Reading Guide •Chapter 4: Posting to the General Ledger

Name: _____

Lesson 4-1: Using Accounts and Preparing and Maintaining a Chart of Accounts

Objectives:

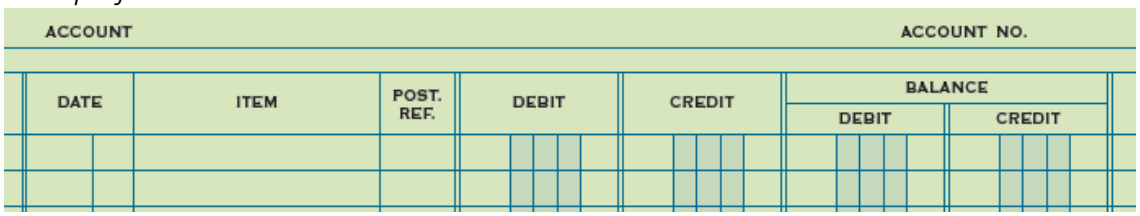
1. Construct a chart of accounts for a service business organized as a proprietorship.
2. Demonstrate correct principles for numbering accounts.
3. Apply file maintenance principles to update a chart of accounts.
4. Complete the steps necessary to open general ledger accounts.

A. Account Form

- Remember a journal is a permanent record of all transactions in chronological order.

- This doesn't tell us a quick account balance at a glance though.

B. Relationship of a T Account to an Account Form



- The form used to show account balances quickly has a balance credit-debit column. This form is known as balance-ruled account form.
- The account balance is calculated after each entry.

- The POST REF column states the journal page number the transaction is on, so we can trace the specific entry.

C. Chart of Accounts

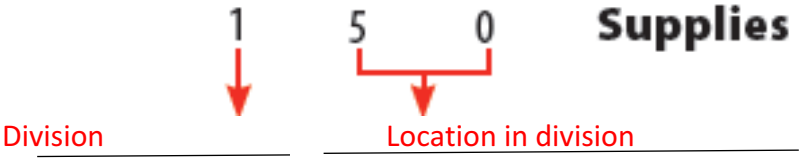
- Ledger: group of accounts
- General Ledger: All accounts needed to prepare financial statements
- Account Number: number given to an account.

- Accounts in a general ledger are arrange by what financial statement they appear on.

- What are the Balance Sheet divisions? 1. Assets 2. Liabilities 3. Owner's Equity

- What are the Income Statement divisions? 1. Revenue 2. Expenses

D. Account Numbers



E. Assigning Account Numbers

- File maintenance: Managing accounts by assigning account numbers and keeping records up-to-date

- Even if accounts are not used, they are usually not removed from the chart of accounts.

- Assets are listed in order of liquidity (ability to be turned to cash).

- Liabilities and expenses are listed in alphabetical order.
    - So we add new accounts where they go A-Z by putting them between accounts already existing.
    - **Ie. 530 - Communication Expense**
      540 – Equipment Expense
      Dry Cleaning Expense would be what number? 535

F. Opening an Account in the General Ledger (GL)

- Opening an account: Write account number AND title on ledger form
- Accounts are arranged in the GL the same way they are arranged in the Chart of accounts

To open an account: 1. Write the account title

2. Write the account number

Check yourself!

1. Describe the two parts of an account number.

1st digit = GL division
2nd/3rd digit = location in division

2. List the two steps for opening an account.

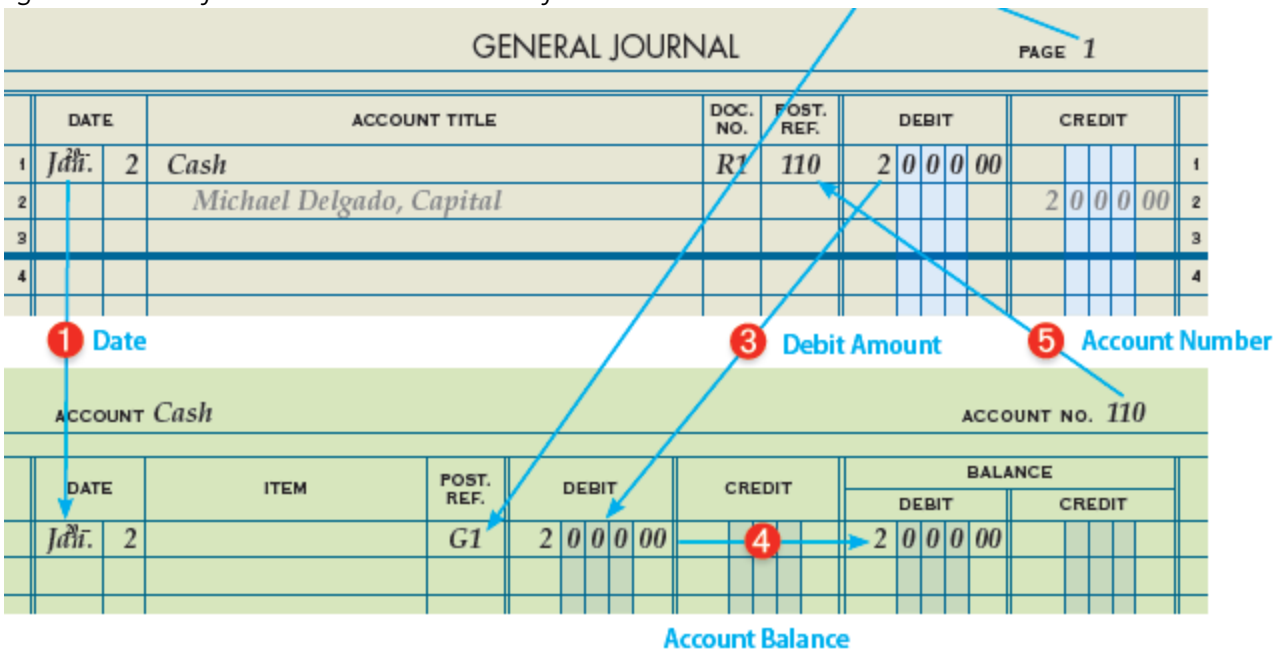
Write the account title,
Write the account number

Lesson 4-2: Posting from the General Journal (GJ) to the General Ledger (GL) and Proving Cash

Objectives:

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

A. Posting an Amount from the Debit Column of the General Journal



- Posting: Transferring information from general journal (GJ) to ledger
- Posting sorts all transactions affecting a certain account into one place.
- The Post Ref column on the GENERAL JOURNAL is for the account number of the account. **We DO NOT fill this in until after we POST the transactions! This is the last step to posting!**

Steps to posting:

1. Date
2. Journal Page
3. Debit/Credit amount
4. Calculate new account balance
5. Account number in post ref. in general journal

Remember! GL ACCOUNT BALANCE

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

B. *Posting an Amount from the Credit Column of the General Journal*

- Follow the same steps as above to post the Credit amount. Remember the account balance!

C. *Posting a Debit Amount to an Account with a Balance*

- Once again, remember this!

Remember! GL ACCOUNT BALANCE
Dr + Dr = Dr
Cr + Cr = Cr
Dr + Cr = can be Dr or Cr (whichever is more!)

D. *Journal Page with Posting Completed*

- Note that all Post Ref column should be filled in now that posting is complete! This is your way of knowing that you've posted items.
- How can we tell by the image that all checks have been recorded? (No check numbers are missing C1-C9)
- What account number has the entry on Line 20 been posted to ? 130

	DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
1	Jan.	2	Cash	R1	110	200 00		1
2			Michael Delgado, Capital		310		2000 00	2
3		2	Supplies	C1	150	165 00		3
4			Cash		110		165 00	4
5		3	Prepaid Insurance	C2	160	900 00		5
6			Cash		110		900 00	6
7		5	Supplies	M1	150	220 00		7
8			Accounts Payable—Canyon Office Supplies		210		220 00	8
9		9	Accounts Payable—Canyon Office Supplies	C3	210	100 00		9
10			Cash		110		100 00	10
11		10	Cash	T10	110	1100 00		11
12			Sales		410		1100 00	12
13		12	Accounts Receivable—Main Street Services	S1	130	500 00		13
14			Sales		410		500 00	14
15		12	Communications Expense	C4	530	80 00		15
16			Cash		110		80 00	16
17		15	Equipment Rental Expense	C5	540	400 00		17
18			Cash		110		400 00	18
19		16	Cash	R2	110	200 00		19
20			Accounts Receivable—Main Street Services		130		200 00	20
21		16	Michael Delgado, Drawing	C6	320	350 00		21
22			Cash		110		350 00	22
23		16	Accounts Receivable—Valley Landscaping	S2	140	400 00		23
24			Sales		410		400 00	24
25		17	Advertising Expense	C7	510	383 00		25
26			Cash		110		383 00	26
27		18	Cash	T18	110	535 00		27
28			Sales		410		535 00	28
29		19	Petty Cash	C8	120	100 00		29
30			Cash		110		100 00	30
31		19	Supplies	M2	150	105 00		31
32			Accounts Payable—Mountain Graphic Arts		220		105 00	32
33		22	Equipment Rental Expense	C9	540	510 00		33
34			Cash		110		510 00	34
35								35

E. *General Ledger with Posting Completed*

ACCOUNT *Supplies* ACCOUNT NO. *150*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Jan.	2		G1	165 00		165 00	
	5		G1	220 00		385 00	
	19		G1	105 00		490 00	
	28		G2	130 00		620 00	

- Once posting is complete, you can see the account balance of any account quickly
- Usually the balance in an account's GL will be the Normal Balance (NB), so the accounts usually have always a debit balance or always credit balance! (There are a few exceptions we will mention in the future!)

F. Proving Cash

Proving Cash:

In proving cash, we make sure the balance on our last check stub equals the balance in the cash account.

Check yourself!

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

Date
Journal Page in Post Ref.
Debit/Credit amount
Debit/Credit Balance
IN JOURNAL – account number in POST REF

2. 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

3. Which two amounts are compared when proving cash?

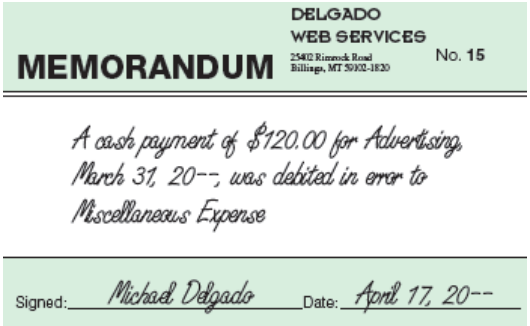
Cash balance in checkbook and cash balance in ledger

Lesson 4-3: Journalizing Correcting Entries and Correcting Posting Errors

Objectives:

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

A. *Memorandum for Correcting Entry*



DELGADO
WEB SERVICES
25402 Rimrock Road
Billings, MT 59102-1820

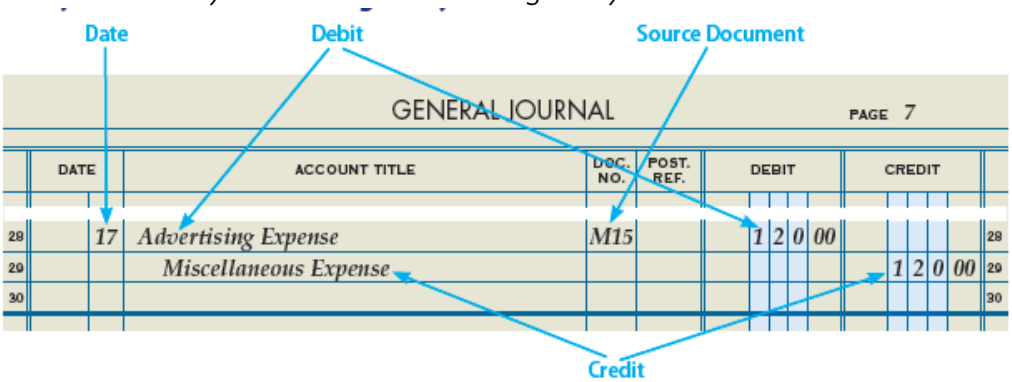
MEMORANDUM No. 15

A cash payment of $120.00 for Advertising, March 31, 20--, was debited in error to Miscellaneous Expense

Signed: *Michael Delgado* Date: *April 17, 20--*

- If an incorrect transaction has already been posted, we must create a memo (the source doc) and journalize another transaction to fix the error in the GJ and GL.

B. *Journal Entry to Record a Correcting Entry*



- Sometimes the journal entry is correct, but was posted incorrectly.
  - In that case: 1. Line through the incorrect posting
    2. Correctly post and recalculate account balances

- Remember, errors are corrected in a way that won't cause questions.
- GL accounts are permanent ; therefore, use ink!
- ***Remember, if an above balance is incorrect, so are all the FOLLOWING balances!***

Check yourself!

1. What is a correcting entry?

A journal entry made to correct an error in the ledger

2. When is a correcting entry necessary?

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

3. 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.

4. 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.