

5 Posting from a General Journal to a General Ledger

AFTER STUDYING CHAPTER 5, YOU WILL BE ABLE TO:

1. Define accounting terms related to posting from a general journal to a general ledger.
2. Identify accounting concepts and practices related to posting from a general journal to a general ledger.
3. Prepare a chart of accounts for a service business organized as a proprietorship.
4. Post amounts from a general journal to a general ledger.
5. Prove cash and journalize correcting entries.

ACCOUNT FORM

Encore Music records transactions in a general journal as described in Chapter 4. A journal is a permanent record of the debit and credit parts of each transaction with transactions recorded in chronological order. A journal does not show, in one place, all the changes in a single account.

If only a journal is used, a business must search through all journal pages to find items affecting a single account balance. For this reason, a form is used to summarize in one place all the changes to a single account. A separate form is used for each account.



TERMS PREVIEW

ledger
general ledger
account number
file maintenance
opening an account
posting
proving cash
correcting entry

ACCOUNTING IN YOUR CAREER

TIME FOR POSTING

Shayla Graham is the bookkeeper at Hammonds Marketing Services. Tony Hammonds, who started the business, hired her to take full charge of accounting, but has never shown a great deal of interest in her daily work. Tony is now talking with Shayla to discuss ways to free up some time for her to take on additional responsibilities in the rapidly growing business.

Tony begins, "Shayla, you've done a great job with the accounting system here at Hammonds Marketing. I have come to rely on you totally for everything related to accounts. But now I need to see if we can find some ways for you to do your work in less time so you can help me with some other projects."

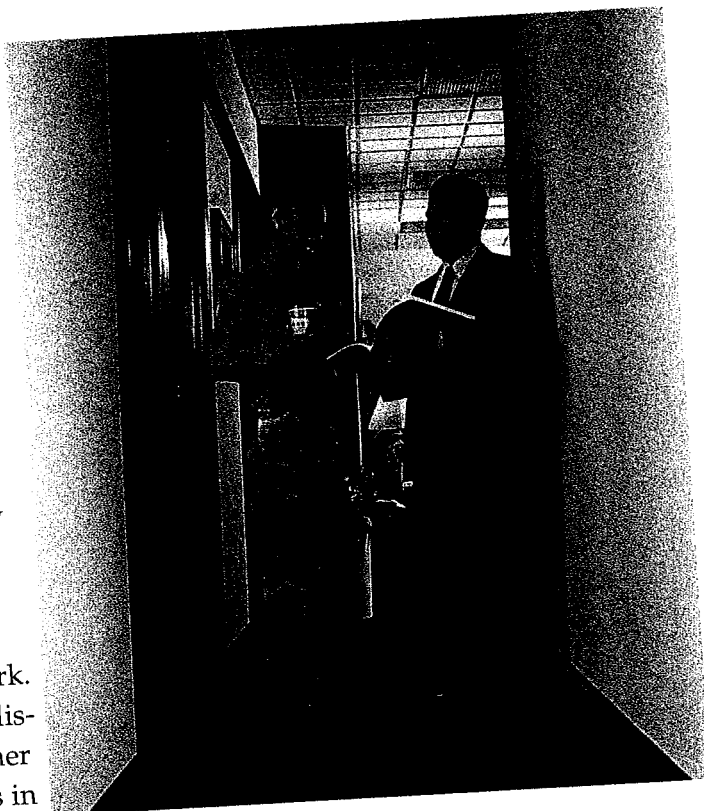
"Thank you for the vote of confidence, Tony," Shayla says, "I'd be happy to work with you on other projects if we can find a way for me to do so."

"Well, it looks like there's a lot of duplication in your work. You look at all the documents and then prepare some additional ones. Then you record them in the journal, and then you record them all again when you post them. You're doing the same thing three times."

"Tony," Shayla replies, "I promise you I am not creating unnecessary work. Each one of these steps is an important part of what we call the accounting cycle. And the accounting firm that audits our books has assured both you and me that I am following the correct procedures. Let me explain why each of these steps is important."

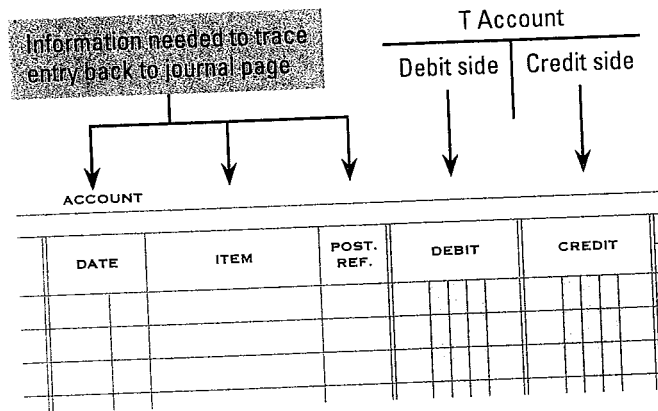
Critical Thinking:

1. How should Shayla explain the care she takes examining and preparing source documents?
2. What would be a good way to explain why both journalizing and posting are important?



5-1 Preparing a Chart of Accounts

RELATIONSHIP OF A T ACCOUNT TO AN ACCOUNT FORM



An account form is based on and includes the debit and credit sides of a T account. In addition to debit and credit columns, space is provided in the account form for recording the transaction date and journal page number. This information can be used to trace a specific entry back to where a transaction is recorded in a journal.

The major disadvantage of the account form shown is that no current, up-to-date account balance is shown. If this form is used, an up-to-date balance must be calculated each time the account is examined. When an account has a large number of entries, the balance is difficult and time consuming to calculate. Therefore, a more commonly used account form has Debit and Credit Balance columns as shown below.

ACCOUNT					ACCOUNT NO.	
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT

Balance columns

Because the form has columns for the debit and credit balance, it is often referred to as the balance-ruled account form.

The account balance is calculated and recorded as each entry is recorded in the account. Recording information in an account is described later in this chapter. The T account is a useful device for analyzing transactions into debit and credit parts. However, the balance-ruled account form is more useful as a permanent record of changes to account

balances than is the T account. Encore Music uses the balance-ruled account form.

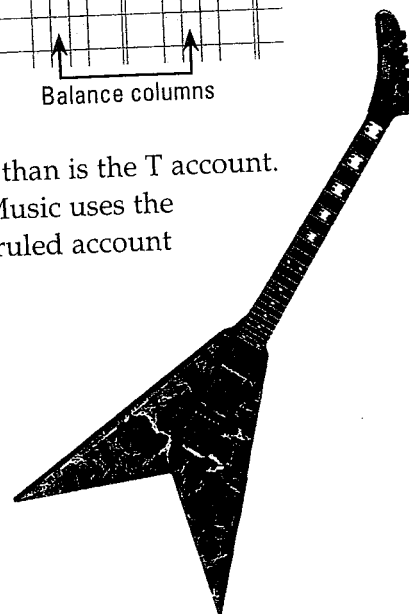


CHART OF ACCOUNTS



Encore Music

CHART OF ACCOUNTS

Balance Sheet Accounts

- (100) ASSETS
- 110 Cash
- 120 Petty Cash
- 130 Accounts Receivable—Kids Time
- 140 Accounts Receivable—Learn N Play
- 150 Supplies
- 160 Prepaid Insurance
- (200) LIABILITIES
- 210 Accounts Payable—Ling Music Supplies
- 220 Accounts Payable—Sullivan Office Supplies
- (300) OWNER'S EQUITY
- 310 Barbara Treviño, Capital
- 320 Barbara Treviño, Drawing
- 330 Income Summary

Income Statement Accounts

- (400) REVENUE
- 410 Sales
- (500) EXPENSES
- 510 Advertising Expense
- 520 Insurance Expense
- 530 Miscellaneous Expense
- 540 Rent Expense
- 550 Supplies Expense
- 560 Utilities Expense

A group of accounts is called a **ledger**. A ledger that contains all accounts needed to prepare financial statements is called a **general ledger**. The name given to an account is known as an account title. The number assigned to an account is called an **account number**.

as a chart of accounts. Encore Music's chart of accounts is shown above.

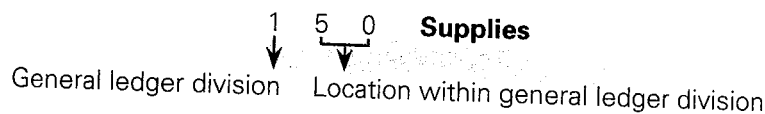
For ease of use while studying Cycle 1, Encore Music's chart of accounts is also shown on page 3.

Accounts in a general ledger are arranged in the same order as they appear on financial statements. Encore Music's chart of accounts shows five general ledger divisions: (1) Assets, (2) Liabilities, (3) Owner's Equity, (4) Revenue, and (5) Expenses.

Preparing a Chart of Accounts

A list of account titles and numbers showing the location of each account in a ledger is known

ACCOUNT NUMBERS



Encore Music assigns a three-digit account number to each account. For example, **Supplies** is assigned the number 150, as shown.

The first digit of each account number shows the general ledger division in which the account is located. For example, the asset division accounts are numbered in the 100s.

Therefore, the number for the asset account, **Supplies**, begins with a 1.

The second two digits indicate the location of each account within a general ledger division. The 50 in the account number for **Supplies** indicates that the account is located between account number 140 and account number 160.

Encore Music initially assigns account numbers by 10s so that new accounts can be added easily. Nine numbers are unused between each account on Encore Music's chart of accounts. For example, numbers 111 to 119 are unused between accounts numbered 110 and 120. New numbers can be assigned between existing account numbers without renumbering all existing accounts. The procedure for arranging accounts in a general ledger, assigning account numbers, and keeping records current is called **file maintenance**.

Unused account numbers are assigned to new accounts. Encore Music records payments for gasoline in Miscellaneous Expense. If Ms. Treviño found that the amount paid each month for gasoline had become a major expense, she might decide to use a separate account. The account might be titled Gasoline Expense. Encore Music arranges expense accounts in alphabetic order in its general ledger. Therefore, the new account would be inserted between Advertising Expense and Insurance Expense.

510	Advertising Expense	(Existing account)
	Gasoline Expense	(New Account)
520	Insurance Expense	(Existing account)

The number selected for the new account should leave some unused numbers on either side of it for other accounts that might need to be added. The middle, unused account number between existing numbers 510 and 520 is 515. Therefore, 515 is assigned as the account number for the new account.

510	Advertising Expense	(Existing account)
	515 Gasoline Expense	(New Account)
520	Insurance Expense	(Existing account)

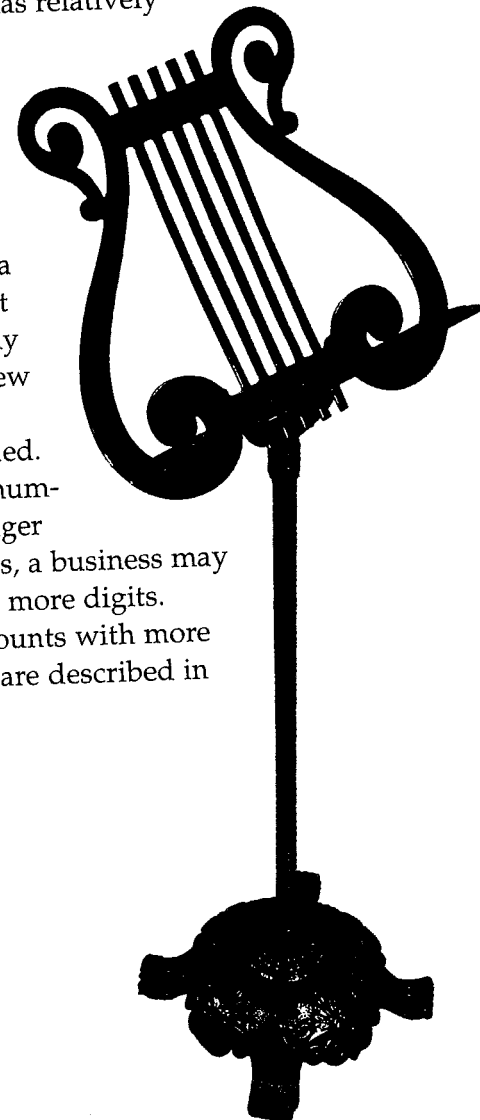
When an account is no longer needed, it is removed from the general ledger and the chart of accounts. For example, if Encore Music were to buy its own equipment and building, there would be no need for the rent expense account. The account numbered 540 would be removed, and that number would become unused and available to assign to another account if the need should arise.

When a new account is added at the end of a ledger division, the next number in a sequence of 10s is used. For example, suppose Encore Music needs to add another expense account, **Water Expense**, to show more detail about one of the utility expenses. The expense accounts are arranged in alphabetic order. Therefore, the new account would be added at the end of the expense section of the chart of accounts. The last used expense account number is 560, as shown on the chart of accounts. The next number in the sequence of 10s is 570, which is assigned as the number of the new account.

550	Supplies Expense	(Existing account)
560	Utilities Expense	(Existing account)
570	Water Expense	(New Account)

Encore Music has relatively few accounts in its general ledger and does not anticipate adding many new accounts in the future. Therefore, a three-digit account number adequately provides for the few account numbers that might be added. However, as the number of general ledger accounts increases, a business may change to four or more digits.

Charts of accounts with more than three digits are described in later chapters.



OPENING AN ACCOUNT IN A GENERAL LEDGER

[illegible]

Writing an account title and number on the heading of an account is called **opening an account**. A general ledger account is opened for each account listed on a chart of accounts. Accounts are opened and arranged in a general ledger in the same order as on the chart of accounts.

Cash, account number 110, is the first account on Encore Music's chart of accounts. The cash account is opened using the following steps.

The same procedure is used to open all accounts listed on Encore Music's chart of accounts.

Opening an account in a general ledger

1. Write the account title, *Cash*, after the word *Account* in the heading.
2. Write the account number, *110*, after the words *Account No.* in the heading.

CAN I SAY THIS ON MY RESUME?

Kendra Wheeler applied for a payroll clerk job with the Hampton Group, a market research firm. To improve her chances, she exaggerated her work experience on her resume.

Based on this resume, Kendra was hired. After one year, she received above-average ratings during her annual review. Shortly thereafter, her boss met Kendra's former supervisor and learned the truth.

Instructions

Use the three-step checklist to help determine whether or not each action demonstrated ethical behavior. (Suggested answers are provided for this case.)

1. Is the action illegal? No.

Overstating qualifications is not illegal, but the employer could terminate your employment.

2. Does the action violate company or professional standards? No. Kendra was neither an employee of the company nor a member of any profession.

3. Who is affected, and how, by the action? Kendra: She obtained employment, but now she could be terminated. If retained, she could have difficulty being promoted. Other applicants: More highly qualified applicants lost an opportunity for employment. The Hampton Group: Managers may lose trust in employees.

Based on the above analysis, Kendra's actions were unethical.

PROFESSIONAL BUSINESS ETHICS

TERMS REVIEW

ledger
general ledger
account number
file maintenance
opening an account

AUDIT YOUR UNDERSTANDING

1. Describe the two parts of an account number.
2. List the two steps for opening an account.

WORK TOGETHER

Preparing a chart of accounts and opening an account

Forms are given in the *Working Papers*. Your instructor will guide you through the following examples.

Clara Roseman owns a service business called Roseman's Services, which uses these accounts:

Accts. Pay.—Kammerer Supplies	Miscellaneous Expense	Cash	Automobile Expense
Accts. Rec.—Tyler Cobb	Insurance Expense	Sales	Accts. Pay.—Campbell Office Supplies
Prepaid Insurance	Rent Expense	Supplies	Accts. Rec.—Amber Jorgenson
Clara Roseman, Drawing	Clara Roseman, Capital		

3. Prepare a chart of accounts. Arrange expense accounts in alphabetical order. Use 3-digit account numbers and number the accounts within a division by 10s.
4. Two new accounts, Gasoline Expense and Utilities Expense, are to be added to the chart of accounts prepared in Instruction 3. Assign account numbers to the two new accounts.
5. Using the account form in the *Working Papers*, open Cash.

ON YOUR OWN

Preparing a chart of accounts and opening an account

Forms are given in the *Working Papers*. Work these problems independently.

Eric Yunger owns a service business called Yunger's Hair Care, which uses these accounts:

Accts. Pay.—Otgen Company	Supplies Expense	Cash	Delivery Expense
Accts. Rec.—Sarych Supplies	Insurance Expense	Sales	Accts. Pay.—North Star
Prepaid Insurance	Telephone Expense	Supplies	Accts. Rec.—Jaeson Keene
Eric Yunger, Drawing	Eric Yunger, Capital		

6. Prepare a chart of accounts. Arrange expense accounts in alphabetical order. Use 3-digit account numbers and number the accounts within a division by 10s.
7. Two new accounts, Rent Expense and Water Expense, are to be added to the chart of accounts prepared in Instruction 6. Assign account numbers to the two new accounts.
8. Using the account form in the *Working Papers*, open Delivery Expense.

5-2

Posting from a General Journal to a General Ledger

POSTING AN AMOUNT FROM THE DEBIT COLUMN OF A GENERAL JOURNAL

GENERAL JOURNAL									
DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT			
1	Aug. 1	Cash	R1	110	1000000		1		
2		Barbara Treviño, Capital				1000000	2		
3							3		
4							4		

DATE	ACCOUNT	POST. REF.	DEBIT	CREDIT	BALANCE
Aug. 1	Cash	G1	1000000		1000000

Transferring information from a journal entry to a ledger account is called **posting**. Posting sorts journal entries so that all debits and credits affecting each account are brought together in one place. For example, all changes to Cash are brought together in the cash account.

Each amount in the Debit and Credit columns of a general journal is posted to the account written in the Account Title column.

The numbers in the Post. Ref. columns of the general ledger account and the general journal

serve three purposes. (1) An entry in an account can be traced to its source in a journal. (2) An entry in a journal can be traced to where it was posted in an account. (3) If posting is interrupted, the accounting personnel can easily see which entries in the general journal still need to be posted. A blank in the Post. Ref. column of the journal indicates that posting for that line still needs to be completed. *Therefore, the posting reference is always recorded in the journal as the last step in the posting procedure.*

S Posting an amount from a Debit column of a general journal

1. Write the date, 20—, Aug. 1, in the Date column of the account, Cash.
2. Write the journal page number, G1, in the Post. Ref. column of the account. The letter G is an abbreviation for the general journal. Post. Ref. is an abbreviation for Posting Reference.
3. Write the debit amount, \$10,000.00, in the Debit amount column of the account.
4. Write the new account balance, \$10,000.00, in the Balance Debit column. Because this entry is the first in the cash account, the previous balance is zero. The new account balance is calculated as shown.
5. Return to the journal and write the account number, 110, in the Post. Ref. column of the journal.

Previous Balance	+	Debit Column Amount	=	New Debit Balance
\$0.00	+	\$10,000.00	=	\$10,000.00



POSTING AN AMOUNT FROM THE CREDIT COLUMN OF A GENERAL JOURNAL

GENERAL JOURNAL Journal Page Number **2** PAGE **1**

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
1 ²⁰⁻ Aug. 1	Cash	R1	110	1000000	
2	Barbara Treviño, Capital		310		1000000
3					
4					

Account *Barbara Treviño, Capital* Account Number **310**

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
1 ²⁰⁻ Aug. 1		G1		1000000	
					1000000

Account Balance

As stated previously, each amount in the Debit and Credit columns of a general journal is posted to the account written in the Account

Title column. The five steps used to post an amount from the Credit column are described below.

S Posting an amount from the Credit column of a general journal

**T
E
P
S**

1. Write the date, 20—, Aug. 1, in the Date column of the account, *Barbara Treviño, Capital*.
 2. Write the journal page number, G1, in the Post. Ref. column of the account.
 3. Write the credit amount, \$10,000.00, in the Credit amount column of the account.
 4. Write the new account balance, \$10,000.00, in the Balance Credit column. Because this entry is the first in the capital account, the previous balance is zero.
- The new account balance is calculated as shown.
- | | | | | | |
|------------|---------------------|---|-------------------------|---|-----------------------|
| + -
- x | Previous
Balance | + | Credit Column
Amount | = | New Credit
Balance |
| | \$0.00 | | + \$10,000.00 | | = \$10,000.00 |
5. Return to the journal and write the account number, 310, in the Post. Ref. column of the journal.



CULTURAL DIVERSITY

ACCOUNTING IN ANCIENT CIVILIZATIONS

In the ancient civilizations of Asia Minor and northern Africa, most citizens were illiterate. The scribe, who could read and write, became a very important person in the society. The scribe has been called the forerunner of today's accountant. Most scribes recorded transactions on moist clay tablets that were then dried in the sun.

Another important contribution to

accounting was made by the Greeks around 630 B.C. The Greeks invented coined money, which facilitated assigning values to transactions.

The Babylonians in Asia Minor used an early form of banking. They transferred funds with a system resembling our modern-day checking accounts.

These early practices provided the foundation for today's financial system and recordkeeping methods.

POSTING A DEBIT AMOUNT TO AN ACCOUNT WITH A BALANCE

Journal Page Number **2**

GENERAL JOURNAL PAGE 1

DATE	ACCOUNT TITLE	DOC. NO.	POST REF.	DEBIT	CREDIT
7	Supplies	M1	150	2720.00	
8	A/P—Ling Music Supplies		210		2720.00
9	Accounts Payable—Ling Music Supplies	C3	210	1360.00	
10	Cash				1360.00

1 Date **2** Journal Page Number **3** Debit Amount **4** Account Number **5** Account No. 150

ACCOUNT *Supplies*

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
					DEBIT CREDIT
Aug. 3		G1	1577.00		1577.00
7		G1	2720.00		4297.00

Account Balance

ACCOUNT *Accounts Payable—Ling Music Supplies* ACCOUNT NO. 210

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
					DEBIT CREDIT
Aug. 7		G1		2720.00	2720.00
11		G1	1360.00		1360.00

Only the first set of five steps is shown in the illustration. The second set of five steps is similar to the first set of steps.

STEPS Posting a debit amount to an account with a debit balance

1. Write the date, 7, in the Date column of the account. The month and the year are written only once on a page of a ledger account unless the month or year changes.
2. Write the journal page number, G1, in the Post. Ref. column of the account.
3. Write the debit amount, \$2,720.00, in the Debit amount column of the account.
4. Write the new balance, \$4,297.00, in the Balance Debit column. When both the previous balance and a newly posted amount are debits, the new balance is a debit.
5. Return to the journal and write the account number, 150, in the Post. Ref. column of the journal.

$$\begin{array}{rclclcl} \text{Previous} & + & \text{Debit Column} & = & \text{New Debit} \\ \text{Balance} & & \text{Amount} & & \text{Balance} \\ \$1,577.00 & + & \$2,720.00 & = & \$4,297.00 \end{array}$$



STEPS Posting a debit amount to an account with a credit balance

1. Write the date, 11, in the Date column of the account.
2. Write the journal page number, G1, in the Post. Ref. column of the account.
3. Write the debit amount, \$1,360.00, in the Debit amount column of the account.
4. Write the new balance, \$1,360.00, in the Balance Credit column. Whenever the credits in an account exceed the debits, the balance is a credit. Whenever the debits in an account exceed the credits, the balance is a debit.
5. Return to the journal and write the account number, 210, in the Post. Ref. column of the journal.

$$\begin{array}{rclclcl} \text{Previous} & - & \text{Debit Column} & = & \text{New Credit} \\ \text{Balance} & & \text{Amount} & & \text{Balance} \\ \$2,720.00 & - & \$1,360.00 & = & \$1,360.00 \end{array}$$



JOURNAL PAGE WITH POSTING COMPLETED

GENERAL JOURNAL						PAGE 1	
	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
1	Aug. 1	Cash	R1	110	1000000		1
2		Barbara Treviño, Capital		310		1000000	2
3	3	Supplies	C1	150	157700		3
4		Cash		110		157700	4
5	4	Prepaid Insurance	C2	160	120000		5
6		Cash		110		120000	6
7	7	Supplies	M1	150	272000		7
8		Accounts Payable—Ling Music Supplies		210		272000	8
9	11	Accounts Payable—Ling Music Supplies	C3	210	136000		9
10		Cash		110		136000	10
11	12	Cash	T12	110	32500		11
12		Sales		410		32500	12
13	12	Accounts Receivable—Kids Time	S1	130	20000		13
14		Sales		410		20000	14
15	12	Rent Expense	C4	540	25000		15
16		Cash		110		25000	16
17	12	Utilities Expense	C5	560	4500		17
18		Cash		110		4500	18
19	12	Cash	R2	110	10000		19
20		Accounts Receivable—Kids Time		130		10000	20
21	12	Barbara Treviño, Drawing	C6	320	10000		21
22		Cash		110		10000	22
23	13	Accounts Receivable—Learn N Play	S2	140	2000		23
24		Sales		410		2000	24
25	14	Advertising Expense	C7	510	6800		25
26		Cash		110		6800	26
27	14	Cash	T14	110	12000		27
28		Sales		410		12000	28
29	17	Petty Cash	C8	120	20000		29
30		Cash		110		20000	30
31	18	Advertising Expense	C9	510	20000		31
32		Cash		110		20000	32
33	20	Supplies	M2	150	2000		33
34		Accounts Payable—Sullivan Office Supplies		220		2000	34
35							35

Page 1 of Encore Music's August general journal, after all posting has been completed, is

shown above. Notice that the Post. Ref. column is completely filled in with account numbers.

REMEMBER

Posting will go smoothly if you consistently follow the five steps of posting. The last step in posting is to put the account number in the Post. Ref. column of the general journal.

TERM REVIEW

posting

AUDIT YOUR UNDERSTANDING

1. List the five steps of posting from the general journal to the general ledger.
2. When both debit and credit amounts have been posted to an account, what determines whether the balance is a debit or a credit?

WORK TOGETHER

Posting to a general ledger

A completed general journal and general ledger accounts are given in the *Working Papers*. Your instructor will guide you through the following example.

Leonard Witkowski owns a service business that uses the following accounts:

Assets

- 110 Cash
- 120 Accounts Receivable—Danielle Braastad
- 130 Supplies
- 140 Prepaid Insurance

Liabilities

- 210 Accounts Payable—Joshua's Supplies

Owner's Equity

- 310 Leonard Witkowski, Capital
- 320 Leonard Witkowski, Drawing

Revenue

- 410 Sales

Expenses

- 510 Rent Expense

3. Post all the entries in the general journal.

ON YOUR OWN

Posting to a general ledger

A completed general journal and general ledger accounts are given in the *Working Papers*. Work this problem independently.

Melanie Komoko owns a service business which uses the following accounts:

Assets

- 110 Cash
- 120 Accounts Receivable—Brenden Otto
- 130 Supplies
- 140 Prepaid Insurance

Liabilities

- 210 Accounts Payable—Signs Plus

Owner's Equity

- 310 Melanie Komoko, Capital
- 320 Melanie Komoko, Drawing

Revenue

- 410 Sales

Expenses

- 510 Utilities Expense

4. Post all the entries in the general journal.

5-3 Completed General Ledger, Proving Cash, and Making Correcting Entries

GENERAL LEDGER WITH POSTING COMPLETED

ACCOUNT <i>Cash</i>					ACCOUNT NO. 110				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT		CREDIT		
20-Aug. 1		G1	1000000		1000000				
3		G1		157700	842300				
4		G1		120000	722300				
11		G1		136000	586300				
12		G1	32500		618800				
12		G1		25000	593800				
12		G1		4500	589300				
12		G1	10000		599300				
12		G1		10000	589300				
14		G1		6800	582500				
14		G1	12000		594500				
17		G1		20000	574500				
18		G1		20000	554500				
21		G2	204400		758900				
27		G2		7000	751900				
28		G2		43400	708500				
28		G2	141200		849700				
28		G2		300	849400				
31		G2		1200	848200				
31		G2		50000	798200				
31		G2	29000		827200				

ACCOUNT <i>Petty Cash</i>					ACCOUNT NO. 120				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT		CREDIT		
20-Aug. 17		G1	20000		20000				

ACCOUNT <i>Accounts Receivable—Kids Time</i>					ACCOUNT NO. 130				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT		CREDIT		
20-Aug. 12		G1	20000		20000				
12		G1		10000	10000				

ACCOUNT <i>Accounts Receivable—Learn N Play</i>					ACCOUNT NO. 140				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT		CREDIT		
20-Aug. 13		G1	2000		2000				

Encore Music's general ledger, after all posting from the August journal is completed, is shown here and on the next several pages.

The use of the accounts Income Summary, Insurance Expense, and Supplies Expense is described in Chapter 7.

ACCOUNT *Supplies*

ACCOUNT NO. 150

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 3		G1	157700		157700	
7		G1	272000		429700	
20		G1	2000		431700	
28		G2	43400		475100	

ACCOUNT *Prepaid Insurance*

ACCOUNT NO. 160

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 4		G1	120000		120000	

ACCOUNT *Accounts Payable—Ling Music Supplies*

ACCOUNT NO. 210

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 7		G1		272000		272000
11		G1	136000		136000	

ACCOUNT *Accounts Payable—Sullivan Office Supplies*

ACCOUNT NO. 220

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 20		G1		2000		2000

ACCOUNT *Barbara Treviño, Capital*

ACCOUNT NO. 310

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 1		G1		1000000		1000000

ACCOUNT *Barbara Treviño, Drawing*

ACCOUNT NO. 320

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 12		G1	10000		10000	
31		G2	50000		60000	

ACCOUNT *Income Summary*

ACCOUNT NO. 330

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT

A General Ledger after Posting Has Been Completed (continued)

ACCOUNT *Sales*

ACCOUNT NO. 410

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 12		G1		325 00		325 00
12		G1		200 00		525 00
13		G1		20 00		545 00
14		G1		120 00		665 00
21		G2		2044 00		2709 00
28		G2		1412 00		4121 00
31		G2		290 00		4411 00

ACCOUNT *Advertising Expense*

ACCOUNT NO. 510

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 14		G1	68 00		68 00	
18		G1	200 00		268 00	
31		G2	5 00		273 00	

ACCOUNT *Insurance Expense*

ACCOUNT NO. 520

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT

ACCOUNT *Miscellaneous Expense*

ACCOUNT NO. 530

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 31		G1	7 00		7 00	
31		G2	3 00		10 00	

ACCOUNT *Rent Expense*

540

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 12		G1	250 00		250 00	

ACCOUNT *Supplies Expense*

ACCOUNT NO. 550

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT

ACCOUNT *Utilities Expense*

ACCOUNT NO. 560

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 12		G1	45 00		45 00	
27		G2	70 00		115 00	

A General Ledger after Posting Has Been Completed (*concluded*)

PROVING CASH

NO. 15 \$ _____
 Date _____ 20__
 To _____
 For _____

BAL. BRO'T. FORD.	8272	00
AMT. DEPOSITED		
SUBTOTAL		
OTHER:		
SUBTOTAL:		
AMT. THIS CHECK		
BAL. CAR'D. FORD.		

ACCOUNT *Cash*


ACCOUNT NO. 110

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
31		G2	29000		827200	

Determining that the amount of cash agrees with the balance of the cash account in the accounting records is called **proving cash**. Cash can be proved at any time Encore Music wishes to verify the accuracy of the cash records. However, Encore Music *always* proves cash at

the end of a month. To prove cash, Encore Music compares the cash balance as shown in the checkbook with the cash balance in the cash account. If the two balances equal, cash is proved.

MEMORANDUM FOR A CORRECTING ENTRY

MEMORANDUM		 Encore Music 530 Anoka Avenue Tampa, FL 33601	No. 45
<p><i>A cash payment of \$120.00 for advertising, October 30, 20--, was debited in error to Miscellaneous Expense.</i></p>			
<p>Signed: <u>Barbara Treviño</u> Date: <u>November 13, 20--</u></p>			

Errors can be made even though care is taken in recording transactions. Simple errors may be corrected by ruling through the item, as described in Chapter 4. However, a transaction may have been improperly journalized and posted to the ledger. When an error in a journal entry has already been posted, the incorrect jour-

nal entry should be corrected with an additional journal entry. A journal entry made to correct an error in the ledger is called a **correcting entry**.

If an accounting error is discovered, a memorandum is prepared describing the correction to be made. The source document for a correcting entry is the memorandum.

JOURNAL ENTRY TO RECORD A CORRECTING ENTRY

GENERAL JOURNAL PAGE 7

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
13	Advertising Expense	M45		120.00	
	Miscellaneous Expense				120.00

Diagram labels: 1 Date, 2 Debit, 3 Credit, 4 Source Document

November 13. Discovered that a payment of cash for advertising in October was journalized and posted in error as a debit to Miscellaneous Expense instead of Advertising Expense, \$120.00. Memorandum No. 45.

Advertising Expense	
120.00	
Miscellaneous Expense	
	120.00

To correct the error, an entry is made to add \$120.00 to the advertising expense account. The entry must also deduct \$120.00 from the miscel-

laneous expense account. The correcting entry increases the advertising expense account balance and decreases the miscellaneous expense account balance.

Because the advertising expense account has a normal debit balance, Advertising Expense is debited for \$120.00 to show the increase in this expense account. The miscellaneous expense account also has a normal debit balance. Therefore, Miscellaneous Expense is credited for \$120.00 to show the decrease in this expense account.

The same four steps are followed when making a correcting entry as when making any journal entry.

S Journalizing a correcting entry

- 1. Date.** Write the date, 13, in the Date column.
- 2. Debit.** Write the title of the account debited, *Advertising Expense*, in the Account Title column. Write the debit amount, \$120.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Miscellaneous Expense*, in the Account Title column. Write the credit amount, \$120.00, in the Credit column.
- 4. Source document.** On the first line of this entry, write the source document number, M45, in the Doc. No. column.

REMEMBER

Two zeroes are written in the cents column when an amount is in even dollars, such as \$500.00. If the cents column is left blank, doubts may arise later about the correct amount.

TERMS REVIEW

proving cash
correcting entry

AUDIT YOUR UNDERSTANDING

1. Which two amounts are compared when proving cash?
2. What is a correcting entry?
3. When an amount is journalized and posted to an incorrect expense account, why is the amount of the correcting entry debited to the correct expense account?
4. When an amount is journalized and posted to an incorrect expense account, why is the amount of the correcting entry credited to the incorrect expense account?

WORK TOGETHER

Journalizing correcting entries

A general journal is given in the *Working Papers*. Your instructor will guide you through the following example.

- Transactions:** Nov. 1. Discovered that a transaction for office supplies bought last month was journalized and posted in error as a debit to Prepaid Insurance instead of Supplies, \$60.00. M15.
1. Discovered that a transaction for rent expense for last month was journalized and posted in error as a debit to Repair Expense instead of Rent Expense, \$550.00. M16.
5. Journalize each correcting entry discovered during November of the current year. Use page 21 of the general journal.

ON YOUR OWN

Journalizing correcting entries

A general journal is given in the *Working Papers*. Work this problem independently.

- Transactions:** June 1. Discovered that a transaction for office supplies bought last month was journalized and posted in error as a debit to Supplies—Store instead of Supplies—Office, \$45.00. M23.
1. Discovered that a transaction for utilities expense for last month was journalized and posted in error as a debit to Miscellaneous Expense instead of Utilities Expense, \$550.00. M24.
6. Journalize each correcting entry discovered during June of the current year. Use page 11 of the general journal.

After completing this chapter, you can

1. Define important accounting terms related to posting from a general journal to a general ledger.
2. Identify accounting concepts and practices related to posting from a general journal to a general ledger.
3. Prepare a chart of accounts for a service business organized as a proprietorship.
4. Post amounts from a general journal to a general ledger.
5. Prove cash and journalize correcting entries.

EXPLORE ACCOUNTING

Each company designs its chart of accounts to meet the needs of that company. Encore Music, the company described in this section of the textbook, has a relatively simple chart of accounts, with a small number of accounts. Therefore, Encore Music can use a three-digit account number for each account. A company with more accounts may need to use a four- or five-digit account number for each account. The numbering system used by the company should ensure that each account can be assigned a unique number.

When setting up a chart of accounts, a company does not have to use a straight series of numbers. If a company has several departments, it may choose to use account numbers such as 12-150. The first two

digits (12) can be used to designate a specific department. The last three digits (150) identify a unique account within that department. If this company has many departments or many accounts within each department, it may have to increase the number of digits in the account, such as 123-4567.

A large corporation made up of smaller companies may have one chart of accounts for the entire corporation. If the managers of the corporation also want to be able to separate out the accounts for each company, they may choose to set up the account numbers in an xx-yyy-zzzz format. The first two digits (xx) would be a unique number for each company, the second set of numbers (yyy) refer to a department number,

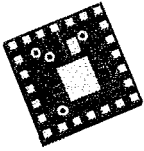
and the third set of numbers (zzzz) is a unique account.

Another example would be a company that manufactures goods for its customers. Such a company may want to include the job order number in each account number, so that it can easily trace the cost of each job.

As you can see, there is an infinite number of possible systems that can be followed when assigning account numbers. A company should consider future growth when first setting up a system so that it can avoid having to renumber accounts at a later date.

Group Activity:

Develop a chart of accounts for an imaginary business. Write a detailed description of the company and a rationale for the account numbering system you have developed.

5-1**APPLICATION PROBLEM****Preparing a chart of accounts and opening an account**

Lillian Deters owns a service business called Deters Duplicating, which uses the following accounts:

Accounts Receivable—Teegan Walters	Lillian Deters, Capital	Postage Expense	Supplies
Accounts Receivable—Austin Kirnyczuk	Lillian Deters, Drawing	Charitable Expense	Sales
Accounts Payable—Dakota Company	Prepaid Insurance	Rent Expense	Cash
Accounts Payable—Falls Supply	Advertising Expense		

Instructions:

1. Prepare a chart of accounts similar to the one described in this chapter. Arrange expense accounts in alphabetical order. Use 3-digit account numbers and number the accounts within a division by 10s.
2. Two new accounts, Delivery Expense and Telephone Expense, are to be added to the chart of accounts prepared in Instruction 1. Assign account numbers to the two new accounts.
3. Using the account forms in the *Working Papers*, open the Prepaid Insurance and the Postage Expense accounts.

5-2**APPLICATION PROBLEM****Posting to a general ledger**

A completed general journal and general ledger accounts are given in the *Working Papers*. Michael Byrum owns a service business which uses the following accounts:

Assets		Owner's Equity	
110	Cash	310	Michael Byrum, Capital
120	Accounts Receivable—Cheri Frank	320	Michael Byrum, Drawing
130	Supplies		Revenue
140	Prepaid Insurance	410	Sales
Liabilities		Expenses	
210	Accounts Payable—Golden Gate Supply	510	Advertising Expense

Instructions:

1. Post all entries in the general journal.
2. Prove cash. The balance on the next unused check stub is \$1,638.00.

5-3**APPLICATION PROBLEM****Journalizing correcting entries**

The following errors were discovered after the incorrect entries were already journalized and posted.

Transactions:

- Feb. 1. Discovered that a transaction for advertising expense was journalized and posted in error as a debit to Miscellaneous Expense instead of Advertising Expense, \$135.00. M87.
5. Discovered that a cash withdrawal by Gregg Moen, owner, was journalized and posted in error as a credit to Sales instead of Cash, \$550.00. M88.
8. Discovered that a check received on account was journalized and posted in error as a credit to Accounts Receivable—Carol Jussila instead of Accounts Receivable—Cindy Joelson, \$278.00. M90.

Instructions:

Journalize each correcting entry discovered during February of the current year. Use page 3 of a general journal given in the *Working Papers*.

5-4**MASTERY PROBLEM****Journalizing transactions and posting to a general ledger**

Allan Derner owns a service business called Derner Cleaning. Derner Cleaning's general ledger accounts are given in the *Working Papers*.

Transactions:

- Nov. 1. Received cash from owner as an investment, \$7,000.00. R1.
 3. Paid cash for rent, \$300.00. C1.
 5. Sold services on account to Alphonse Gutenberg, \$180.00. S1.
 6. Received cash from sales, \$750.00. T6.
 9. Paid cash for miscellaneous expense, \$5.00. C2.
 11. Paid cash for supplies, \$500.00. C3.
 13. Bought supplies on account from Major Supplies, \$600.00. M1.
 13. Received cash from sales, \$700.00. T13.
 16. Paid cash for electric bill, \$40.00. C4.
 18. Paid cash on account to Major Supplies, \$300.00. C5.
 20. Paid cash for advertising, \$30.00. C6.
 20. Received cash on account from Alphonse Gutenberg, \$90.00. R2.
 25. Paid cash for supplies, \$150.00. C7.
 27. Paid cash for supplies, \$100.00. C8.
 27. Received cash from sales, \$1,800.00. T27.
 30. Paid cash to owner for personal use, \$300.00. C9.
 30. Received cash from sales, \$410.00. T30.

Instructions:

1. Open an account for Utilities Expense. Use the 3-digit numbering system described in the chapter.
2. Journalize the transactions completed during November of the current year. Use page 1 of a general journal. Source documents are abbreviated as follows: check, C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T.
3. Post from the general journal to the general ledger.
4. Prove cash. The balance on the next unused check stub is \$9,025.00.

5-5**CHALLENGE PROBLEM****Posting using a variation of the general journal**

Nathan Jackson owns a service business called HouseCare. HouseCare uses a general journal that is different from the general journal used in this chapter. HouseCare's March general journal and general ledger accounts (before posting) are given in the *Working Papers*.

Instructions:

1. Post from the general journal to the general ledger.
- 2. Prove cash. The balance on the next unused check stub is \$9,875.00.



INTERNET ACTIVITY

Point your browser to

<http://accounting.swpco.com>

Choose **First-Year Course**, choose **Activities**, and complete the activity for Chapter 5.

Applied Communication

A fax machine allows a business to send documents anywhere in a matter of minutes using a telephone line. Most fax machines in offices are located in one or more central locations and used by a number of different workers for both sending and receiving documents. To facilitate directing the document to the intended receiver, it is usual practice to include a cover sheet in the fax transmission. The cover sheet should include the information below:

1. Names of the person sending the message and the person to receive the message.
2. Phone number of both sending and receiving fax machines.
3. Total number of pages being transmitted, including the cover sheet.

Instructions:

1. Write a memorandum responding to the following scenario: Barbara Treviño is at the bank, applying for a business loan. Ms. Treviño has just called you and asked that you fax her with the following information: Encore Music's asset, liability, owner's equity, sales, and expense accounts, and their current balances. In your memorandum, include an introductory sentence or paragraph and end with a concluding statement.
2. Prepare a cover sheet for transmitting a fax message. The bank's fax machine telephone number is 800-555-3333. Use your own name and personal telephone number or school telephone number.

Cases for Critical Thinking

Case 1 Janna Sturm does not use a general journal in her business records. She records the debits and credits for each transaction directly in the general ledger accounts. Is Ms. Sturm using the correct procedure? Explain your answer.

Case 2 Trent Marvets does the accounting work for his business. When posting, he first transfers all of the information to the general ledger accounts. Then he returns to the general journal and, all at one time, writes the account numbers in the Post. Ref. column of the journal. Diana Young also does the accounting work for her business. When posting, she writes all the account numbers in the Post. Ref. column of the general journal before she transfers any information to the accounts. Is Mr. Marvets or Ms. Young following the correct procedure? Explain your answer.