

4.1 ▶ Ledger Accounts

In this chapter, you will be learning the system used to maintain an up-to-date financial position. For this purpose, accountants long ago developed the account and the ledger.

An **account** is a record that documents each change to items in the accounting equation. There is one account for each asset, each liability, and each type of equity. (Currently, you know only one classification of equity, that is, capital.) All the accounts together are called the ledger. A **ledger** is a group or file of accounts.

Accounts can be prepared in different ways. They can be designed on cards to form a card ledger. They can be prepared on paper to form a paper ledger, or they can be created electronically in a software program. While all these methods may still be used, computer software accounts and ledgers now dominate the business world. The ledger illustrated in Figure 4.1 was created with an accounting software program called Sage Simply Accounting. This ledger contains 10 accounts: six assets, three liabilities, and one equity.

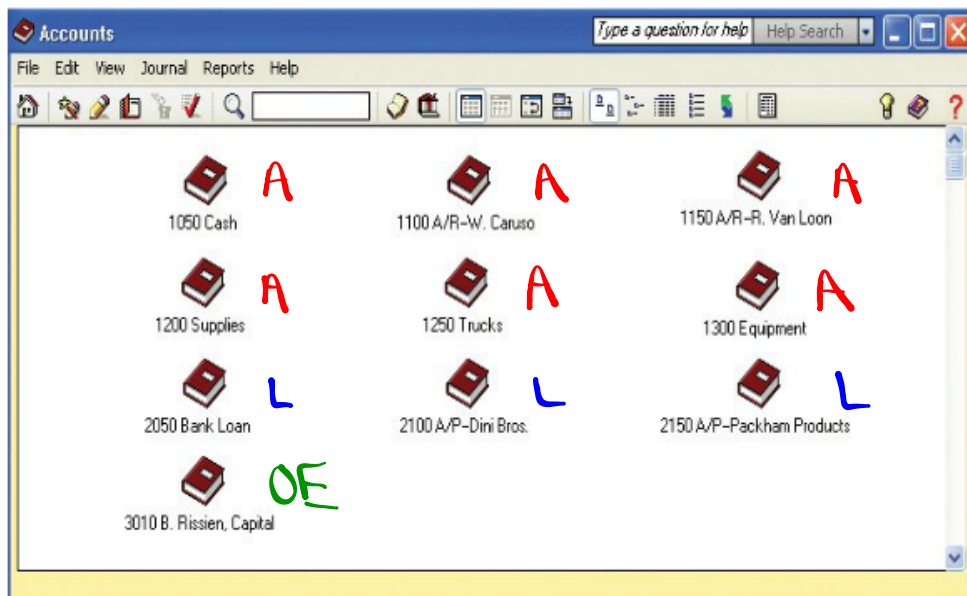


Figure 4.1

A ledger created with Sage Simply Accounting software

The accounts in Figure 4.1 refer to the records of Pacific Trucking, owned by Byron Rissien of Kelowna, British Columbia. The balance sheet of this business is shown in Figure 4.2 below.

PACIFIC TRUCKING BALANCE SHEET JUNE 30, 20--			
Assets		Liabilities	
Cash	\$ 3 265	Bank Loan	\$18 000
A/R – W. Caruso	150	A/P – Dini Bros.	1 516
A/R – R. Van Loon	620	A/P – Packham Products	3 946
Supplies	2 465	Total Liabilities	\$23 462
Trucks	55 075	Owner's Equity	
Equipment	22 174	B. Rissien, Capital	60 287
Total Assets	<u>\$83 749</u>	Total Liabilities and Equity	<u>\$83 749</u>

Figure 4.2
The balance sheet of Pacific Trucking

The information from this balance sheet is used to set up the separate accounts. The dollar value for each item on the balance sheet gives the beginning value for that item's account.

Using manual methods instead of electronic, we will now examine the ledger for Pacific Trucking. There are 10 accounts, one for each item on the balance sheet. These accounts are Cash; Accounts Receivable–W. Caruso; Accounts Receivable–R. Van Loon; Supplies; Trucks; Equipment; Bank Loan; Accounts Payable–Dini Bros.; Accounts Payable–Packham Products; and B. Rissien, Capital. All these accounts together form the ledger for Pacific Trucking.

<u>Assets</u>		=	<u>Liabilities + Owner's Equity</u>	
Cash	A/R W. Caruso		Bank Loan	B. Rissien, Capital
3 265	150		18 000	60 287
A/R R. Van Loon	Supplies		A/P Dini Bros.	
620	2 465		1 516	
Trucks	Equipment		A/P Packham Products	
55 075	22 174		3 946	

Figure 4.3
The simple ledger accounts of Pacific Trucking

Figure 4.3 above shows the information from the balance sheet of Pacific Trucking presented as accounts in a ledger. These accounts are called T-accounts because, as you can see, each one looks like a T. The T-account is a simple type of account, used mainly to help you understand accounting theory. A more formal account for recording business entries will be introduced in Chapter 6.

Since accounts are internal records and not normally shown to outsiders, dollar signs beside the beginning values are unnecessary.

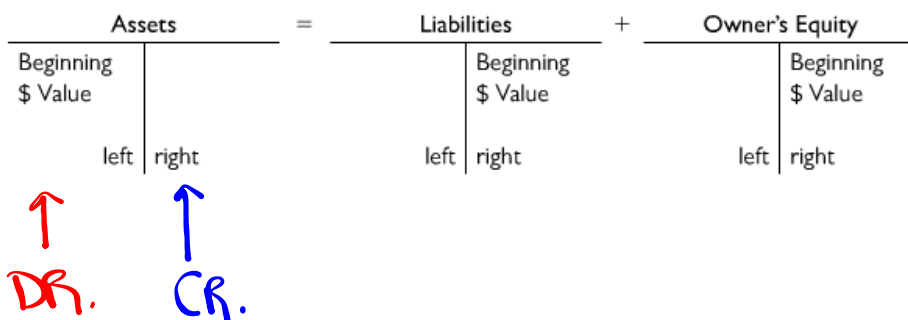
- Asset balances are shown on the left or debit (DR.) side.
- Liability balances are shown on the right or credit (CR.) side.
- Owner's Equity balances are shown like so:
 - Capital and Revenues/Sales are on the right
 - Drawings & Expenses are on the left.

Important Features of Ledger Accounts

Using the ledger shown in Figure 4.3 on page 89 as a guide, let us look at important features shared by simple ledger accounts.

1. Each individual balance sheet item is given its own T-account with the name of the item at the top. In Figure 4.3, there are 10 accounts. Learn to call them the Cash account, the R. Van Loon account, the Packham Products account, the Bank Loan account, and so on.
2. The dollar figure for each item is recorded in the account on the first line. This is the beginning value for the account.
3. For any item, the correct side for its beginning value is the side on which the item itself would appear in the accounting equation ($A = L + OE$). For *assets*, like cash or supplies, beginning values are on the *left* side of the T because assets are on the left side of the equation. For *liabilities* and *equity* items, like bank loan or capital, beginning values are on the *right* side of the T because liabilities and equity are on the right side of the equation.

Each account in Pacific Trucking's ledger follows these three rules, which are summarized in the diagram below.



Homework

Section 4.1 on pages 90-92

Review Questions 1-7.

Exercises 1-4.

SECTION 4.1 REVIEW QUESTIONS (page 90)

1. An account is a record that documents each change to items in the accounting equation.
2. A ledger is a group or file of accounts.
3. A ledger can be an electronic computer file, loose-leaf pages in a binder, or cards in a tray.
4. The accounting records are often referred to as the books because accounting was done in ledger books until recently. Accounting software frequently identifies ledger accounts with a book symbol.
5. The beginning amounts for a ledger are usually taken from a balance sheet because a balance sheet is prepared at the start of a business to give a balanced record of the company's assets and liabilities.
6. The principle use of T-accounts is to help students understand accounting theory.
7. For any item, the correct side for its beginning value is the side on which the item itself would appear in the accounting equation. The beginning dollar amounts for the assets are placed on the left side of their T-accounts. The beginning dollar amounts for the liabilities and the owner's equity are placed on the right side of their T-accounts.

SECTION 4.1 EXERCISES (page 91)
Exercise 1, p. 91

Cash 2 000	A/R—A. Marks 375	A/R—C. Prentice 1 150
Land 130 000	Building 245 000	Equipment 27 800
Truck 14 500	Bank Loan 20 000	A/P—Gem Lumber 2 500
Mortgage Payable 255 000	T. Stevens, Capital 143 325	

Exercise 2, p. 91

Cash	A/R—P. Auul	A/R—S. Wouke
500	350	1 250
Supplies	Furniture and Equipment	Automobile
3 900	18 320	21 040
A/P—A.B. Associates	A/P—Medico Supply	Pauline Inaba, Capital
1 200	2 300	41 860

Exercise 3, p. 92

Assets: 500 + 2100 + 1545 + 500 = 4645

Liabilities: 1350 + 2400 = 3750

Lilly Wall's Capital: 4645 - 3750 = 895

The fundamental accounting equation for Lilly Wall is Assets = Liabilities + Owner's Equity or 4645 = 3750 + 895.

Exercise 4, p. 92

A. *Assets:* $1386 + 320 + 480 + 655 + 6809 + 3300 = 12\,950$

Liabilities: $1345 + 984 + 6000 = 8329$

Marcy Vigiani's Capital: $12\,950 - 8329 = 4621$

Cash	A/R—J. Goertzen	A/R—L. Tyler
1 386	320	480
Supplies	Equipment	Furniture
655	6 809	3 300
A/P—Body-Works Supply	A/P—Live Well Equipment	Bank Loan
1 345	984	6 000
M. Vigiani, Capital		
4 621		

Exercise 4, p. 92 (continued)

B. *MARCI'S MASSAGE THERAPIES*
BALANCE SHEET
JUNE 30, 20-

<i>Assets</i>						<i>Liabilities</i>							
<i>Cash</i>	\$	1	3	8	6	-	<i>A/P—Body-Works Supply</i>	\$	1	3	4	5	-
<i>A/R—J. Goertzen</i>			3	2	0	-	<i>A/P—Live Well Equipment</i>			9	8	4	-
<i>A/R—L. Tyler</i>			4	8	0	-	<i>Bank Loan</i>		6	0	0	0	-
<i>Supplies</i>			6	5	5	-	<i>Total Liabilities</i>	\$	8	3	2	9	-
<i>Equipment</i>		6	8	0	9	-							
<i>Furniture</i>		3	3	0	0	-	<i>Owner's Equity</i>						
							<i>M. Vigiani, Capital</i>		4	6	2	1	-
<i>Total Assets</i>	\$	12	9	5	0	-	<i>Total Liabilities and Equity</i>	\$	12	9	5	0	-