



CHAPTER 4

LEDGERING





CHART OF ACCOUNTS

- Construct a chart of accounts for a service business organized as a proprietorship.
- Demonstrate correct principles for numbering accounts.
- Apply file maintenance principles to update a chart of accounts.
- Complete the steps necessary to open general ledger accounts.

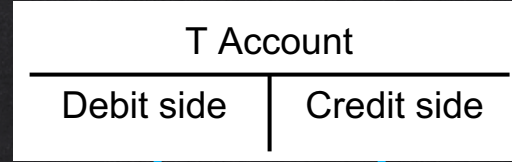


- ## Sample of a blank account form

[illegible]

RELATIONSHIP OF T-ACCOUNT TO ACCOUNT FORM

Information needed to trace entry
back to journal page.



Balance-ruled account form

The diagram shows a 'Balance-ruled account form'. At the top, there are two main sections: 'ACCOUNT' on the left and 'ACCOUNT NO.' on the right. Below these is a large table with columns: 'DATE', 'ITEM', 'POST. REF.', 'DEBIT', 'CREDIT', and a 'BALANCE' section which is further divided into 'DEBIT' and 'CREDIT'. Arrows indicate the flow of data: one arrow points from the 'ACCOUNT' header to the 'DEBIT' column, another from the 'ACCOUNT' header to the 'CREDIT' column, and a third from the 'ACCOUNT NO.' header to the 'CREDIT' column. Additionally, an arrow points from the 'POST. REF.' column to the 'DEBIT' column, and two arrows point from the 'BALANCE' section to the 'DEBIT' and 'CREDIT' columns respectively.

Necessary to trace back to specific entry

Balance columns
Calculated after **EACH** entry



CHART OF ACCOUNTS

- ✕ Ledger
 - Group of accounts
- ✕ General Leger
 - All accounts needed to prepare financial statements
- ✕ Account Title
- ✕ Account Number

CHART OF ACCOUNTS

Arranged by financial statement

Delgado Web Services 25402 Rimrock Road Billings, MT 59102-1820	
CHART OF ACCOUNTS	
Balance Sheet Accounts	Income Statement Accounts
(100) ASSETS	(400) REVENUE
110 Cash	410 Sales
120 Petty Cash	
130 Accounts Receivable—Main Street Services	(500) EXPENSES
140 Accounts Receivable—Valley Landscaping	510 Advertising Expense
150 Supplies	520 Cash Short and Over
160 Prepaid Insurance	530 Communications Expense
	540 Equipment Rental Expense
(200) LIABILITIES	550 Insurance Expense
210 Accounts Payable—Canyon Office Supplies	560 Miscellaneous Expense
220 Accounts Payable—Mountain Graphic Arts	570 Supplies Expense
(300) OWNER'S EQUITY	
310 Michael Delgado, Capital	
320 Michael Delgado, Drawing	
330 Income Summary	

ACCOUNT NUMBERS

Delgado Web Services

25402 Rimrock Road
Billings, MT 59102-1820

CHART OF ACCOUNTS

Balance Sheet Accounts

(100) ASSETS

110 Cash

120 Petty Cash

130 Accounts Receivable

140 Accounts Payable

150 Supplies

160 Prepaid Insurance

(200) LIABILITIES

210 Accounts Payable—Canyon Office Supplies

220 Accounts Payable—Mountain Graphic Arts

(300) OWNER'S EQUITY

310 Michael Delgado, Capital

320 Michael Delgado, Drawing

330 Income Summary

Income Statement Accounts

(400) REVENUE

410 Sales

5

0

Supplies

Location within general ledger

550 Insurance Expense

560 Miscellaneous Expense

570 Supplies Expense

General ledger division

1



5



0





ASSIGNING ACCOUNT NUMBERS

- ✗ File maintenance
 - Managing accounts by assigning account numbers and keeping records up-to-date
- ✗ Unused accounts are not removed (historical data)
- ✗ Assets – liquidity (ability to turn to cash)
- ✗ Liabilities/Expenses – alphabetical



ASSIGNING ACCOUNT NUMBERS

560	MISCELLANEOUS EXPENSE	(EXISTING ACCOUNT)
<i>565</i>	<i>POSTAGE EXPENSE</i>	<i>(NEW ACCOUNT)</i>
570	SUPPLIES EXPENSE	(EXISTING ACCOUNT)
<i>580</i>	<i>WATER EXPENSE</i>	<i>(NEW ACCOUNT)</i>



OPENING AN ACCOUNT IN THE GENERAL LEDGER (GL)

- ✗ Opening an account
- ✗ GL arranged same as chart of accounts

1							2						
ACCOUNT <i>Cash</i>							ACCOUNT NO. <i>110</i>						
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE								
					DEBIT	CREDIT							

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.



CHECK YOURSELF!

Describe the two parts of an account number.

1st digit = GL division

2nd/3rd digit = location in division

List the two steps for opening an account.

Date

1. Write the account title,
2. Write the account number



POSTING FROM GENERAL JOURNAL TO GENERAL LEDGER

- Post amounts from a general journal.
- Demonstrate how to prove cash.



POSTING A DEBIT AMOUNT

- ✗ Posting
 - Transferring information from general journal (GJ) to ledger
 - Sorts transactions by each account
- ✗ Unused accounts are not removed (historical data)
- ✗ Assets – liquidity (ability to turn to cash)
- ✗ Liabilities/Expenses – alphabetical

POSTING DEBIT AMOUNT TO LEDGER

GENERAL JOURNAL PAGE 1

POST REF – only write AFTER posted

DATE	1	2	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
Jan. 20--	1	2	Cash	R1	110	2 0 0 0 00	
	2		Michael Delgado, Capital				2 0 0 0 00
	3						

ACCOUNT Cash				ACCOUNT NO. 110			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Jan. 20--	2	G1	2 0 0 0 00		2 0 0 0 00		

1. Write the date.
2. Write the journal page number.
3. Write the debit amount.
4. Write the new account balance.
5. Return to the journal and write the account number.

POSTING CREDIT AMOUNT TO LEDGER

GENERAL JOURNAL												PAGE 1		
	DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT				CREDIT				
1	Jan.	2	Cash	R1	110	2	0	0	0	00				1
2			Michael Delgado, Capital		310						2	0	0	2

ACCOUNT Michael Delgado, Capital										ACCOUNT NO. 310
DATE		ITEM	POST. REF.	DEBIT		CREDIT		BALANCE		
								DEBIT	CREDIT	
Jan.	2		G1			2	0	0	0	00
								2	0	0

1. Write the date.
4. Write the new account balance.
2. Write the journal page number.
5. Return to the journal and write the account number.
3. Write the credit amount.

POSTING DEBIT AMOUNT TO ACCOUNT WITH BALANCE

GENERAL JOURNAL									
								PAGE 1	
DATE	ACCOUNT TITLE			DOC. NO.	POST. REF.	DEBIT		CREDIT	
7 5	Supplies			M1	150	2	2 0 0 0		7
8	Accounts Payable—Canyon Office Supplies				210			2 2 0 0	8

Debit or Credit balance? Whichever is **MORE**

ACCOUNT <i>Supplies</i>									
								ACCOUNT NO. 150	
DATE	ITEM			POST. REF.	DEBIT		CREDIT		BALANCE
Jan. 2				G1	1	6 5 0 0			1 6 5 0 0
5				G1	2	2 0 0 0			3 8 5 0 0

Remember! GL ACCOUNT BALANCE

Dr + Dr = Dr

Cr + Cr = Cr

Dr + Cr = can be Dr or Cr (whichever is more!)

1. Write the date.
2. Write the journal page number.
3. Write the debit amount.
4. Write the new account balance.
5. Return to the journal and write the account number.

POSTING DEBIT AMOUNT TO ACCOUNT WITH CREDIT BALANCE

GENERAL JOURNAL									
								PAGE 1	
DATE	ACCOUNT TITLE				DOC. NO.	POST. REF.	DEBIT	CREDIT	
7 5	Supplies				M1	150	2 2 0 00		

Debit or Credit balance? Whichever is **MORE**

ACCOUNT <i>Accounts Payable—Cany</i>									
								ACCOUNT NO. 210	
DATE	ITEM				PO. NO.	REF.	DEBIT	CREDIT	
Jan. 5					G1		2 2 0 00	2 2 0 00	
9					G1		1 0 0 00	1 2 0 00	

Remember! GL ACCOUNT BALANCE
 $Dr + Dr = Dr$
 $Cr + Cr = Cr$
 $Dr + Cr = \text{can be Dr or Cr (whichever is more!)}$

1. Write the date.
2. Write the journal page number.
3. Write the debit amount.
4. Write the new account balance.
5. Return to the journal and write the account number.

GENERAL JOURNAL								PAGE 1
	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
1	²⁶⁻ Jan.	2 Cash	R1	110	2 0 0 0 00		1	
2		Michael Delgado, Capital		310		2 0 0 0 00	2	
3		2 Supplies	C1	150	1 6 5 0 00			
4		Cash		110		1 6 5 0 00		
5		3 Prepaid Insurance	C2	160	9 0 0 0 00		5	
6		Cash		110		9 0 0 0 00	6	
7		5 Supplies	M1	150	2 2 0 0 00		7	
8		Accounts Payable—Canyon Office Supplies		210		2 2 0 0 00		
9		9 Accounts Payable—Canyon Office Supplies	C3	210	1 0 0 0 00		9	
10		Cash		110		1 0 0 0 00	10	
11		10 Cash	T10	110	1 1 0 0 0 00		11	
12		Sales		410		1 1 0 0 0 00	12	
13		12 Accounts Receivable—Main Street Services	S1	130	5 0 0 0 00		13	
14		Sales		410		5 0 0 0 00	14	
15		12 Communications Expense	C4	530	8 0 0 0 00		15	
16		Cash		110		8 0 0 0 00	16	
17		15 Equipment Rental Expense	C5	540	4 0 0 0 00		17	
18		Cash		110		4 0 0 0 00	18	
19		16 Cash	R2	110	2 0 0 0 00		19	
20		Accounts Receivable—Main Street Services		130		2 0 0 0 00	20	
21		16 Michael Delgado, Drawing	C6	320	3 5 0 0 00		21	
22		Cash		110		3 5 0 0 00	22	
23		16 Accounts Receivable—Valley Landscaping	S2	140	4 0 0 0 00		23	
24		Sales		410		4 0 0 0 00	24	
25		17 Advertising Expense	C7	510	3 8 3 0 00		25	
26		Cash		110		3 8 3 0 00	26	
27		18 Cash	T18	110	5 3 5 0 00		27	
28		Sales		410		5 3 5 0 00	28	
29		19 Petty Cash	C8	120	1 0 0 0 00		29	
30		Cash		110		1 0 0 0 00	30	
31		19 Supplies	M2	150	1 0 5 0 00		31	
32		Accounts Payable—Mountain Graphic Arts		220		1 0 5 0 00	32	
33		22 Equipment Rental Expense	C9	540	5 1 0 0 00		33	
34		Cash		110		5 1 0 0 00	34	
35							35	

GENERAL LEDGER WITH POSTING COMPLETED

ACCOUNT <i>Cash</i>				ACCOUNT NO. 110			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
			DEBIT	CREDIT	DEBIT	CREDIT	
Jan. 2		G1	2 0 0 0 00		2 0 0 0 00		
				1 6 5 0 00	1 8 3 5 00		

ACCOUNT <i>Accounts Receivable—Main Street Services</i>				ACCOUNT NO. 130			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
			DEBIT	CREDIT	DEBIT	CREDIT	
Jan. 12		G1	5 0 0 0 00		5 0 0 0 00		

**Usually GL balance is the NB
(ie. Cash- dr. GL balance is usually dr.)**

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
			DEBIT	CREDIT	DEBIT	CREDIT	
Jan. 5		G1		2 2 0 0 00	2 2 0 0 00		
9		G1	1 0 0 0 00		1 2 0 0 00		

ACCOUNT <i>Accounts Payable—Mountain Graphic Arts</i>				ACCOUNT NO. 220			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
			DEBIT	CREDIT	DEBIT	CREDIT	
Jan. 19		G1		1 0 5 0 00		1 0 5 0 00	

PROVING CASH

✗ Proving Cash

- Ensure amount of cash in Cash Account agrees with balance shown in checkbook (on Check Stub)

NO. 14	\$ _____
Date _____	20 _____
To _____	
For _____	
BALANCE BROUGHT FORWARD	2,597 00
AMOUNT DEPOSITED	
SUBTOTAL	
AMOUNT THIS CHECK	
BALANCE CARRIED FORWARD	

ACCOUNT <i>Cash</i>													ACCOUNT NO. <i>110</i>						
DATE		ITEM	POST. REF.	DEBIT				CREDIT				BALANCE							
												DEBIT			CREDIT				
	31		G2					5	4	5	00	2	5	9	7	00			

If the cash balance as shown in the checkbook (ON CHECK STUB) equals the cash balance in the Cash account, cash is proved.



CHECK YOURSELF!

List the five steps of posting from the general journal to the general ledger.

1. Date
2. Journal Page in Post Ref.
3. Debit/Credit amount
4. Debit/Credit Balance
5. IN JOURNAL – account number in POST REF

When both debit and credit amounts have been posted to an account, what determines whether the balance is a debit or a credit?

Which ever amount is larger (debit or credit) – just like adding positive/negative numbers

Which two amounts are compared when proving cash?

Cash balance in checkbook and cash balance in ledger



JOURNALIZING CORRECTING ENTRIES AND CORRECTING POSTING ERRORS

- Analyze incorrect journal entries and prepare correcting entries.
- Demonstrate how to correct errors made during the posting process.



MEMORANDUM (MEMO) FOR CORRECTING ENTRY


X Correcting entry

- Entry to correct an incorrect journal entry
- MEMO is prepared as source document for proof

DELGADO WEB SERVICES 25402 Rimrock Road Billings, MT 59102-1820		No. 15
MEMORANDUM		
<i>A cash payment of \$120.00 for Advertising, March 31, 20--, was debited in error to Miscellaneous Expense</i>		
Signed: <u>Michael Delgado</u>		Date: <u>April 17, 20--</u>

JOURNAL ENTRY TO RECORD A CORRECTING ENTRY

April 17. Discovered that a payment of cash for advertising in March was journalized and posted in error as a debit to Miscellaneous Expense instead of Advertising Expense, \$120.00. Memorandum No. 15.

Advertising Expense	
	120.00

Miscellaneous Expense

Remember, correct errors in a way that won't cause questions!

DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
28	17	Advertising Expense	M15		120.00	
29		Miscellaneous Expense				120.00
30						

3

Credit

CORRECTING AN ERROR IN POSTING TO THE WRONG ACCOUNT

ACCOUNT *Supplies*

ACCOUNT NO. 150

**Remember, GL accounts
are
permanent – professionals
Will USE INK**

1. Draw a line through the entire incorrect entry.
2. Record the posting in the correct account.
Recalculate the account balance.

CORRECTING AN INCORRECT AMOUNT

ACCOUNT <i>Miscellaneous Expense</i>				ACCOUNT NO. 540											
DATE		ITEM	POST. REF.	DEBIT				CREDIT				BALANCE			
												DEBIT		CREDIT	
²⁰⁻⁻ May	6		G9	4	5	0	00					4	5	0	00
	31		G10		3	0	00		3	0	00	4	7	5	00
												4	2	0	00

1. Draw a line through the incorrect amount.
2. Write the correct amount just above the incorrect amount in the same space.
3. Recalculate the account balance.

CORRECTING AN AMOUNT POSTED TO THE WRONG COLUMN

ACCOUNT <i>Miscellaneous Expense</i>										ACCOUNT NO. 540									
DATE		ITEM	POST. REF.	DEBIT				CREDIT				BALANCE							
												DEBIT				CREDIT			
²⁰⁻⁻ May	6		G9	4	5	0	00					4	5	0	00				
	31		G10	3	0	00		3	0	00		4	2	0	00				

- Draw a line through the incorrect item in the account.
- Record the posting in the correct amount column.
- Recalculate the account balance.

CHECK YOURSELF!

What is a correcting entry?

A journal entry made to correct an error in the ledger

When is a correcting entry necessary?

When a transaction has been improperly journalized and posted to the ledger

What are the three steps for correcting an incorrect amount posted to an account??

1. Draw a line through the incorrect amount.
2. Write the correct amount just above the correction in the same space.
3. Recalculate the account balance.

What are the three steps for correcting an amount posted to an incorrect column??

1. Draw a line through the incorrect item in the account.
2. Record the posting in the correct amount column.
3. Recalculate the account balance.