

REVIEW OF TERMS TO DATE IN CHAPTER 4

Topic 1 - Originating Transaction Data

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

Topic 2 - Journalizing Transaction Data

Journal - a daily record of business transactions in debit and credit form: a book of original entry

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 - Posting Transaction Data

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

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

Balance Ledger Form - a three-column account with a "running balance" column

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

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

Topic 4 - Preparing Accounting Proofs

The first three steps in the accounting cycle are:

Step 1: originating data

Step 2: journalizing - analyzing transactions and recording the debit and credit from these accounts in the book of original entry

Step 3: posting - transferring debits and credits from the journal to the ledger

Is it now time to prepare financial statements?

Financial statements can be prepared from the accounts filed in the General Ledger but.....

before such statements are prepared, accountants recommend making a number of accounting proofs - procedures to ensure

(1) that the data recorded in the journal and the ledger are accurate

(2) that all transactions have been accounted for

Preparing the Journal Proof

- the double entry in the journal is a sound checking system in itself

- for each transaction, a debit and credit is recorded and these amounts are equal
- the important rule of "debits equals credits" makes it possible to prove the journal page in two ways.

(1) by routinely totaling each column on a journal before any posting is done.

(2) by totaling the money column before turning to a new page

A journal proof is prepared either manually or by using a computer program.

| GENERAL JOURNAL | | | | | Page |
|-----------------|---|------------|-----------|-----------|------|
| DATE | ACCOUNT TITLE AND EXPLANATION | POST. REF. | DEBIT | CREDIT | |
| 19-1 | | | | | |
| Sept 30 | Cash | | 60,000.00 | | |
| | Automobile | | 15,000.00 | | |
| | Furniture | | 8,000.00 | | |
| | Office Equipment | | 7,000.00 | | |
| | Bank Loan Payable | | | 20,000.00 | |
| | Accts Pay. / Bell Furniture Co. | | | 3,000.00 | |
| | Accts Pay. / Ryan Equipment Co. | | | 2,000.00 | |
| | Accts Pay. / Weston Motors Ltd | | | 5,000.00 | |
| | G. Monk, Capital | | | 60,000.00 | |
| | At second, the opening balance sheet into accounts. | | | | |
| Oct 1 | Furniture | | 1,000.00 | | |
| | Cash | | | 1,000.00 | |
| | Cheque No. 1 to Ryan Furniture Ltd. for additional furniture. | | | | |
| 3 | Office Equipment | | 1,200.00 | | |
| | Accts Pay. / Ryan Equipment Co. 2 calculators and 1 stapler on 60 days' credit. | | | 1,200.00 | |
| 4 | Accts Pay. / Ryan Equipment Co. Office Equipment | | 200.00 | | |
| | Returned 1 calculator received in damaged condition. | | | 200.00 | |
| 5 | Accts Pay. / Weston Motors Ltd | | 5,000.00 | | |
| | Cash | | | 5,000.00 | |
| | Cheque No. 2 on account. | | | | |
| 11 | Telephone Expense | | 4.00 | | |
| | Cash | | | 4.00 | |
| | Cheque No. 3 to Bell Canada | | | | |

Journal Proof
Page 1
Oct. 11, 19-1

| | |
|-----------|---|
| 0.00 | T |
| 60 000.00 | + |
| 15 000.00 | + |
| 8 000.00 | + |
| 7 000.00 | + |
| 1 000.00 | + |
| 1 200.00 | + |
| 200.00 | + |
| 5 000.00 | + |
| 40.00 | + |
| 97 440.00 | T |
| 20 000.00 | + |
| 3 000.00 | + |
| 2 000.00 | + |
| 5 000.00 | + |
| 60 000.00 | + |
| 1 000.00 | + |
| 1 200.00 | + |
| 200.00 | + |
| 5 000.00 | + |
| 40.00 | + |
| 97 440.00 | T |

when you finish a compound entry check to see that the debits and credits equal

Journal Proof
Total debits = Total credits

often attached to the journal

Journal Proof - the total of the debit column is equal to the total of the credit column on a journal page

| Cash | | Account No. 101 | | | |
|---------|---------------|-----------------|---------|---------|------------|
| DATE | EXPLANATION | POST. REF. | DEBIT | CREDIT | BALANCE |
| Sept 30 | Opening entry | 44 | 6000.00 | | 6000.00 |
| 10/1 | Ad. | 1 | | 1000.00 | 5000.00 |
| 5 | Ad. | 1 | | 5000.00 | 500.00 |
| 11 | Ad. | 1 | | 400.00 | 539.60 |
| 12 | Ad. | 2 | | 1600.00 | 523.60 |
| 15 | Ad. | 2 | | 400.00 | 483.60 |
| 16 | Ad. | 2 | 3000.00 | | 513.60 |
| 18 | Ad. | 2 | | 59.50 | 507.65 |
| 20 | Ad. | 2 | 1340.00 | | 641.65 |
| 30 | Ad. | 2 | 2000.00 | | 621.65 |
| 31 | Ad. | 2 | 1340.00 | | 755.65 |
| 31 | Adj. | 3 | 4500.00 | | 710.65 DR. |

Manually

Total debits \$89 800
 Total credits -18 735
 Cash balance \$71 065 DR.

How can you prove individual account balances without rechecking each individual horizontal calculation?

Adding Machine or Electronic Calculator

Acct. 710.101
Oct. 31, 19-1

| | |
|-----------|---|
| 0.00 | T |
| 60 000.00 | + |
| 3 000.00 | + |
| 13 400.00 | + |
| 13 400.00 | + |
| 1 000.00 | - |
| 5 000.00 | - |
| 40.00 | - |
| 1 600.00 | - |
| 4 000.00 | - |
| 595.00 | - |
| 2 000.00 | - |
| 4 500.00 | - |
| 71 065.00 | T |

after you have checked and proved total

Asset Account

Debits are +

Credits are -

| Accts. Pay - Ryan Equipment Co. Account No. 204 | | | | | |
|--|---------------|------------|-------|--------|---------|
| DATE | EXPLANATION | POST. REF. | DEBIT | CREDIT | BALANCE |
| 19-1 | | | | | |
| Sept 30 | Opening entry | Dr. / Cr. | | 20,000 | 20,000 |
| Oct 3 | | Dr. / Cr. | | 1,200 | 21,200 |
| 4 | | Dr. / Cr. | 2,000 | | 19,200 |

Acct. No. 204
Oct. 31, 19-1

| | |
|----------|---|
| 0.00 | T |
| 2 000.00 | + |
| 1 200.00 | + |
| 200.00 | - |
| 3 000.00 | T |

Liability Account

Credits +

Debits -

Remember - the balance of an account is recorded on the same side as that on which the account appears in the accounting equation

$$A = L + OE$$

| Account | Type of Balance Normally Shown |
|-------------------------|--------------------------------|
| Asset | Debit (DR) |
| Liability | Credit (CR) |
| Owner's Equity elements | |
| Capital | Credit (CR) |
| Drawing | Debit (DR) |
| Revenue | Credit (CR) |
| Expense | Debit (DR) |

PROVING THE LEDGER

- if all debits and credits are posted correctly to the accounts, the ledger must balance, not only in the individual ledger accounts but overall.

In Chapter 3 you learned how to "prove the ledger" by doing a summary of the T accounts.

This summary showed that the total of the debits balances agreed with the total of the credits balances in the ledger.

Such a summary is known as the TRIAL BALANCE.

Formal Trial Balance - a list or summary of the balances of accounts in a ledger as at a certain date

who *J. Emery Real Estate*
 what *Trial Balance*
 when *October 31, 19-1*

the date as of which the summary is prepared

| ACCOUNT TITLE | ACCT. NO. | DEBIT | CREDIT |
|--------------------------------------|-----------|------------------|------------------|
| Cash | 101 | 711,065.00 | |
| Accts. Pay. / Art. Rogers | 103 | 6,000.00 | |
| Accts. Pay. / R. Hobbs | 104 | 4,000.00 | |
| Accts. Pay. / Shannon Development Co | 105 | 15,000.00 | |
| Automobile | 110 | 15,000.00 | |
| Furniture | 112 | 9,000.00 | |
| Office Equipment | 114 | 8,000.00 | |
| Bank Loan Payable | 201 | | 16,000.00 |
| Accts. Pay. / Bill Furniture Co | 202 | | 3,000.00 |
| Accts. Pay. / The City Press | 203 | | 2,000.00 |
| Accts. Pay. / Kaye Equipment Co | 204 | | 3,000.00 |
| J. Emery, Capital | 301 | | 63,000.00 |
| J. Emery, Drawings | 302 | 2,000.00 | |
| Commissions Collected | 401 | | 51,800.00 |
| Rent Expense | 501 | 1,600.00 | |
| Telephone Expense | 502 | 400.00 | |
| Utilities Expense | 503 | 595.00 | |
| Salaries Expense | 504 | 4,500.00 | |
| Advertising Expense | 505 | 2,000.00 | |
| | | <u>38,800.00</u> | <u>38,800.00</u> |

Accounts are listed in the order in which they are filed in the General Ledger

- You do not list accounts with a zero balance.

single line, then total

if balanced draw a double line

Trial Balance
210 Proof
Oct. 31, 19-1

| |
|-------------|
| 0.00 T |
| 71 065.00 + |
| 6 000.00 + |
| 4 000.00 + |
| 15 000.00 + |
| 15 000.00 + |
| 9 000.00 + |
| 8 000.00 + |
| 16 000.00 - |
| 3 000.00 - |
| 2 000.00 - |
| 3 000.00 - |
| 63 000.00 - |
| 2 000.00 + |
| 51 800.00 - |
| 1 600.00 + |
| 400.00 + |
| 595.00 + |
| 4 500.00 + |
| 2 000.00 + |
| 0.00 T |

Do you wonder what trial means?

It means you are putting the General Ledger on trial for accuracy.

If A = L + OE then this equation as it is represented in the general ledger must balance.

Expense accounts are shown as a DR (DR/CR) Why? OE ↓

Revenue accounts are shown as a CR (DR/CR) Why? OE ↑

PREPARING AN INFORMAL TRIAL BALANCE

| Trial Balance | |
|---------------|--------|
| Zero Proof | |
| Oct. 31, 19-1 | |
| | 0.00 T |
| 71 065.00 + | |
| 6 000.00 + | |
| 4 000.00 + | |
| 15 000.00 + | |
| 15 000.00 + | |
| 9 000.00 + | |
| 8 000.00 + | |
| 16 000.00 - | |
| 3 000.00 - | |
| 2 000.00 - | |
| 3 000.00 - | |
| 63 000.00 - | |
| 2 000.00 + | |
| 51 800.00 - | |
| 1 600.00 + | |
| 40.00 + | |
| 595.00 + | |
| 4 500.00 + | |
| 2 000.00 + | |
| | 0.00 T |

If a formal trial balance is not required time can be saved by preparing an adding machine tape.

Here are the main procedures for a quick trial balance

- check the accuracy of the balance in each account and indicate whether it is a debit or credit.
- clear the machine with the TOTAL key
- list all accounts in the account number order, enter all debits with a plus (+) and credits with a minus (-)
- when the last balance has been entered , press the TOTAL key to print the results

If the balance is zero, you have a zero proof and the ledger is in balance, total debits equal total credits

Zero proof - deducting all of the credit balances from all of the debit balances to give a zero balance

If the result is not zero, an error exists in the ledger and the tape can be used to find it.

- there is always the possibility that an error was made when producing the zero proof.

USING THE TRIAL BALANCE

A trial balance is useful because:

- it proves the equality of the total debits and credits in the General Ledger
- it lists all the account balances, giving a brief picture of every account that has a balance in the ledger
- it is a basis for the preparation of financial statements (income statement / balance sheet)

REVIEWING THE ACCOUNTING CYCLE

Step 1: originating transactions from source documents

Step 2: journalizing - analyzing and recording transactions from source documents to a book of original entry

Step 3: posting - transferring debit and credit information from the journal to the ledger

Step 4: preparing a trial balance

**** THE KEY CHECKPOINT BEFORE ANY
FINANCIAL STATEMENT ARE PREPARED**

Bookkeeping - the process of journalizing business transactions, posting transactions to ledger accounts, and proving the ledger to be in balance

or

Steps 2, 3 and 4 of the accounting cycle
(journalizing, posting and preparation of the trial balance)

- In the past everyone who worked with financial records was called a bookkeeper.(records were kept in a book)
- As financial record keeping grew in importance, the term accountant became popular

What is the difference????

BOOKKEEPER works for an

- records transactions
- posts to the ledger
- provides mathematical checks of documents, journals, account balances and the ledger

ACCOUNTANT

- responsible for establishing and maintaining an entire accounting system
- interpreting the results of recorded data to management and assisting in management decisions

The term "bookkeeper" is gradually being replaced with "accounting clerk." because accounting data is now processed using computers

Terms will vary depending on the size of the business.

In general,

the accountant holds a professional position and the bookkeeper or accounting clerk performs clerical duties under the supervision of an accountant.

See Page 148 - 149 - Advertisements for Positions

