 Accts. Rec./R. Scobie
105 Accts. Rec./Shannon
        Development Co.
110 Automobile
112 Furniture
114 Office Equipment

LIABILITIES
201 Bank Loan Payable
202 Accts. Pay./Bell Furniture Co.
203 Accts. Pay./The City Record
204 Accts. Pay./Ryan Equipment Co.

205 Accts. Pay./Westown Motors Ltd.

OWNER'S EQUITY
301 J. Emery, Capital
302 J. Emery, Drawing

REVENUE
401 Commissions Earned

EXPENSES
501 Rent Expense
502 Telephone Expense
503 Utilities Expense
504 Salaries Expense
505 Advertising Expense

Chart of Accounts numbering plan, listing all account titles and the number assigned to them in the order in which they appear in the accounting equation

POSTING TO THE LEDGER

1. Locate the ledger account
2. Record the date
3. Show an explanation, if needed
4. Fill out the Post Ref. column of the account
5. Record the amount in the correct money column
6. Record the correct balance in the balance column
7. Record the account number of the account posted in the Post Ref. column of the General Journal

Have these journal entries been posted to the General Ledger? **Yes**

How can you tell? **The account numbers are posted in the post ref. Column**

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General Ledger

Cash   Account No. 101

DATE 19-1	EXPLANATION	POST. REF.	DEBIT	CREDIT	BALANCE
Sept 30	Opening entry	G.J. 1	6 000 00		6 000 00
Oct. 1		G.J. 1		1 000 00	59 000 00
5		G.J. 1		5 000 00	54 000 00
11		G.J. 1		400 00	53 960 00
12		G.J. 2		1 600 00	52 360 00
15		G.J. 2		4 000 00	48 360 00
16		G.J. 2	3 000 00		51 360 00
18		G.J. 2		595 00	50 765 00
20		G.J. 2	13 400 00		64 165 00
30		G.J. 2		2 000 00	62 165 00
31		G.J. 2	13 400 00		75 565 00
31		G.J. 3		4 500 00	71 065 00

Opening Balance
CK# 1 (for additional furniture)
CK# 2 (payment of accounts payable)

Deposit

Accts. Rec./Pat Rogers   Account No. 103

DATE 19-1	EXPLANATION	POST. REF.	DEBIT	CREDIT	BALANCE
Oct 31	Invoice 00001	G.J. 3	6 000 00		6 000 00

GENERAL LEDGER

Account Name _J. Emery, Capital_   Account No. _301_

Date 19-1	Explanation	Post. Ref.	Debit	Credit		Balance	
Sept. 30	Opening entry	G.I 1		60000	00	60000	00
Oct. 16		G.I 2		3000	00	63000	00

Your text book shows several accounts on one page, in actual practice under a manual system each account would be shown on a separate sheet or cards

REVIEWING THE ACCOUNTING CYCLE

STEP 1 - Originating

STEP 2 - Journalizing

STEP 3 - Posting