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Management & Principles of Accounting
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Recording transactions in the journal book and in the ledger book

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Source: Kimmel/Weygandt/Kieso "Financial Accounting"
Seventh Edition Wiley and Google

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After this lesson you should be able to:

1. Identify the accounting transactions
2. Explain what is a T- account
3. Explain the Recording Process
4. Explain what a Journal is
5. Explain what posting is
6. Describe the debit/credit rules

The Accounting Information System

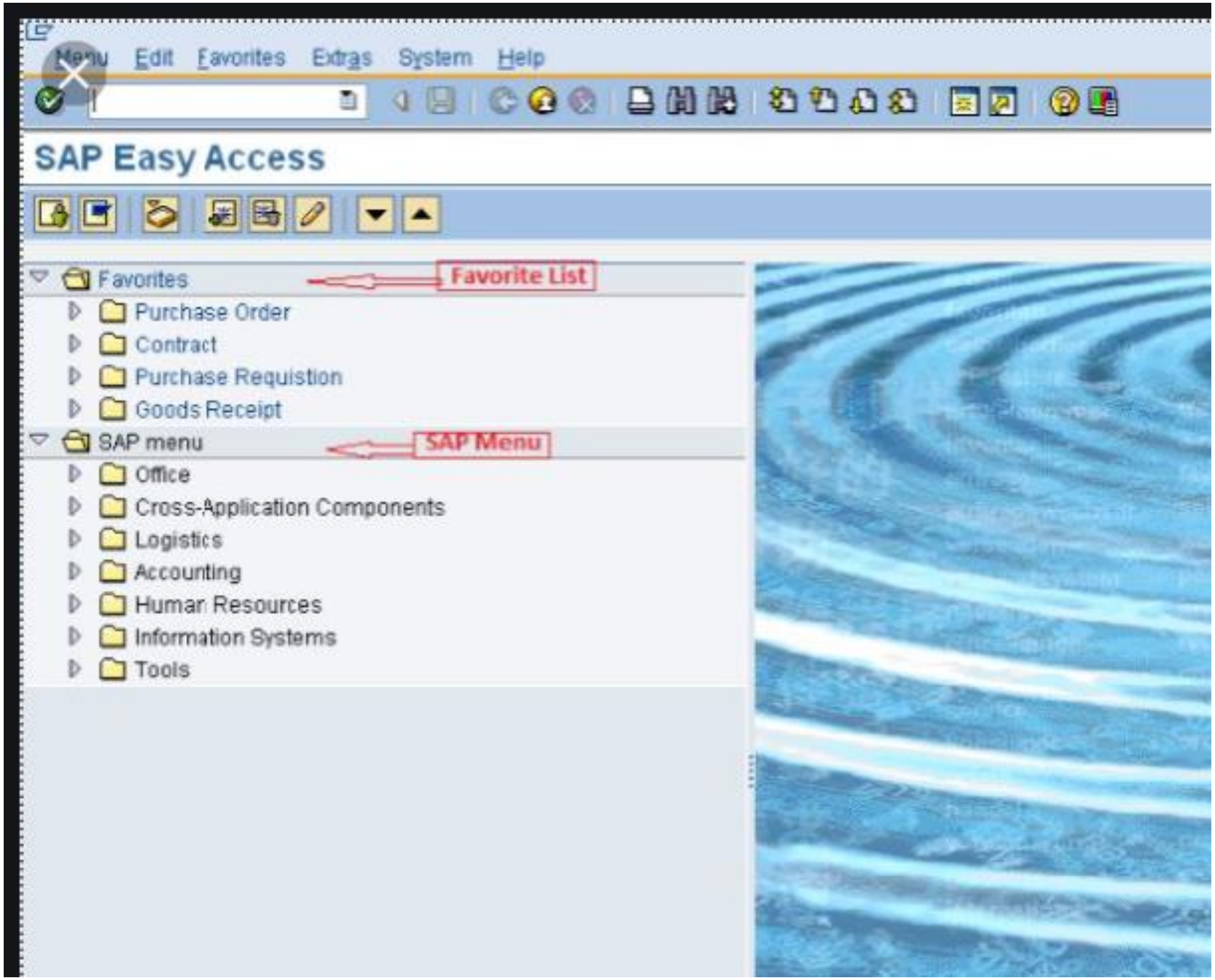
System of

- collecting and
- processing transaction data and
- communicating financial information to decision makers.

Most businesses use computerized accounting (EDP) systems.

SAP

System Application and Product in Data Processing



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SAP (System Application and Product in Data Processing)

Example of transaction codes

T-Code	SAP Description
Vendor Maintenance	
FK01	Create Vendor (Accounting)
FK02	Change Vendor (Accounting)
XK01	Create Vendor (Centrally)
XK02	Change Vendor (Centrally)
Enter Invoice	
FB60	Enter Vendor Invoice
F-43	Enter Vendor Invoice: Header Data
FB01	Post Document (allows posting of any financial transaction)
FB10	Invoice/Credit Memo Fast Entry
Post Payment	
F-53	Post Outgoing Payment
F-58	Post Payment with Printout
F110	Automatic Payments

The Accounting Transactions

Transactions are economic events that require recording in the financial statements.

- Not all activities represent transactions.
- Assets, liabilities, or stockholders’ equity items change as a result of some economic event.

Dual effect on the accounting equation.

The Accounting Transactions

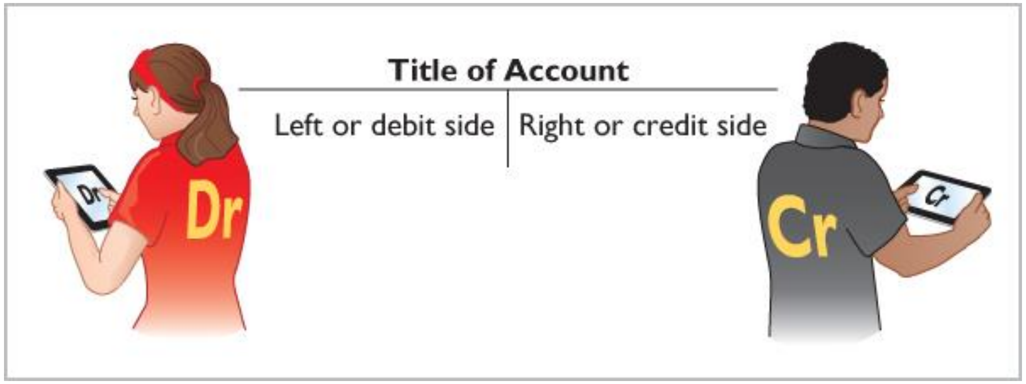
Question: Are the following events recorded in the accounting records?

Event	Purchase computer.	Discuss guided trip options with potential customer.	Pay rent.
Criterion	Is the financial position (assets, liabilities, or stockholders' equity) of the company changed?		
	Yes	**No**	**Yes**
Record/ Don't Record			

The T-account

The name of the account is reported on the top

- One of the basic tools used by accountants is the so-called “T-account”. Each item we record any time that there is a transaction has a correlated “T-account” (i.e. cash, buildings, accounts payable, retained earnings etc.)



According to the double-entry system, **every transaction involves both a debit (left) and a credit (right) side.** The word debit is abbreviated as “Dr.” and the word credit is abbreviated as “Cr.”.

The T-account

- Since using the words “credit” and “debt” is sometime confusing (think about the increase in an account receivable, which is recorded in the “debit” side), it’s better to use “left” and “right” side

Tabular Summary

Cash
$10,000
5,000
–5,000
1,200
10,000
–900
–600
–500
–4,000
$15,200

Account Form

Cash			
(Debits)	10,000	(Credits)	5,000
	5,000		900
	1,200		600
	10,000		500
			4,000
Balance (Debit)	15,200		

- Nevertheless, on the accounting handbooks you’ll find both ways to call the two sides of a t-account

The T-account

- Increases in assets are recorded on the left (debit) side and decreases on the right (credit) side

Cash

Increases	Decreases

- Increases in liabilities and stockholders' equity are recorded on the right (credit) side and decreases on the left (debit) side

Accounts Payable

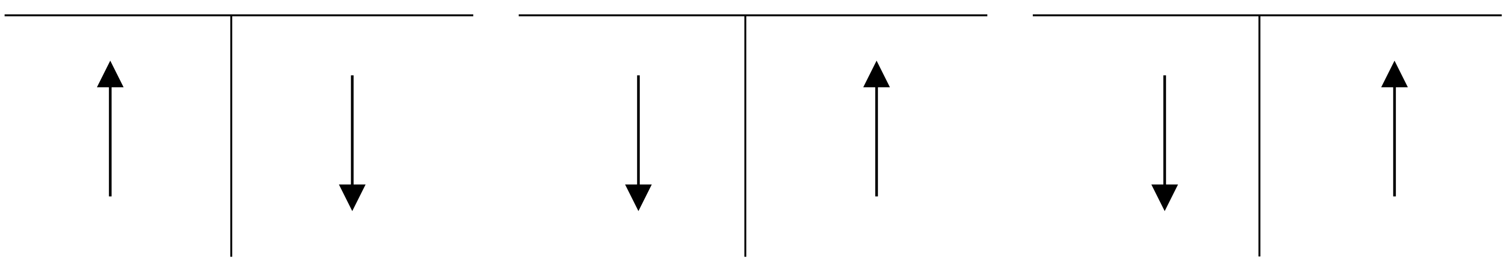
Decreases	Increases

Debits	Credits
Increase assets	Decrease assets
Decrease liabilities	Increase liabilities

The T-account

- If we consider the accounting basic equation we can understand why each transaction always involves both a left and a right side entry. In other words, **for each transaction, debits must equal credits**. The equality of debits and credits provides the basis for the double-entry accounting system.

Assets = Liabilities + Stockholders’ equity



The balance of an account

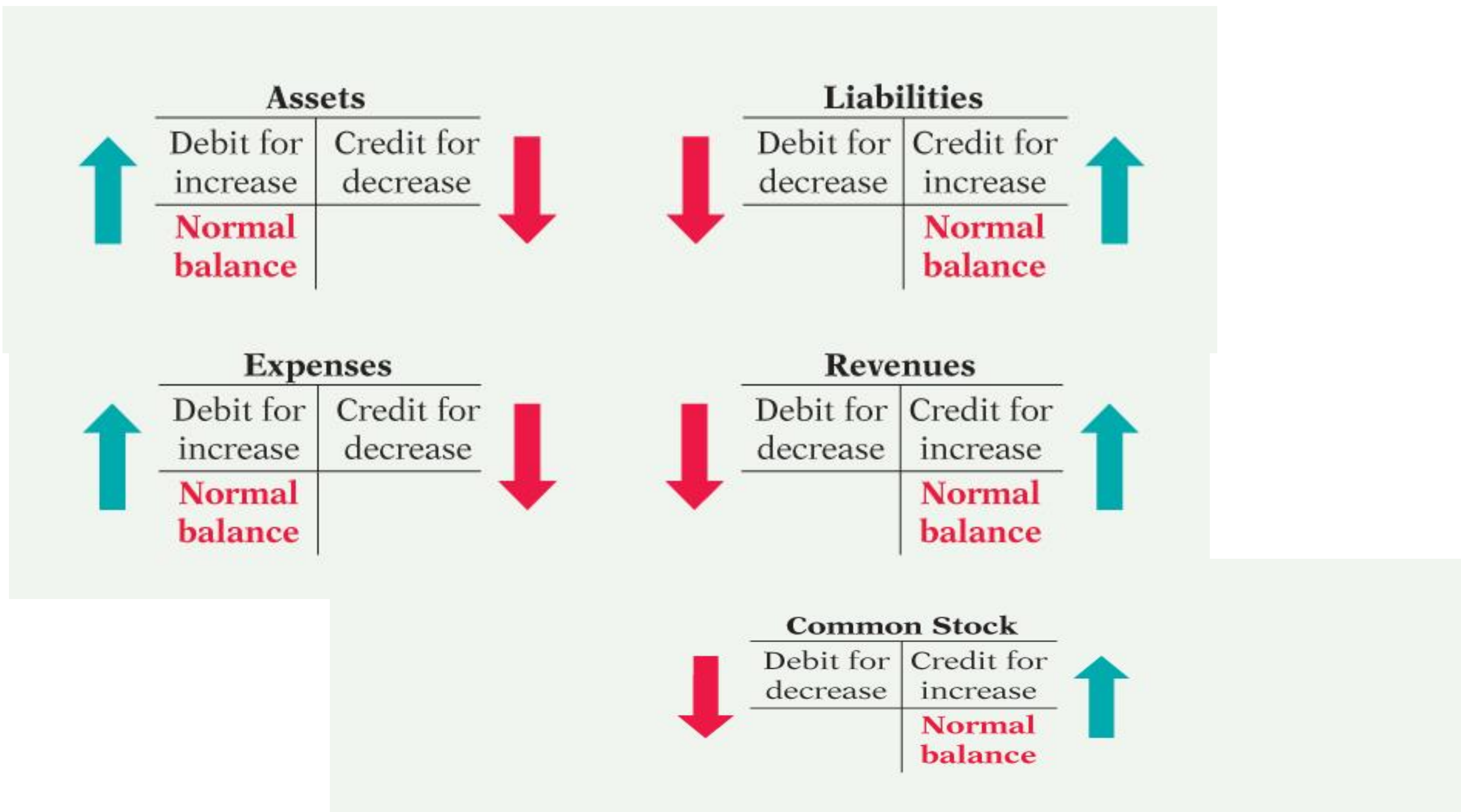
- The amount remaining in an account (the difference between the total debits and the total credits) is called his **balance**
- An account has a left-side balance when the total amount recorded in its left side is larger than the one recorded in its right side
- An account has a right-side balance when the total amount recorded in its right side is larger than the one recorded in its left side
- An account's normal balance is on the side where increases are recorded. Therefore:

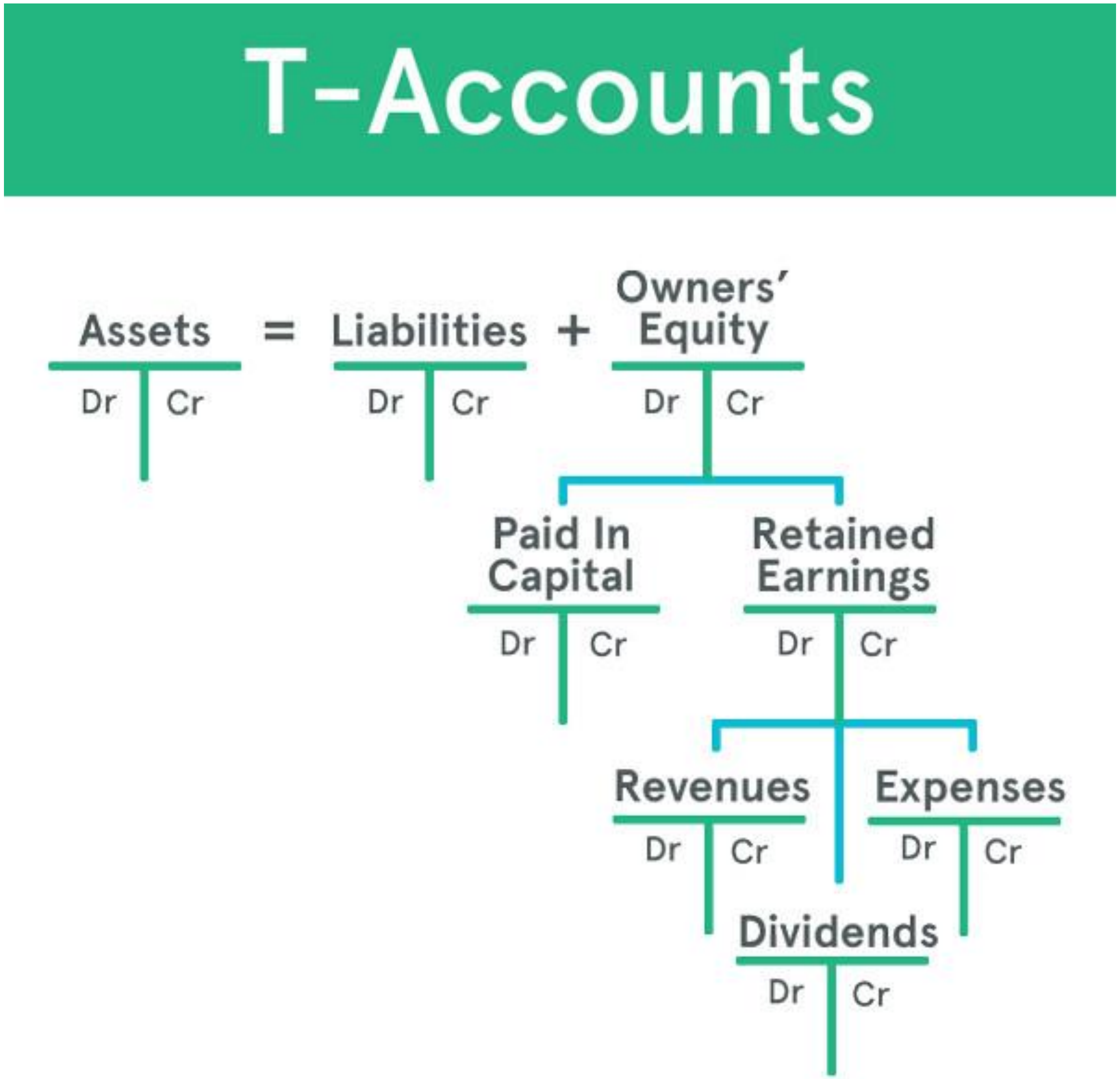
Assets		=	Liabilities		+	Stockholders' equity	
Normal balance				Normal balance			Normal balance

The balance of an account – Rules

Normal Balance **Debit**

Normal Balance **Credit**

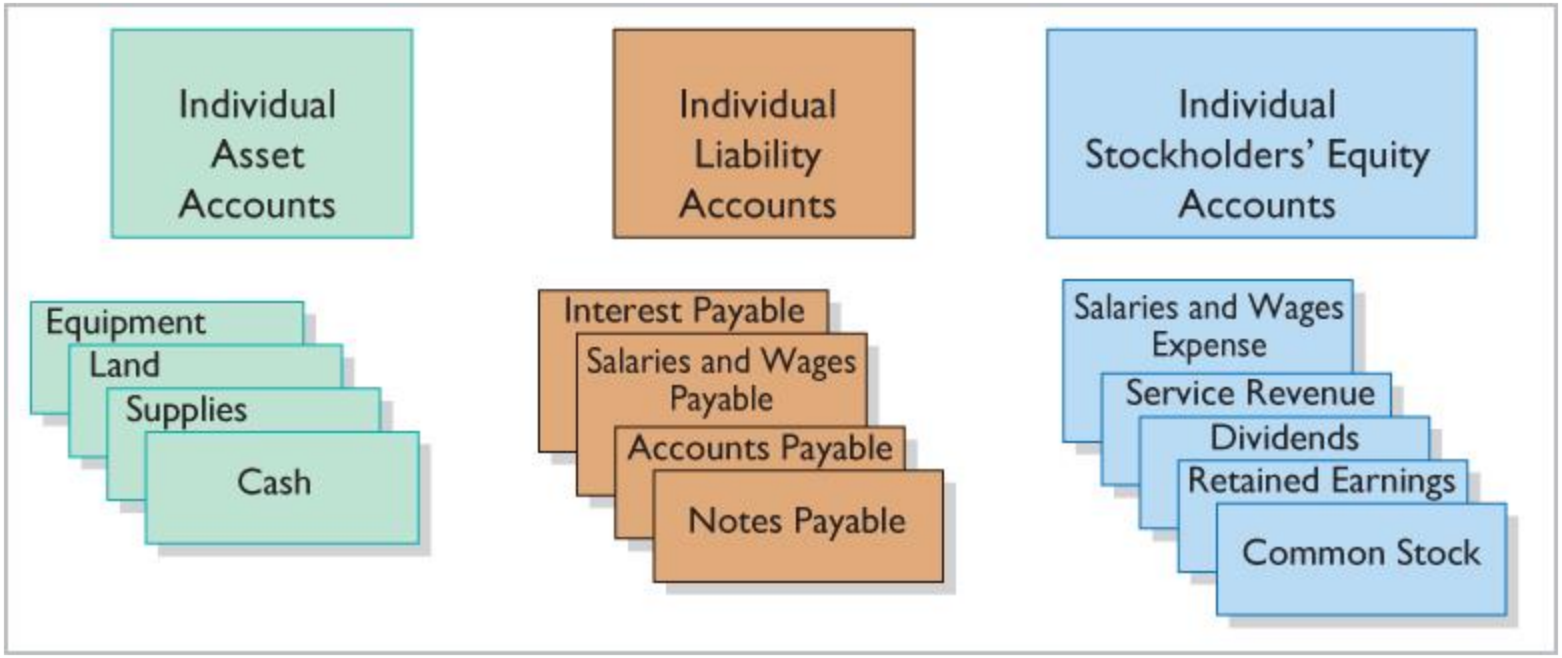




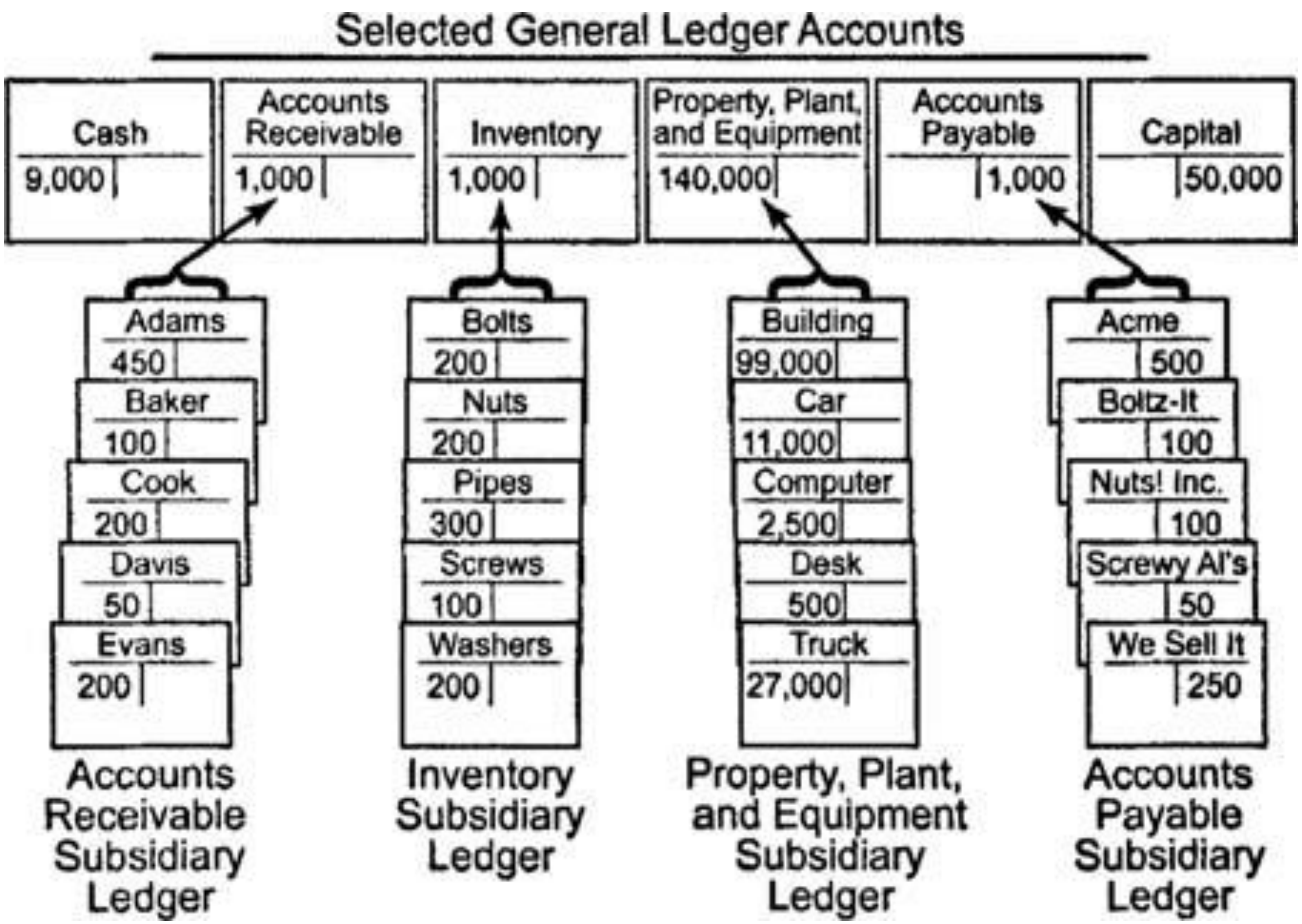
Source: Google

The T-account

- The **chart of accounts** is the list of all the accounts (name and code-number) of the company
- The **Ledger** is comprised of the entire group of accounts maintained by a company



The T-account

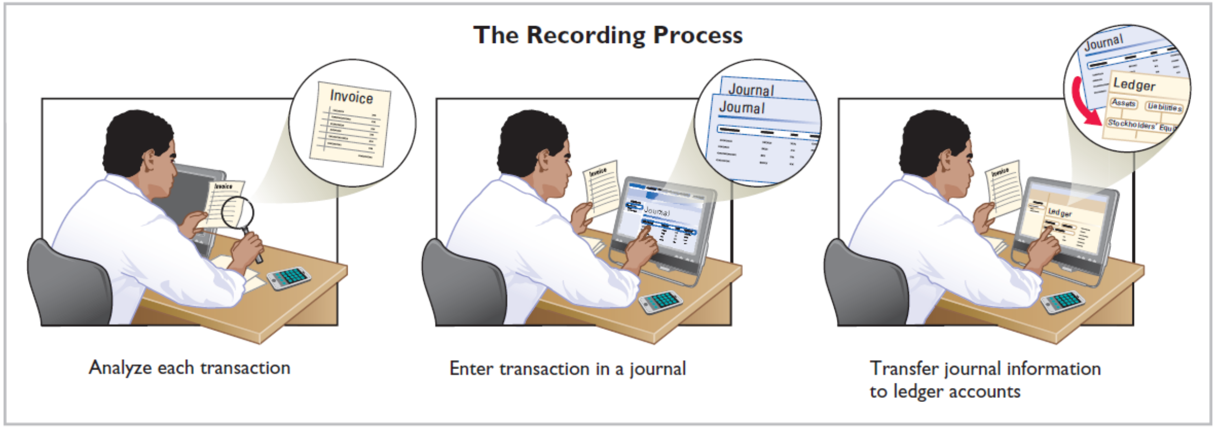


Source: Google

The Recording Process

In order to leave a clearer record of all transactions, accountants do not record them directly in the T-accounts

- Accountants use to record transactions in the **journal**, which is another book containing a chronological description of all transactions occurred. This process is called "**to make the journal entries**" or "**to journalize the transactions**"



After journalizing, the transactions are copied to the ledger. This process is called **posting. Posting** is normally performed by computers

The journal

A complete entry in the journal consists of:

1. Date of the transaction
2. The accounts and amounts to be debited or credited
3. A brief explanation of the transaction

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
2014				
Oct.	1	Cash	10,000	
		Common Stock		10,000
		(Issued stock for cash)		
	1	Cash	5,000	
		Notes Payable		5,000
		(Issued 3-month, 12% note payable for cash)		
	2	Equipment	5,000	
		Cash		5,000
		(Purchased equipment for cash)		

Recognizing different kinds of items

- In order to recognize assets from liabilities, from revenues, from expenses, from other owners' equity accounts, close to each account journalized we'll put:

(A) if the account is an asset

(L) if it's a liability

(OE) if it's an owners' equity item (stockholders' equity) ,

different from revenues and expenses

(R) if it's a revenue

(E) if it's an expense

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
2014				
Oct.	1	Cash (A)	10,000	
		Common Stock (OE)		10,000
		(Issued stock for cash)		
	1	Cash (A)	5,000	
		Notes Payable (L)		5,000
		(Issued 3-month, 12% note payable for cash)		
	2	Equipment (A)	5,000	
		Cash (A)		5,000
		(Purchased equipment for cash)		

The posting

The procedure of transferring journal entry amounts to the ledger

accounts is called **posting.**

This phase of the recording process accumulates effects of the

journalized transactions in the individual accounts.

The posting

The five steps of posting from the journal to ledger include:

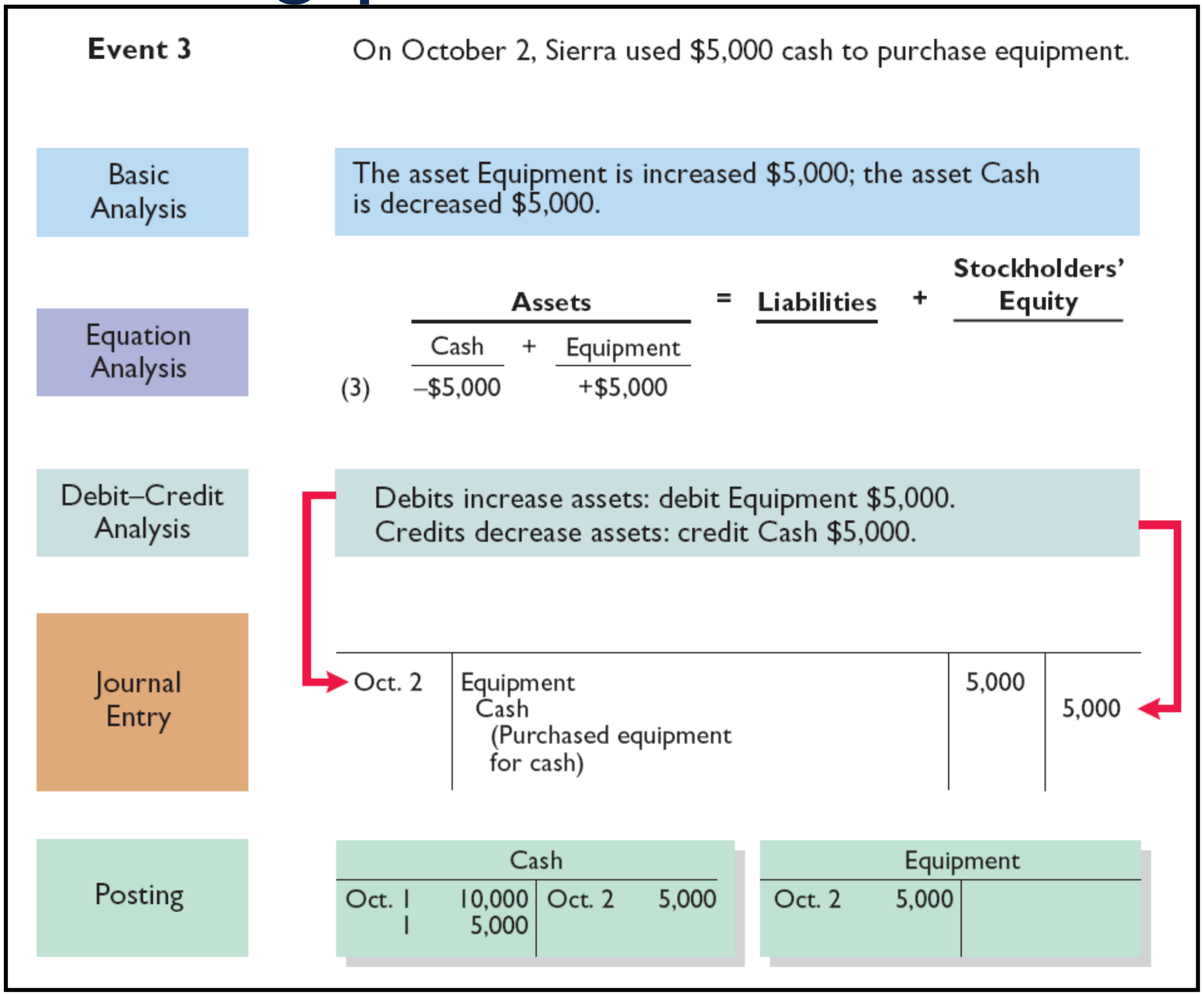
1. typing the account name (and number)
2. specifying the details of the journal entry
3. entering the debits and credits for the transaction
4. calculating the running debit and credit balances
5. correcting any errors.

Source: Google

The recording process illustrated

Follow these steps:

1. Determine what type of account is involved.
2. Determine what items increased or decreased and by how much.
3. Translate the increases and decreases into debits and credits.



Summary of debit and credit rules

Relationship among the assets, liabilities and stockholders' equity of a business:

Basic Equation: **Assets = Liabilities + Stockholders' Equity**

Expanded Basic Equation:

Assets	=	Liabilities	+	Common Stock	+	Retained Earnings	−	Dividends	+	Revenues	−	Expenses
Dr. + / Cr. −		Dr. − / Cr. +		Dr. − / Cr. +		Dr. − / Cr. +		Dr. + / Cr. −		Dr. − / Cr. +		Dr. + / Cr. −

The equation must be in balance after every transaction. For every **Debit** there must be a **Credit**.

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Chart of Accounts
accounts commonly used by a company

Assets	Liabilities	Stockholders' Equity	Revenues	Expenses
Cash	Notes Payable	Common Stocks	Service Revenue	Administrative Expenses
Account Receivable	Account Payable	Paid-in Capital in Excess or par Value - Common Stocks	Sales Revemue	Amortization Expense
Allowance for Doubtful Acc.	Unearned Service revenues	Preferred Stocks	Sales Discounts	Bad Debt Expense
Interest receivables	Salaries and Wages Payable	Paid-in Capital in Excess or par Value - Preferred Stocks	Sales Returns and Allowances	Cost of Goods Sold
Inventory	Interest Payable	Treasury Stocks	Interest Revenue	Depreciation Expense
Supplies	Dividend Payable	Retained Earnings	Gain on Disposal of Plants Assets	Freight-Out
Prepaid insurance	Income Taxes Payable	Dividens		Income Tax Expense
Prepaid rent	Bonds Payable	Income Summary		Insurance Expemse
Land	Discount on Bonds Payable			Interest Expense
Equipment	Premium on Bonds Payable			Loss on Disposal of Plant Assets
Accumulated Depr.-Eq.	Mortgage Payable			Maintenance and Repair Expense
Buildings				Rent Expense
Accumulated Depr.-Build.				Salaries and Wages Expense
Copyrights				Selling Expenses
Goodwil				Supplies Expense
Patents				Utilities Expense

Review Questions

Review Question

Which is **not** part of the recording process?

a) Analyzing transactions

b) Entering transactions in a journal

c) Posting transactions

Review Question

1. When entering a transaction in the journal should the debit or credit written first?
2. Should accounting transaction debits and credits be recorded directly in the ledger accounts?
3. What are the advantages of first recording transactions in the journal and then posting to the ledger?

Review Question

The terms debit and credit mean “increase” and “Decrease”, respectively do you agree? Explain

Review Question

What is the normal balance for each of these accounts:

1. Account receivable
2. Cash
3. Dividend
4. Account Payable
5. Service Revenue
6. Salaries and Wages Expense
7. Common Stock

Review Question

For the following transactions, indicate the account debited and the account credited:

1. Supplies are purchased on account

2. Cash is received on signing a note payable