

CHAPTER 2

Understanding the Recording Process

Accounting Principles, Eighth Edition

The Account

Account
帳戶



- Record of increases and decreases in a specific asset, liability, equity, revenue, or expense item.
- Debit (借) = "Left"
- Credit (貸) = "Right"

An Account can be illustrated in a T-Account form
T字帳.



Account Name	
Debit / Dr.	Credit / Cr.

TABULAR SUMMARY COMPARED TO ACCOUNT FORM

p. 49

Tabular Summary

Cash
\$15,000
-7,000
1,200
1,500
-1,700
-250
600
-1,300
<u>\$ 8,050</u>

Account Form

Cash			
(Debits)	15,000	(Credits)	7,000
	1,200		1,700
	1,500		250
	600		1,300
Balance	8,050		
(Debit)			

Debits and Credits

If Debits are **greater than** Credits, the account will have a debit balance.

Account Name		
	Debit / Dr.	Credit / Cr.
Transaction #1	\$10,000	\$3,000
Transaction #3	8,000	
Balance	\$15,000	

Transaction #2

Debits and Credits

If Debits are **greater than** Credits, the account will have a debit balance.

Account Name		
Debit / Dr.	Credit / Cr.	
Transaction #1	\$10,000	Transaction #2
	\$3,000	Transaction #3
	8,000	
Balance	\$1,000	

Debits and Credits

Double-entry accounting system 複式簿記

- Each transaction must affect two or more accounts to keep the basic accounting equation in balance.
- Recording done by debiting at least one account and crediting another.
- DEBITS **must equal** CREDITS.

Assets

=

Liabilities

+



Equity

Debits and Credits Summary



Normal
Balance
Debit

Normal
Balance
Credit

Liabilities



Debit / Dr.	Credit / Cr.
	
	Normal Balance

Assets

Debit / Dr.	Credit / Cr.
	
Normal Balance	



Chapter
3-23

Owners' Equity

Debit / Dr.	Credit / Cr.
	
	Normal Balance



Chapter
3-25

Expense

Debit / Dr.	Credit / Cr.
	
Normal Balance	

Chapter
3-27

Revenue

Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter
3-26

Debits and Credits Summary

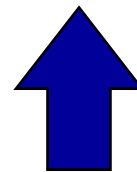
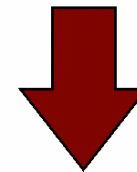
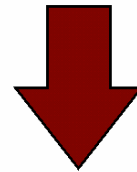
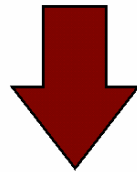
Balance Sheet

Income Statement

$$\underline{\text{Asset}} = \underline{\text{Liability}} + \underline{\text{Equity}}$$

$$\underline{\text{Revenue}} - \underline{\text{Expense}} =$$



Debit





Credit



Assets and Liabilities

Assets	
Debit / Dr.	Credit / Cr.
	
Normal Balance	



Chapter 3-23

Liabilities	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-24



- **Assets** - Debits should exceed credits.
- **Liabilities** - Credits should exceed debits.
- The **normal balance** is on the increase side.

Owners' Equity



Owners' Equity	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-25

- **Owner's investments** and **revenues** increase owner's equity (credit).
- **Owner's drawings** and **expenses** decrease owner's equity (debit).



Owners' Capital	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-25



Owners' Drawing	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Chapter 3-25

Revenue and Expense

Revenue	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-26

Expense	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Chapter 3-27

- The purpose of earning **revenues** is to benefit the owner(s).
- The effect of debits and credits on revenue accounts is the **same as** their effect on Owner's Capital.
- **Expenses** have the opposite effect: expenses decrease owner's equity.

Expansion of the Basic Equation

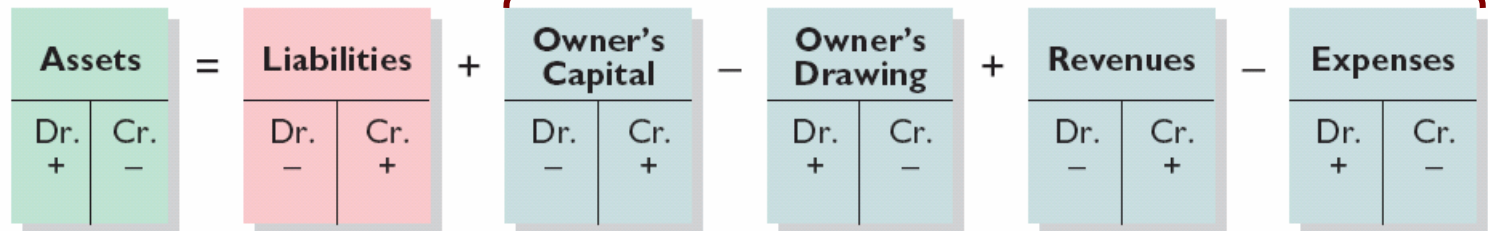
Relationship among the assets, liabilities and owners' equity of a business:

p.52

Basic Equation

Assets = Liabilities + Owners' Equity

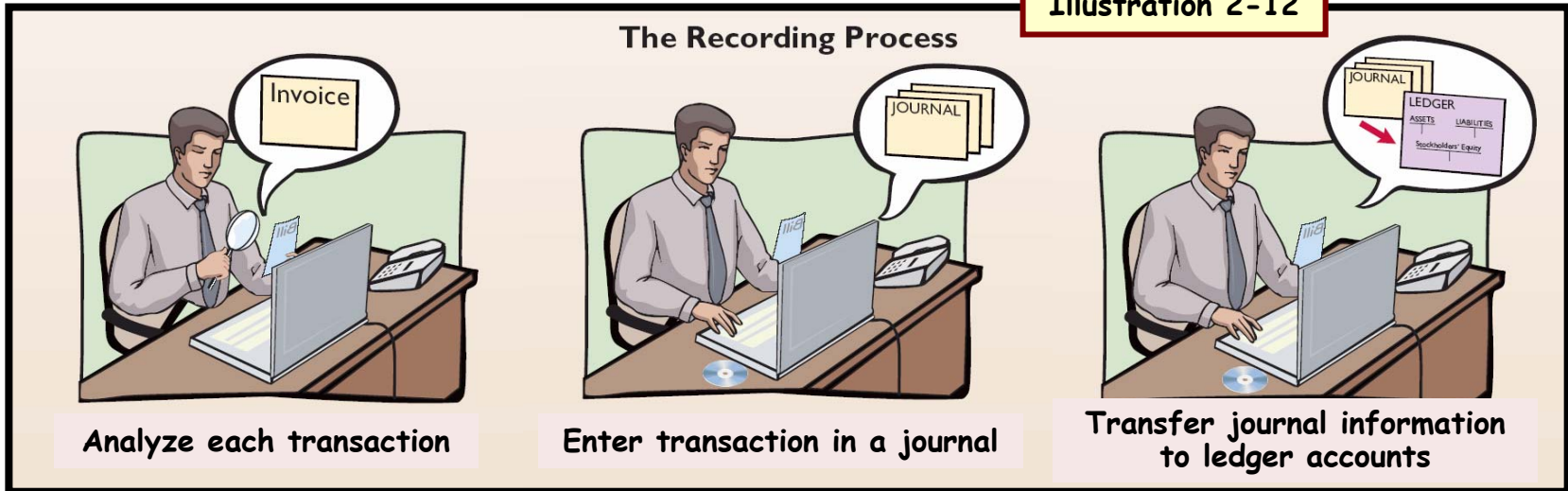
Expanded Basic Equation



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

Steps in the Recording Process

Illustration 2-12



Business documents, such as a sales slip, a check, a bill, or a cash register tape, provide evidence of the transaction.

CHART OF ACCOUNTS

會計科目表

p.59

A **Chart of Accounts** lists the accounts and the account numbers which identify their location in the ledger.

PIONEER ADVERTISING AGENCY

Chart of Accounts

Assets

101 Cash
112 Accounts Receivable
126 Advertising Supplies
130 Prepaid Insurance
157 Office Equipment
158 Accumulated Depreciation—Office Equipment

Liabilities

200 Notes Payable
201 Accounts Payable
209 Unearned Revenue
212 Salaries Payable
230 Interest Payable

Owner's Equity

301 C. R. Byrd, Capital
306 C. R. Byrd, Drawing
350 Income Summary

Revenues

400 Service Revenue

Expenses

631 Advertising Supplies Expense
711 Depreciation Expense
722 Insurance Expense
726 Salaries Expense
729 Rent Expense
905 Interest Expense

The Journal 日記簿

- Book of original entry (General Journal).
- Transactions recorded in chronological order.
- Contributions to the recording process:
 1. Discloses the complete effects of a transaction.
 2. Provides a chronological record of transactions.
 3. Helps to prevent or locate errors because the debit and credit amounts can be easily compared.

JOURNALIZING

- Entering transaction data in the journal is known as **journalizing**.
- Separate journal entries are made for each transaction.
- A complete entry consists of:
 - 1 the date of the transaction,
 - 2 the accounts and amounts to be debited and credited,
 - 3 a brief explanation of transaction.

TECHNIQUE OF JOURNALIZING

The date of the transaction is entered into the date column.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (Invested cash in business)		15,000	15,000	
1	Computer Equipment Cash (Purchased equipment for cash)		7,000	7,000	

TECHNIQUE OF JOURNALIZING

The **debit** account title is entered at the extreme left margin of the Account Titles and Explanation column. The **credit** account title is indented on the next line.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash		15,000		
	R. Neal, Capital (Invested cash in business)			15,000	
1	Computer Equipment		7,000		
	Cash (Purchased equipment for cash)			7,000	

TECHNIQUE OF JOURNALIZING

The amounts for the **debits** are recorded in the Debit column and the amounts for the **credits** are recorded in the Credit column.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (Invested cash in business)		15,000	15,000	
1	Computer Equipment Cash (Purchased equipment for cash)		7,000	7,000	

TECHNIQUE OF JOURNALIZING

A brief explanation of the transaction is given.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (Invested cash in business)		15,000	15,000	
1	Computer Equipment Cash (Purchased equipment for cash)		7,000	7,000	

TECHNIQUE OF JOURNALIZING

A space is left between journal entries. The blank space separates individual journal entries and makes the entire journal easier to read.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (Invested cash in business)		15,000	15,000	
1	Computer Equipment Cash (Purchased equipment for cash)		7,000	7,000	

TECHNIQUE OF JOURNALIZING

The column entitled Ref. is left blank at the time journal entry is made and is used later when the journal entries are transferred to the ledger accounts.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005					
Sept. 1	Cash R. Neal, Capital (Invested cash in business)		15,000	15,000	
1	Computer Equipment Cash (Purchased equipment for cash)		7,000	7,000	

SIMPLE AND COMPOUND JOURNAL ENTRIES

Simple Entry - Two accounts, one debit and one credit.

Compound Entry - Three or more accounts.

If an entry involves only two accounts, one debit and one credit, it is considered a **simple entry**.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 July 1	Cash K. Browne, Capital (Invested cash in the business)		20,000	20,000	

COMPOUND JOURNAL ENTRY

When three or more accounts are required in one journal entry, the entry is referred to as a **compound entry**.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 July 1	Delivery Equipment		14,000		
	Cash			8,000	
	Accounts Payable			6,000	
	(Purchased truck for cash with balance on account)				

1

2

3

COMPOUND JOURNAL ENTRY

This is the wrong format; all debits must be listed before the credits are listed.

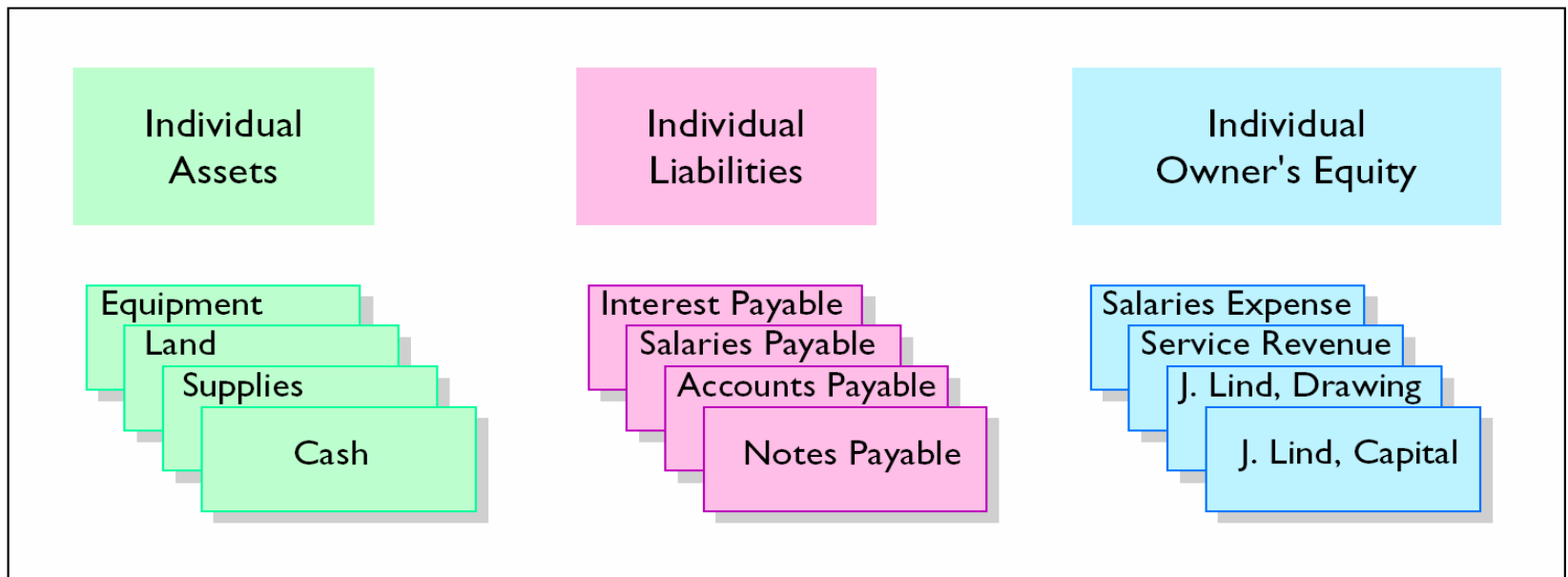
GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 July 1	Cash			8,000	
	Delivery Equipment		14,000		
	Accounts Payable			6,000	
	(Purchased truck for cash with balance on account)				

THE LEDGER 分類帳

p.57

A Group of accounts maintained by a company is called the **ledger**.

A **general ledger** contains all the assets, liabilities, and owner's equity accounts



Standard Form of Account

T-account form used in accounting textbooks.

In practice, the account forms used in ledgers are much more structured.

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Oct. 1			15,000		15,000
27				700	14,300
30				2,500	11,800

Posting 過帳

p.58

Transferring journal entries to the ledger accounts is called posting.

POSTING A JOURNAL ENTRY

In the ledger, enter in the appropriate columns of the account(s) debited the **date**, **journal page**, and **debit amount** shown in the journal.

GENERAL JOURNAL						J1
Date	Account Titles and Explanation	Ref.	Debit	Credit		
2005 Sept. 1	Cash R. Neal, Capital (invested cash in business)	10 25	15,000	15,000		

CASH						NO. 10
Date	Explanation	Ref.	Debit	Credit	Balance	
2005 Sept. 1		J1	15,000		15,000	

POSTING A JOURNAL ENTRY

In the reference column of the journal, write the **account number** to which the debit amount was posted.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (invested cash in business)	10 25	15,000	15,000	

GENERAL LEDGER

CASH					NO 10
Date	Explanation	Ref.	Debit	Credit	Balance
2005 Sept. 1		J1	15,000		15,000

POSTING A JOURNAL ENTRY

GENERAL JOURNAL						J1
Date	Account Titles and Explanation	Ref.	Debit	Credit		
2005 Sept. 1	Cash R. Neal, Capital (invested cash in business)	10 25	15,000	15,000		

R. NEAL, CAPITAL					NO. 25
Date	Explanation	Ref.	Debit	Credit	Balance
2005 Sept. 1		J1		15,000	15,000

POSTING A JOURNAL ENTRY

GENERAL JOURNAL						J1
Date	Account Titles and Explanation	Ref.	Debit	Credit		
2002 Sept. 1	Cash R. Neal, Capital (invested cash in business)	10 25	15,000	15,000		

R. NEAL, CAPITAL						NO. 25
Date	Explanation	Ref.	Debit	Credit	Balance	
2002 Sept. 1		J1		15,000	15,000	

The Recording Process Illustrated

p. 60

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.

Transaction	On October 1, C. R. Byrd invests \$10,000 cash in an advertising company called Pioneer Advertising Agency.																		
Basic Analysis	The asset Cash increases \$10,000, and owner's equity C. R. Byrd, Capital increases \$10,000.																		
Equation Analysis	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;"><u>Assets</u></td> <td style="text-align: center;">=</td> <td style="text-align: center;"><u>Liabilities</u></td> <td style="text-align: center;">+</td> <td style="text-align: center;"><u>Owner's Equity</u></td> </tr> <tr> <td style="text-align: center;">Cash</td> <td style="text-align: center;">=</td> <td></td> <td></td> <td style="text-align: center;">C.R. Byrd, Capital</td> </tr> <tr> <td style="text-align: center;">+10,000</td> <td></td> <td></td> <td></td> <td style="text-align: center;">+10,000</td> </tr> </table>				<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>	Cash	=			C.R. Byrd, Capital	+10,000				+10,000
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>															
Cash	=			C.R. Byrd, Capital															
+10,000				+10,000															
Debit – Credit Analysis	Debits increase assets: debit Cash \$10,000. Credits increase owner's equity: credit C. R. Byrd, Capital \$10,000.																		
Journal Entry	Oct. 1	Cash C. R. Byrd, Capital (Owner's investment of cash in business)	101 301	10,000 10,000															
Posting	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">Cash</td> <td style="text-align: center;">101</td> </tr> <tr> <td style="text-align: center;">Oct. 1 10,000</td> <td></td> </tr> </table>		Cash	101	Oct. 1 10,000		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">C. R. Byrd, Capital</td> <td style="text-align: center;">301</td> </tr> <tr> <td></td> <td style="text-align: center;">Oct. 1 10,000</td> </tr> </table>		C. R. Byrd, Capital	301		Oct. 1 10,000							
Cash	101																		
Oct. 1 10,000																			
C. R. Byrd, Capital	301																		
	Oct. 1 10,000																		

Transaction

On October 1, Pioneer purchases office equipment costing \$5,000 by signing a 3-month, 12%, \$5,000 note payable.

Basic Analysis

The asset Office Equipment increases \$5,000, and the liability Notes Payable increases \$5,000.

Equation Analysis

$$\begin{array}{r}
 \text{Assets} \\
 \text{Office Equipment} \\
 +5,000
 \end{array}
 =
 \begin{array}{r}
 \text{Liabilities} \\
 \text{Notes Payable} \\
 +5,000
 \end{array}
 +
 \begin{array}{r}
 \text{Owner's Equity}
 \end{array}$$

Debit – Credit Analysis

Debits increase assets: debit Office Equipment \$5,000.
Credits increase liabilities: credit Notes Payable \$5,000.

Journal Entry

Oct. 1	Office Equipment	157	5,000	
	Notes Payable	200		5,000
	(Issued 3-month, 12% note for office equipment)			

Posting

Office Equipment		157	Notes Payable		200
Oct. 1	5,000			Oct. 1	5,000

Transaction

On October 2, Pioneer receives a \$1,200 cash advance from R. Knox, a client, for advertising services that are expected to be completed by December 31.

Basic Analysis

The asset Cash increases \$1,200; the liability Unearned Revenue increases \$1,200 because the service has not been provided yet. That is, when Pioneer receives an advance payment, it should record an unearned revenue (a liability) in order to recognize the obligation that exists. Note also that although many liabilities have the word “payable” in their title, unearned revenue is considered a liability even though the word payable is not used.

Equation Analysis

$$\begin{array}{r}
 \text{Assets} \\
 \hline
 \text{Cash} \\
 +1,200
 \end{array}
 =
 \begin{array}{r}
 \text{Liabilities} \\
 \hline
 \text{Unearned Revenue} \\
 +1,200
 \end{array}
 +
 \begin{array}{r}
 \text{Owner's Equity}
 \end{array}$$

Debit – Credit Analysis

Debits increase assets: debit Cash \$1,200.
Credits increase liabilities: credit Unearned Revenue \$1,200.

Journal Entry

Oct. 2	Cash	101	1,200	
	Unearned Revenue	209		1,200
	(Received cash from R. Knox for future service)			

Posting

		Cash	101			Unearned Revenue	209
Oct. 1	10,000						
2	1,200						
						Oct. 2	1,200

Transaction

On October 3, Pioneer pays office rent for October in cash, \$900.

Basic Analysis

The expense account Rent Expense increases \$900 because the payment pertains only to the current month; the asset Cash decreases \$900.

Equation Analysis

$$\begin{array}{r} \text{Assets} \\ \text{Cash} \\ -900 \end{array} = \begin{array}{r} \text{Liabilities} \\ \text{Rent Expense} \\ -900 \end{array} + \begin{array}{r} \text{Owner's Equity} \end{array}$$

Debit – Credit Analysis

Debits increase expenses: debit Rent Expense \$900.
Credits decrease assets: credit Cash \$900.

Journal Entry

Oct. 3	Rent Expense	729	900	
	Cash	101		900
	(Paid October rent)			

Posting

Cash		Rent Expense	
	101		729
Oct. 1	10,000	Oct. 3	900
2	1,200		

Transaction

On October 4, Pioneer pays \$600 for a one-year insurance policy that will expire next year on September 30.

Basic Analysis

The asset Prepaid Insurance increases \$600 because the payment extends to more than the current month; the asset Cash decreases \$600. Payments of expenses that will benefit more than one accounting period are prepaid expenses or prepayments. When a company makes a payment, it debits an asset account in order to show the service or benefit that will be received in the future.

Equation Analysis

<u>Assets</u>		=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Cash	+ Prepaid Insurance				
-600	+600				

Debit – Credit Analysis

Debits increase assets: debit Prepaid Insurance \$600.
Credits decrease assets: credit Cash \$600.

Journal Entry

Oct. 4	Prepaid Insurance	130	600	
	Cash	101		600
	(Paid one-year policy; effective date October 1)			

Posting

Cash		101	Prepaid Insurance		130
Oct. 1	10,000	Oct. 3	900		
2	1,200	4	600		
				Oct. 4	600

Transaction

On October 5, Pioneer purchases an estimated 3-month supply of advertising materials on account from Aero Supply for \$2,500.

Basic Analysis

The asset Advertising Supplies increases \$2,500; the liability Accounts Payable increases \$2,500.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Advertising Supplies	=	Accounts Payable		
+2,500		+2,500		

Debit – Credit Analysis

Debits increase assets: debit Advertising Supplies \$2,500.
Credits increase liabilities: credit Accounts Payable \$2,500.

Journal Entry

Oct. 5	Advertising Supplies	126	2,500	
	Accounts Payable	201		2,500
	(Purchased supplies on account from Aero Supply)			

Posting

	Advertising Supplies	126		Accounts Payable	201
Oct. 5	2,500				Oct. 5 2,500

Event

On October 9, Pioneer hires four employees to begin work on October 15. Each employee is to receive a weekly salary of \$500 for a 5-day work week, payable every 2 weeks—first payment made on October 26.

Basic Analysis

A business transaction has not occurred. There is only an agreement between the employer and the employees to enter into a business transaction beginning on October 15. Thus, a debit-credit analysis is not needed because there is no accounting entry. (See transaction of October 26 for first entry.)

Transaction

On October 20, C. R. Byrd withdraws \$500 cash for personal use.

Basic Analysis

The owner's equity account C. R. Byrd, Drawing, increases \$500; the asset Cash decreases \$500.

Equation Analysis

$$\begin{array}{r}
 \text{Assets} \\
 \hline
 \text{Cash} \\
 -500 \\
 \hline
 \end{array}
 =
 \begin{array}{r}
 \text{Liabilities} \\
 \hline
 \end{array}
 +
 \begin{array}{r}
 \text{Owner's Equity} \\
 \hline
 \text{C.R. Byrd,} \\
 \text{Drawing} \\
 -500 \\
 \hline
 \end{array}$$

Debit – Credit Analysis

Debits increase drawings: debit C. R. Byrd, Drawing \$500.
Credits decrease assets: credit Cash \$500.

Journal Entry

Oct. 20	C. R. Byrd, Drawing	306	500	
	Cash	101		500
	(Withdraw cash for personal use)			

Posting

Cash		101		C. R. Byrd, Drawing		306	
Oct. 1	10,000	Oct. 3	900	Oct. 20	500		
2	1,200	4	600				
		20	500				

Transaction

On October 26, Pioneer owes employee salaries of \$4,000 and pays them in cash. (See October 9 transaction.)

Basic Analysis

The expense account Salaries Expense increases \$4,000; the asset Cash decreases \$4,000.

Equation Analysis

$$\begin{array}{r}
 \text{Assets} \\
 \hline
 \text{Cash} \\
 -4,000
 \end{array}
 =
 \begin{array}{r}
 \text{Liabilities} \\
 \hline
 \text{Liabilities}
 \end{array}
 +
 \begin{array}{r}
 \text{Owner's Equity} \\
 \hline
 \text{Salaries Expense} \\
 -4,000
 \end{array}$$

Debit – Credit Analysis

Debits increase expenses: debit Salaries Expense \$4,000.
Credits decrease assets: credit Cash \$4,000.

Journal Entry

Oct. 26	Salaries Expense	726	4,000	
	Cash	101		4,000
	(Paid salaries to date)			

Posting

Cash		101	Salaries Expense		726
Oct. 1	10,000	Oct. 3	900	Oct. 26	4,000
2	1,200	4	600		
		20	500		
		26	4,000		

Transaction On October 31, Pioneer receives \$10,000 in cash from Copa Company for advertising services provided in October.

Basic Analysis The asset Cash increases \$10,000; the revenue account Service Revenue increases \$10,000.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Cash	=			Service Revenue
+10,000				+10,000

Debit – Credit Analysis Debits increase assets: debit Cash \$10,000.
Credits increase revenues: credit Service Revenue \$10,000.

Journal Entry

	Oct. 31	Cash	101	10,000	
		Service Revenue	400		10,000
		(Received cash for services provided)			

Posting

Cash	101	Service Revenue	400
Oct. 1 10,000 2 1,200 31 10,000	Oct. 3 900 4 600 20 500 26 4,000	Oct. 31 10,000	

THE TRIAL BALANCE 試算表

- The **trial balance** is a list of accounts and their balances at a given time.
- The primary purpose of a trial balance is to prove debits = credits after posting.
- If debits and credits do not agree, the trial balance can be used to uncover errors in journalizing and posting.

THE TRIAL BALANCE

The Steps in preparing the Trial Balance are:

- 1. List the account titles and balances**
- 2. Total the debit and credit columns**
- 3. Prove the equality of the two columns**

A TRIAL BALANCE

PIONEER ADVERTISING AGENCY
Trial Balance
October 31, 2005

	Debit	Credit
Cash	\$ 15,200	
Advertising Supplies	2,500	
Prepaid Insurance	600	
Office Equipment	5,000	
Notes Payable		\$ 5,000
Accounts Payable		2,500
Unearned Fees		1,200
C. R. Byrd, Capital		10,000
C. R. Byrd, Drawing	500	
Fees Earned		10,000
Salaries Expense	4,000	
Rent Expense	900	
	\$ 28,700	\$ 28,700

The total debits **must** equal the total credits.

The Trial Balance

Limitations of a Trial Balance

The trial balance may balance even when

1. a transaction is not journalized,
2. a correct journal entry is not posted,
3. a journal entry is posted twice,
4. incorrect accounts are used in journalizing or posting, or
5. offsetting errors are made in recording the amount of a transaction.

Journalizing - Entering transaction data in the journal.

E2-4 (Facts) Presented below is information related to Hanshew Real Estate Agency.

- Oct. 1** Pete Hanshew begins business as a real estate agent with a cash investment of \$15,000.
- 3** Purchases office furniture for \$1,900, on account.
- 6** Sells a house and lot for B. Kidman; bills B. Kidman \$3,200 for realty services provided.
- 27** Pays \$700 on balance related to transaction of Oct. 3.
- 30** Pays the administrative assistant \$2,500 salary for Oct.

E2-5 Instructions - Journalize the transactions for E2-4.

Journaling

Oct. 1 Pete Hanshew begins business as a real estate agent with a cash investment of \$15,000.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Oct. 1	Cash		15,000	
	Hanshew, Capital			15,000
	(Owners investment)			

Oct. 3 Purchases office furniture for \$1,900, on account.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Oct. 3	Office furniture		1,900	
	Accounts payable			1,900
	(Purchase furniture)			

Oct. 6 Sells a house and lot for B. Kidman; bills B. Kidman \$3,200 for realty services provided.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Oct. 6	Accounts receivable		3,200	
	Service revenue			3,200
	(Realty services provided)			

Oct. 27 Pays \$700 on balance related to transaction of Oct. 3.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Oct. 27	Accounts payable		700	
	Cash			700
	(Payment on account)			

Oct. 30 Pays the administrative assistant \$2,500 salary for Oct.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Oct. 30	Salary expense		2,500	
	Cash			2,500
	(Payment for salaries)			

Posting

Posting - the process of transferring amounts from the journal to the ledger accounts.

General Journal				J1		
Date	Account Title	Ref.	Debit	Credit		
Oct. 1	Cash	101	15,000			
	Hanshew, Capital			15,000		
	(Owner's investment in business)					

General Ledger				Acct. No. 101		
Cash						
Date	Explanation	Ref.	Debit	Credit	Balance	
Oct. 1	Owner investment	J1	15,000		15,000	

The Trial Balance

- A list of accounts and their balances at a given time.
- Purpose is to prove that debits equal credits.

Hanshew Real Estate Agency		
Trial Balance		
October 31, 2008		
	Debit	Credit
Cash	\$ 11,800	
Accounts receivable	3,200	
Office furniture	1,900	
Accounts payable		\$ 1,200
Hanshew, Capital		15,000
Service revenue		3,200
Salaries expense	2,500	
	<u>\$ 19,400</u>	<u>\$ 19,400</u>