The Accounting Cycle
During the Period

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Textbook: Financial Accounting, Spiceland

- This presentation contains information, in addition to the material prepared and provided by the professor, from the book Financial Accounting, 4^{th}. Ed., Spiceland which is the textbook assigned for the course CONT 3105 – “Introducción a los Fundamentos de Contabilidad” at the University of Puerto Rico, Río Piedras Campus.

Topics

Topics

1. The Accounting Information System
2. Double-entry Accounting System
3. The Effects of Transactions on the Basic Accounting Equation
4. Effects on Account Balances (Debits and Credits)
5. Double-entry Accounting System with Debits and Credits
6. The Accounting Cycle
    a. Journalizing
    b. Posting to General Ledger
    c. Trial Balance

The Accounting Information System

The Accounting Information System

1.1 Definition

The Accounting Information System

1.1 Definition

- The Accounting Information System collects and processes transaction data and then disseminates the financial information to interested parties.
- Accounting information systems vary widely from one business to another. [**Kieso**]

The Accounting Information System

1.1 Definition

- Various factors shape these systems:

1. the nature of the business and the transactions in which it engages,
2. the size of the firm,
3. the volume of data to be handled, and
4. the informational demands that management and others require. [**Kieso**]

The Accounting Information System

1.2 Components

The Accounting Information System

1.2 Components

- The main components of the Accounting Information Systems include:
  1. Understanding the basic terminology of accounting.
  2. Knowing the double-entry systems, using the debits and credits and their relationship with the accounting equation.
  3. Identifying the different ownerships structures.
  4. Comprehending and using the accounting cycle.
  5. Preparing financial statements and understanding the flow of financial data among them.

The Accounting Information System

1.2 Components

- The Ownership Structures and the basic rules to prepare the financial statements are explained in the Presentation 1 of this course.
- In this Presentations 2 and in the Presentation 3 will be discussed the rest of the components of the Accounting Information Systems.

The Accounting Information System

1.3 Basic Terminology

The Accounting Information System

1.3 Basic Terminology

- Financial accounting rests on a set of concepts for identifying, recording, classifying, and interpreting transactions and other events relating to enterprises. [**Kieso**]
- Consequently, It is important to understand and comprehend the basic terminology employed in collecting accounting data.

The Accounting Information System

1.3 Basic Terminology

- The basic terminology, which we will discussed throughout the Presentations 2 and 3, follows:

#	Terminology	#	Terminology
1	Transaction	6	Trial Balance
2	Account	7	Adjusting Entries
3	Journal	8	Financial Statements
4	Posting	9	Closing Entries
5	General Ledger	10	Post Closing Trial Balance

The Accounting Information System

1.4 The Accounting Cycle

The Accounting Information System

1.4 The Accounting Cycle

- The Accounting Information Systems comprises mainly of the Accounting Cycle.
- The Accounting Cycle is a set of procedures to record transactions (in a company's accounting books) and prepare the company's financial statements.
- See the Accounting Cycle in the next page.

The Accounting Information System
The Accounting Cycle

The Accounting Information System

1.4 The Accounting Cycle

- Before discussing in detailed each step of the Accounting Cycle, we should first understand the following topic:
  1. Double-entry Accounting System.
  2. The Effects of Transactions on the Basic Accounting Equation.

Double-entry Accounting System

Double-entry Accounting System

2.1 Definition

- Under the used double-entry accounting system, a company records the dual (two-sided) effect of each transaction in appropriate accounts.
- This system provides a logical method for recording transactions. It also offers a means of providing the accuracy of the recorded amounts. [**Kieso**]

Double-entry Accounting System

2.1 Definition

- Before we continue, let's see the definition of these terms:
  1. **Transaction**: It is a business activity or event that can be measured (in dollar amounts) and communicated to users. A transaction can be classified as:
     a. **External Transaction**: A transaction the company conducts with a separate economic entity. Ex. Selling a product to a customer, paying salaries to an employee, etc.
     b. **Internal Transaction**: Events that affects the financial position of the company but do not include an exchange with a separate entity. Ex. Using supplies already purchased.

Double-entry Accounting System

2.1 Definition

2. **Accounts**:
   - Summarize all transactions related to a particular item over a period of time.
   - A systematic arrangement that shows the effect of transactions and other events on a specific element (asset, liability, capital, revenue, expenses). Companies keep a separate account for each asset, liability, revenue, and expense, and for capital. [**Kieso**]

Double-entry Accounting System

2.1 Definition

2. Accounts:

- Because the format of an account often resembles the letter T, it is sometimes referred to as a T-Account.

Name of Account

Debit Side	Credit Side

Double-entry Accounting System

2.2 Double-entry System and Accounting Equation

Double-entry Accounting System

2.2 Double-entry System and Accounting Equation

- The most important point to understand the double-entry system is the effect in the accounting equation. The accounting equation is depicted as follows:

ASSETS = LIABILITIES + OWNER'S EQUITY

Double-entry Accounting System

2.2 Double-entry System and Accounting Equation

- Every transaction impacts directly the financial position of a company. But, this effect is dual, at least two accounts are affected in each business transaction, increasing or decreasing one or more components of the accounting equation.

ASSETS = LIABILITIES + OWNER'S EQUITY

Double-entry Accounting System

2.2 Double-entry System and Accounting Equation

- For example, a company borrows $1,000 for the bank and sign a note payable.
- The dual effect of this transaction is an increase of the asset and an increase of the liabilities.

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Cash		Note payable		
+ $1,000		+ $1,000		

Effects of Transactions in the Basic Accounting Equation

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- In order to understand the dual-effect of each transaction in the accounting equation, let's analyze a few transactions of the following example.
- Brandon created in December 1, 2017 a corporation to establish a music school named Vienna School Corporation. The annual accounting period of the school is the natural year.

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- For each of the following transactions, we should determine
  1. What components of the accounting equation is affected by the transaction?
  2. What are the accounts related to the transaction?
  3. What is the monetary effect of the transaction?

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 1**: On December 1 the corporation issued 1,000 common stock of $30,000 to three stockholders (including Brandon). The funds raised with the issuance of the stock are to buy equipment and start operations.

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 1**: On December 1 the corporation issued common stock of $30,000 to three stockholders (including Brandon). The funds raised with the issuance of the stock are to buy equipment and start operations.

ASSETS =	LIABILITIES +	OWNER'S EQUITY
Cash		**Common Stock**
+ $30,000		+ $30,000

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 2**: On December 2 the corporation borrowed $5,000 from American Bank and signed a promissory note payable to repay the full amount of the loan in one year.

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 2**: On December 2 the corporation borrowed $5,000 from American Bank and signed a promissory note payable to repay the full amount of the loan in one year.

ASSETS =	LIABILITIES +	OWNER'S EQUITY
Cash	**Notes Payable**	**Common Stock**
Bal. $30,000		$30,000
+ 5,000	+ 5,000	
Bal. $35,000	$5,000	$30,000

$35,000 = $35,000

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 3**: On December 3, the corporation purchased music equipment necessary for conducting the music classes amounting $20,000 cash.

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 3**: On December 3, the corporation purchased music equipment necessary for conducting the music classes amounting $20,000 cash.

ASSETS =			LIABILITIES +	OWNER'S EQUITY
	Cash	Equipment	Notes Payble	Common Stock
Bal.	$35,000		$5,000	$30,000
	- 20,000	+ 20,000		
Bal.	$15,000	$20,000	$5,000	$30,000

$35,000 = $35,000

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 4**: On December 3, the corporation paid six months of rent in advance for a place to provide the music classes, $3,000 cash ($500 each month).

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 4**: On December 3, the corporation paid six months of rent in advance for a place to provide the music classes, $3,000 cash ($500 each month).

- **Occasionally, a company purchased a service prior to its use. In this case, the rent paid is for occupying space in the future. The payment represents a resource of a company, an asset. This asset is called prepaid rent.**

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 4**: On December 3, the corporation paid six months of rent in advance for a place to provide the music classes, $3,000 cash ($500 each month).

ASSETS =				LIABILITIES +	OWNER'S EQUITY
	Cash	Equipment	Prepaid Rent	Notes Payable	Common Stock
Bal.	$15,000	$20,000		$5,000	$30,000
	- 3,000		+ 3,000		
Bal.	$12,000	$20,000	$3,000	$5,000	$30,000
		$35,000		**=**	**$35,000**

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 5**: On December 5, the corporation purchased music supplies on account, $1,500.

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 5**: On December 5, the corporation purchased music supplies on account, $1,500.

- **The music supplies represent a resource of the company (an asset).**
- **However, in this transaction the supplies were acquired on account, that means the company does not pay cash immediately but promise to pay it in the future. A promise to pay cash in the future is an "account payable".**

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 5**: On December 5, the corporation purchased music supplies on account, $1,500.

ASSETS =					LIABILITIES +		OWNER'S EQUITY
	Cash	Equipment	Prepaid Rent	Supplies	Accounts Payable	Notes Payable	Common Stock
Bal.	$12,000	$20,000	$3,000			$5,000	$30,000
				+ 1,500	+ 1,500		
Bal.	$12,000	$20,000	$3,000	$1,500	$1,500	$5,000	$30,000

$36,500 = $36,500

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 6**: On December 15, the corporation provided music classes to customer for cash, $5,000.

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 6**: On December 15, the corporation provided music classes to customer for cash, $5,000.

- **When a company provides services to its clients the entity earns revenue. According to the Revenue Recognition Principles, the company records revenue "at the time (accounting period) they provide goods and services to customers." This principles is applied disregarding if the company receives cash immediately or a promise to be paid in the future (accounts receivable).**
- **Revenues increase the Retained Earnings accounts in the Owner's Equity.**

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 6**: On December 15, the corporation provided music classes to customer for cash, $5,000.

ASSETS =					LIABILITIES +		OWNER'S EQUITY	
	Cash	Equipment	Prepaid Rent	Supplies	Accounts Payable	Notes Payable	Common Stock	Ret. Ear.
Bal.	$12,000	$20,000	$3,000	$1,500	$1,500	$5,000	$30,000	
	+ 5,000							+ 5,000
Bal.	$17,000	$20,000	$3,000	$1,500	$1,500	$5,000	$30,000	$5,000

$41,500 = **$41,500**

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 7**: On December 21, the corporation provided music classes to customer on account, $2,700.

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 7**: On December 21, the corporation provided music classes to customer on account, $2,700.

ASSETS =						LIABILITIES +		OWNER'S EQUITY	
	Cash	Acct. Rec.	Equip.	Prepaid Rent	Supplies	Accounts Payable	Notes Payable	Common Stock	Ret. Ear.
Bal	$17,000		$20,000	$3,000	$1,500	$1,500	$5,000	$30,000	$5,000
		+ 2,700							+ 2,700
Bal	$17,000	$2,700	$20,000	$3,000	$1,500	$1,500	$5,000	$30,000	$7,700

$44,200 = **$44,200**

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 8**: On December 21, the corporation received $1,000 for music classes to be provided to customers next months.

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 8**: On December 21, the corporation received $1,000 for music classes to be provided to customers next months.

- **Sometimes a company receives cash in advance from customers for services to be provided in the future. According to the Revenue Recognition Principles, the company records revenue "at the time (accounting period) they provide goods and services to customers."**
- **When a company receives cash for services not rendered, an obligation is created to the entity to perform services in the future. This is a liability for the company, referred to as "Deferred Revenue".**

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 8**: On December 21, the corporation received $1,000 for music classes to be provided to customers next months.

ASSETS =					LIABILITIES +			OWNER'S EQUITY	
	Cash	Acct. Rec.	Equip.	Prepaid Rent	Supplies	Acct. Pay.	Def. Rev.	Notes Pay	Common Stock	Ret. Ear.
Bal	$17,000	$2,700	$20,000	$3,000	$1,500	$1,500		$5,000	$30,000	$7,700
	+ 1,000						+ 1,000			
Bal	$18,000	$2,700	$20,000	$3,000	$1,500	$1,500	$1,000	$5,000	$30,000	$7,700

$45,200 = $45,200

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 9**: On December 27, the corporation paid $3,200 on salaries to employees.

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 9**: On December 27, the corporation paid $3,200 on salaries to employees.

- **Salaries of employees are an expense to the company. The expenses reduce the net income, and a reduction of net income is a decrease of Retained Earnings (Owner's equity account).**

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 9**: On December 27, the corporation paid $3,200 on salaries to employees.

ASSETS =						LIABILITIES +			OWNER'S EQUITY	
	Cash	Acct. Rec.	Equip.	Prepaid Rent	Supplies	Acct. Pay.	Def. Rev.	Notes Pay	Common Stock	Ret. Ear.
Bal	$18,000	$2,700	$20,000	$3,000	$1,500	$1,500	$1,000	$5,000	$30,000	$7,700
	- 3,200									- 3,200
Bal	$14,800	$2,700	$20,000	$3,000	$1,500	$1,500	$1,000	$5,000	$30,000	$4,500

$42,000 **=** **$42,000**

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 10**: On December 30, the corporation paid $1,500 on dividends to stockholders.

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 10**: On December 30, the corporation paid $1,500 on dividends to stockholders.

- **Dividends are distributions of part of the company's accumulated earnings. It is the claim of the owners to the asset's company. Since the dividends are pay out of the accumulated earnings of the corporation, a payment of dividends decreased the "Retained Earnings" account (Owner's Equity).**
- **Pay attention, dividends are NOT EXPENSES**.

Effects of Transactions in the Basic Accounting Equation

3.1 Comprehensive Example A

- **Transaction 10**: On December 30, the corporation paid $1,500 on dividends to stockholders.

ASSETS =						LIABILITIES +			OWNER'S EQUITY	
	Cash	Acct. Rec.	Equip.	Prepaid Rent	Supplies	Acct. Pay.	Def. Rev.	Notes Pay	Common Stock	Ret. Ear.
Bal	$14,800	$2,700	$20,000	$3,000	$1,500	$1,500	$1,000	$5,000	$30,000	$4,500
	- $1,500									- 1,500
Bal	$13,300	$2,700	$20,000	$3,000	$1,500	$1,500	$1,000	$5,000	$30,000	$3,000

$40,500 = **$40,500**

Effects on Account Balances (Debits and Credits)

Effects on Account Balances (Debits and Credits)

4.1 Debits and Credits

Effects on Account Balances (Debits and Credits)

4.1 Debits and Credits

- The term debit means "**left**.". The term credit means "**right**."

Name of Account

Debit **Credit**

- When a company enters an amount on the left side of an account, it **debits** the account. When it makes an entry on the right side, it **credits** the account.

Effects on Account Balances (Debits and Credits)

4.1 Debits and Credits

- For example, if a company debits the cash account by $10,000, the entry of this transaction is in the "left" side of the account.

Cash	
Debit	**Credit**
10,000	

- Pay attention, these terms (debit or credit) do not mean increase or decrease, instead describe where a company makes entries in the recording process.

Effects on Account Balances (Debits and Credits)

4.1 Debits and Credits

- As demonstrated in the prior section of this presentation, transactions have the **effect** of increasing or decreasing account balances.
- In accounting, we use the terms debit and credits to increase or decrease the account balances. However, not all the accounts increase or decrease by the debit or credit side. Instead, an account increase or decrease by the debit or credit side according to its classification in the basic accounting equation.

Effects on Account Balances (Debits and Credits)

4.1 Debits and Credits

- Consequently, you will need to learn how to increase or decrease account balances using the terms debit and credits.
- We will discussed this procedure,
  1. first with the three account types in the accounting equation (**assets, liabilities and owner's equity**), and then
  2. with the accounts in the expanded accounting equation (**revenue and expenses accounts**).

Effects on Account Balances (Debits and Credits)

4.2 Assets, Liabilities and Owner’s Equity Accounts

Effects on Account Balances (Debits and Credits)

4.2 Assets, Liabilities and Owner's Equity Accounts

- First, forget any rule you have learned about the meaning of debit or credit in the past, specially those in the finance or banking industry.
- **This is a new language.**

Effects on Account Balances (Debits and Credits)

4.2 Assets, Liabilities and Owner's Equity Accounts

- All assets accounts (**left** side of the accounting equation) increase by the debit side, and decrease by the credit side.

ASSETS =	LIABILITY +	OWNER'S EQUITY

Debit	Credit
⬆	⬇

Effects on Account Balances (Debits and Credits)

4.2 Assets, Liabilities and Owner's Equity Accounts

- **Example 1**: A new company, **X Corporation** receives $5,000 in the issuance of common stock on February 1. This transaction increases the cash account, consequently, you debit the cash account.

Cash

Feb. 1	**5,000**	
	______	
Bal.	**5,000**	

Effects on Account Balances (Debits and Credits)

4.2 Assets, Liabilities and Owner's Equity Accounts

- **Example 2**: The X Corporation purchased equipment, $2,000 cash on February 3. This transaction decreases, you credit the cash account. Pay attention the account shows a debit balance, because the debit amounts exceed the credits.

Cash

Feb. 1	**5,000**	**Feb. 3**	**2,000**
	_____		
Bal.	**3,000**		

Effects on Account Balances (Debits and Credits)

4.2 Assets, Liabilities and Owner's Equity Accounts

- All liabilities and owner's equity accounts (**right** side of the accounting equation) increase by the credit side, and decrease by the debit side.

ASSETS =		LIABILITY +		OWNER'S EQUITY	
Debit	Credit	Debit	Credit	Debit	Credit
↑	↓	↓	↑	↓	↑

Effects on Account Balances (Debits and Credits)

4.2 Assets, Liabilities and Owner's Equity Accounts

- **Example 3**: Refer to **Example 1**, where X Corporation receives $5,000 in the issuance of common stock on February 1. This transaction increases the common stock account (owner's equity), consequently, you credit common stock account.

Common Stock

	Feb. 1 5,000

Effects on Account Balances (Debits and Credits)

4.2 Assets, Liabilities and Owner's Equity Accounts

- **Example 4**: X Corporation borrowed $10,000 in the Global Bank and singed a promissory note to pay the loan in the future on February 8. This transaction increases the Note Payable (liability), then, you credit Note Payable.

Note Payable

	Feb. 8 10,000

Effects on Account Balances (Debits and Credits)

4.2 Assets, Liabilities and Owner's Equity Accounts

- **Example 5**: X Corporation paid $4,000 to Global Bank on February 28 related to the $10,000 borrowed on February 8 (**Example 4**). This transaction decreases the Note Payable (liability), then, you debit Note Payable.

Note Payable

Feb. 28	**4,000**	**Feb. 8**	**10,000**
		Bal.	**6,000**

Effects on Account Balances (Debits and Credits)

4.3 Revenues and Expenses

Effects on Account Balances (Debits and Credits)

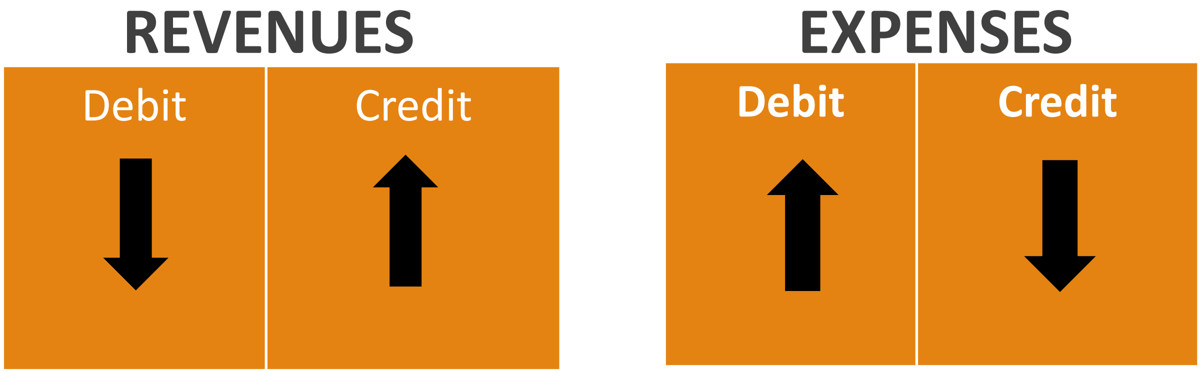
4.3 Revenues and Expenses

- In order to know how a revenue or expense account increase or decrease, you must first understand the effect of the revenues and expenses in the owner's equity of a company.
  - **Revenues**: Revenues increase the owner's equity (Retained Earnings in the case of corporations). Owner's equity increases by the credit side, so we increase revenue with a credit.
  - **Expenses**: Expenses decrease the owner's equity. Owner's equity decreases by the debit side. Consequently, a debit to an expense is essentially a debit to the owner's equity.

Effects on Account Balances (Debits and Credits)

4.3 Revenues and Expenses

- Therefore, revenues increase by the credit side and decrease by the debit side. Conversely, expenses increase by the debit side and decrease by the credit side.



Effects on Account Balances (Debits and Credits)

4.3 Revenues and Expenses

- **Example 6**: X Corporation received $3,500 cash for services rendered on February 23. This transaction increases the Service Revenue Account, so you credit Service Revenue.

Service Revenue	
	Feb. 23 3,500

Effects on Account Balances (Debits and Credits)

4.3 Revenues and Expenses

- **Example 7**: X Corporation paid $500 to employees for salaries of the month of February on February 27. This transaction increases the expenses. Consequently, you must debit Salary Expense.

Salary Expense		
Feb. 27	**3,500**	

Double-entry Accounting System with Debits and Credits

Double-entry Accounting System with Debits and Credits

5.1 Equality of Debits and Credits

Double-entry Accounting System with Debits and Credits

5.1 Equality of Debits and Credits

- The equality of debits and credits provides the basis of the double-entry systems of recording transactions (sometimes referred to as double-entry bookkeeping).
- This systems provides a logical method for recording transactions where a company records the dual (two-sided) effect of each transaction in appropriate accounts. [**Kieso**]

Double-entry Accounting System with Debits and Credits

5.1 Equality of Debits and Credits

- It also offers a means of proving the accuracy of the recorded amounts. If a company records every transaction with equal debits and credits, then the sum of all the debits to the accounts must equal the sum of all the credits. [**Kieso**]
- **Conclusion**: In a double-entry system, for every debit there must be a credit, and vice versa.

Double-entry Accounting System with Debits and Credits

5.2 Application

Double-entry Accounting System with Debits and Credits

5.2 Application

- **Example 8**: Refer to **Example 1**. A new company, X Corporation receives $5,000 in the issuance of common stock on February 1. Cash account increases (debit) and common stock account increases (credit). The total of debits amount $5,000 and the total of credits amounts $5,000.

Cash

Feb. 1 5,000	

Common Stock

	Feb. 1 5,000

Double-entry Accounting System with Debits and Credits

5.2 Application

- **Example 9**: Refer to **Example 2**. The X Corporation purchased equipment, $2,000 cash on February 3. Equipment account increases (debit) and Cash account decreases (credit). The total of debits amount $2,000 and the total of credits amounts $2,000.

Cash

	Feb. 3 2,000

Equipment

Feb. 3 2,000	

The Accounting Cycle

The Accounting Cycle

6.1 Summary

The Accounting Cycle

6.1 Summary

- As explained before, the Accounting Cycles comprises of multiple steps for recording and preparing financial statements of a company.
- We will be discussing in this presentation the first four steps of the cycle.
    1. Identifying and Measurement of Transactions
    2. Journalizing
    3. Posting to General Ledger
    4. Preparing the Trial Balance

The Accounting Cycle

6.2 Identifying and Measurement of Transactions

The Accounting Cycle

6.2 Identifying and Measurement of Transactions

- In this first step, the company uses the source documents to identify accounts affected by an external transactions and to establish the monetary value of the transaction.
- *Examples*:
  - **Sales invoice**: Provide the description of a sale transaction and the selling price.
  - **Lease Contract**: Provide the evidence of a lease agreement and the monthly lease payment required.

The Accounting Cycle

6.3 Journalizing

The Accounting Cycle

6.3 Journalizing

- To record every transaction, a company uses a journal (also called “the book of original entry” and “general journal”).
- This journal chronologically lists transactions and other events, expressed in terms of debits and credits to accounts. [**Kieso**]
- To illustrate the format of the General Journal, see next page.

The Accounting Cycle

6.3 Journalizing

GENERAL JOURNAL				
Date	**Account Title**	**Ref.**	**Debit**	**Credit**

- To practice the technique of journalizing, let's record on the general journal the transactions discussed in the last two examples on the Section 5.2 (**Example 8 and 9**)

The Accounting Cycle

6.3 Journalizing

- **Example 10**: Refer to **Example 8**. A new company, X Corporation receives $5,000 in the issuance of common stock on February 1.

GENERAL JOURNAL				J-1
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Feb. 1	Cash		5,000	
	Common Stock			5,000
	(Issued shares of stock for cash)			

The Accounting Cycle

6.3 Journalizing

- **Example 11**: Refer to **Example 9**. The X Corporation purchased equipment, $2,000 cash on February 3.

GENERAL JOURNAL				J2
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Feb. 3	Equipment		2,000	
	Cash			2,000
	(Purchased equipment for cash)			

The Accounting Cycle

6.4 Posting to General Ledger

The Accounting Cycle

6.4 Posting to General Ledger

- **Posting** is the process of transferring the debit and credit information from the journal to individual accounts in the general ledger.
- The General Ledger provides, in a single location, the list of transactions affecting each account and the account's balance.
- Therefore, in the General Ledger are located all the accounts of a company with a detailed of each transaction affecting the accounts during a period.

The Accounting Cycle

6.4 Posting to General Ledger

- The next illustration depicts the General Ledger.

ACCOUNT TITLE:				
Date	**Description**	**Debit**	**Credit**	**Balance**

The Accounting Cycle

6.4 Posting to General Ledger

- To practice the technique of posting, let's post on the general ledger the transactions discussed in the prior section: **Journalizing**.
- See example on next page.

The Accounting Cycle

6.4 Posting to General Ledger

- **Example 12 (Posting)**: The General Journal of X Corporation, showing the transactions recorded for **Examples 10 and 11**, follows:

GENERAL JOURNAL				
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Feb. 1	Cash		5,000	
	Common Stock			5,000
	(Issued shares of stock for cash)			
Feb. 3	Equipment		2,000	
	Cash			2,000
	(Purchased equipment for cash)			

The Accounting Cycle

6.4 Posting to General Ledger

- **Example 12 (Posting)**: For posting the transaction from the general journal to the general ledger, you should post every debit and every credit recorded on the general ledger to the corresponding account in the general ledger.
- Let's post each transaction. In the next three pages you will see part of the General Ledger of X Corporation showing first Cash, then Equipment, and finally Common Stock accounts after the posting process of the transactions recorded on the General Journal.

The Accounting Cycle

Example 12 (Posting) [Posting to Cash]

GENERAL JOURNAL				
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Feb. 1	Cash		5,000	
	Common Stock			5,000
	(Issued shares of stock for cash)			
Feb. 3	Equipment		2,000	
	Cash			2,000
	(Purchased equipment for cash)			

ACCOUNT TITLE: Cash

Date	Description	Debit	Credit	Balance
Feb. 1	Issuance of common stock	5,000		5,000
3	Purchase of equipment		2,000	3,000

The Accounting Cycle

Example 12 (Posting)

ACCOUNT TITLE: Cash				
Date	**Description**	**Debit**	**Credit**	**Balance**
Feb. 1	Issuance of common stock	5,000		5,000
3	Purchase of equipment		2,000	3,000

- Is this $3,000 balance, a debit or credit balance?

The Accounting Cycle

Example 12 (Posting)

ACCOUNT TITLE: Cash				
Date	**Description**	**Debit**	**Credit**	**Balance**
Feb. 1	Issuance of common stock	5,000		5,000
3	Purchase of equipment		2,000	3,000

- Is this $3,000 balance, a debit or credit balance? **Debit Balance (asset account).**

The Accounting Cycle

<u>Example 12 (Posting)</u> [Posting to Equipment]

GENERAL JOURNAL				
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Feb. 1	Cash		5,000	
	Common Stock			5,000
	(Issued shares of stock for cash)			
Feb. 3	Equipment		2,000	
	Cash			2,000
	(Purchased equipment for cash)			

ACCOUNT TITLE: Equipment				
Date	**Description**	**Debit**	**Credit**	**Balance**
Feb. 3	Purchase of equipment	2,000		2,000

The Accounting Cycle

Example 12 (Posting)

ACCOUNT TITLE: Equipment				
Date	**Description**	**Debit**	**Credit**	**Balance**
Feb. 3	Purchase of equipment	2,000		2,000

- Is this $2,000 balance, a debit or credit balance?

Example 12 (Posting)

ACCOUNT TITLE: Equipment				
Date	**Description**	**Debit**	**Credit**	**Balance**
Feb. 3	Purchase of equipment	2,000		2,000

- Is this $2,000 balance, a debit or credit balance? **Debit balance (asset account)**.

The Accounting Cycle

Example 12 (Posting) [Posting to Common Stock]

GENERAL JOURNAL				
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Feb. 1	Cash		5,000	
	Common Stock			5,000
	(Issued shares of stock for cash)			
Feb. 3	Equipment		2,000	
	Cash			2,000
	(Purchased equipment for cash)			

ACCOUNT TITLE: Common Stock				
Date	**Description**	**Debit**	**Credit**	**Balance**
Feb. 1	Issuance of common stock		5,000	5,000

The Accounting Cycle

Example 12 (Posting)

ACCOUNT TITLE: Common Stock				
Date	**Description**	**Debit**	**Credit**	**Balance**
Feb. 1	Issuance of common stock		5,000	5,000

- Is this $5,000 balance, a debit or credit balance?

The Accounting Cycle

Example 12 (Posting)

ACCOUNT TITLE: Common Stock				
Date	**Description**	**Debit**	**Credit**	**Balance**
Feb. 1	Issuance of common stock		5,000	5,000

- Is this $5,000 balance, a debit or credit balance? **Credit balance (owner's equity account)**.

The Accounting Cycle

6.5 Preparing the Trial Balance

The Accounting Cycle

6.5 Preparing the Trial Balance

- A **trial balance** is a list of all accounts and their balances at a particular date, showing that total debits equal total credits.
- After we have posted journal entries to the general ledger accounts, the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

The Accounting Cycle

6.5 Preparing the Trial Balance

- This is expected because debits were equal to credits for every journal entry posted to those ledger accounts. To prove this and to check for any errors in posting, we prepare the trial balance.
- Another purpose of the trail balance is to assist us in preparing the adjusting entries (internal transitions). Adjusting entries is the fifth step of the Accounting Cycle and they are discussed in the next Presentation.

The Accounting Cycle

6.5 Preparing the Trial Balance

- Most companies list accounts in the trial balance in the following order: assets, liabilities, owner’s equity, revenues, and expenses.

The Accounting Cycle

<u>Example 13 (Trial Balance)</u>: Let's prepare the Trial Balance of X Corporation as of February 28 taking into consideration **<u>only</u>** the results of **Example 10, 11 and 12**. The general ledger follows:

ACCOUNT TITLE: Cash				
Date	**Description**	**Debit**	**Credit**	**Balance**
Feb. 1	Issuance of common stock	5,000		5,000
3	Purchase of equipment		2,000	3,000

ACCOUNT TITLE: Equipment				
Date	**Description**	**Debit**	**Credit**	**Balance**
Feb. 3	Purchase of equipment	2,000		2,000

ACCOUNT TITLE: Common Stock				
Date	**Description**	**Debit**	**Credit**	**Balance**
Feb. 1	Issuance of common stock		5,000	5,000

The Accounting Cycle

Example 13 (Trial Balance)

- The Trial Balance of X Corporation as of February 28, follow:

X CORPORATION TRIAL BALANCE FEBRUARY 28		
ACCOUNTS	**DEBIT**	**CREDIT**
Cash	$3,000	
Equipment	2,000	
Common Stock		$5,000
Total	**$5,000**	**$5,000**

The Accounting Cycle

6.6 Comprehensive Example B

The Accounting Cycle

6.6 Comprehensive Example B

- Refer to **Compressive Example A** about Vienna School Corporation.
- In this Example B, we will execute the first four steps of the Accounting Cycle:
  1. **Step 1**: Identification and measurement of each transaction of the corporation taking place on December 2017.
  2. **Step 2**: Record all the transactions in the General Journal.
  3. **Step 3**: Post all the transactions from the General Journal to the General Ledger.
  4. **Step 4**: Prepare the Trial Balance.

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

- **Transaction 1**: On December 1 the corporation issued 1,000 common stock of $30,000 to three stockholders (including Brandon). The funds raised with the issuance of the stock are to buy equipment and start operations.

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

- **Transaction 1**: On December 1 the corporation issued 1,000 common stock of $30,000 to three stockholders (including Brandon). The funds raised with the issuance of the stock are to buy equipment and start operations.

GENERAL JOURNAL				J-1
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 1	Cash		30,000	
	Common Stock			30,000
	(Issued shares of stock for cash)			

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Cash				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 1	Issuance of Stock	30,000		30,000

ACCOUNT TITLE: Common Stock				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 1	Issuance of Stock		30,000	30,000

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 2**: On December 2 the corporation borrowed $5,000 from American Bank and signed a promissory note payable to repay the full amount of the loan in one year.

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 2**: On December 2 the corporation borrowed $5,000 from American Bank and signed a promissory note payable to repay the full amount of the loan in one year.

GENERAL JOURNAL				J-2
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 2	Cash		5,000	
	Note Payable			5,000
	(Borrowed cash from bank)			

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Cash				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 1	Issuance of Stock	30,000		30,000
2	Borrowed cash from bank	5,000		35,000

ACCOUNT TITLE: Note Payable				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 2	Borrowed cash from bank		5,000	5,000

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 3**: On December 3, the corporation purchased music equipment necessary for conducting the music classes amounting $20,000 cash.

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 3**: On December 3, the corporation purchased music equipment necessary for conducting the music classes amounting $20,000 cash.

GENERAL JOURNAL				J-3
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 3	Equipment		20,000	
	Cash			20,000
	(*Purchased music equipment on cash)*			

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Cash

Date	Description	Debit	Credit	Balance
Dec. 1	Issuance of Stock	30,000		30,000
2	Borrowed cash from bank	5,000		35,000
3	Purchased music equipment		20,000	15,000

ACCOUNT TITLE: Equipment

Date	Description	Debit	Credit	Balance
Dec. 3	Purchased music equipment	20,000		20,000

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 4**: On December 3, the corporation paid six months of rent in advance for a place to provide the music classes, $3,000 cash ($500 each month).

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 4**: On December 3, the corporation paid six months of rent in advance for a place to provide the music classes, $3,000 cash ($500 each month).

GENERAL JOURNAL				J-4
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 3	Prepaid Rent		3,000	
	Cash			3,000
	(Prepaid six months of rent)			

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Cash				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 1	Issuance of Stock	30,000		30,000
2	Borrowed cash from bank	5,000		35,000
3	Purchased music equipment		20,000	15,000
3	Paid six months rent in advance		3,000	12,000

ACCOUNT TITLE: Prepaid Rent				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 3	Paid six months rent in advance	3,000		3,000

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 5**: On December 5, the corporation purchased music supplies on account, $1,500.

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 5**: On December 5, the corporation purchased music supplies on account, $1,500.

GENERAL JOURNAL				J-5
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 5	Music Supplies		1,500	
	Accounts Payable			1,500
	(Purchased supplies on account)			

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Music Supplies				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 5	Purchased supplies on account	1,500		1,500

ACCOUNT TITLE: Accounts Payable				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 5	Purchased supplies on account		1,500	1,500

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 6**: On December 15, the corporation provided music classes to customer for cash, $5,000.

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 6**: On December 15, the corporation provided music classes to customer for cash, $5,000.

GENERAL JOURNAL				J-6
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 15	Cash		5,000	
	Service Revenue			5,000
	(Provided services in cash)			

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Cash

Date	Description	Debit	Credit	Balance
Dec. 1	Issuance of Stock	30,000		30,000
2	Borrowed cash from bank	5,000		35,000
3	Purchased music equipment		20,000	15,000
3	Paid six months rent in advance		3,000	12,000
15	Provide services in cash	5,000		17,000

ACCOUNT TITLE: Service Revenue

Date	Description	Debit	Credit	Balance
Dec. 15	Provided services in cash		5,000	5,000

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 7**: On December 21, the corporation provided music classes to customer on account, $2,700.

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 7**: On December 21, the corporation provided music classes to customer on account, $2,700.

GENERAL JOURNAL				J-7
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 21	Accounts Receivable		2,700	
	Service Revenue			2,700
	(Provided services on account)			

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Accounts Receivable				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 21	Provided services on account	2,700		2,700

ACCOUNT TITLE: Services Revenue				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 15	Provided services in cash		5,000	5,000
21	Provided services on account		2,700	7,700

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 8**: On December 21, the corporation received $1,000 for music classes to be provided to customers next months.

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 8**: On December 21, the corporation received $1,000 for music classes to be provided to customers next months.

GENERAL JOURNAL				J-8
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 21	Cash		1,000	
	Deferred Revenue			1,000
	(*Received cash in advance for services)*			

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Cash

Date	Description	Debit	Credit	Balance
Dec. 1	Issuance of Stock	30,000		30,000
2	Borrowed cash from bank	5,000		35,000
3	Purchased music equipment		20,000	15,000
3	Paid six months rent in advance		3,000	12,000
15	Provide services in cash	5,000		17,000
21	Received cash in advance for services	1,000		18,000

ACCOUNT TITLE: Deferred Revenue

Date	Description	Debit	Credit	Balance
Dec. 21	Received cash in advance for services		1,000	1,000

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 9**: On December 27, the corporation paid $3,200 on salaries to employees.

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 9**: On December 27, the corporation paid $3,200 on salaries to employees.

GENERAL JOURNAL				J-9
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 27	Salary Expense		3,200	
	Cash			3,200
	(Paid salaries to employees)			

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Cash

Date	Description	Debit	Credit	Balance
Dec. 1	Issuance of Stock	30,000		30,000
2	Borrowed cash from bank	5,000		35,000
3	Purchased music equipment		20,000	15,000
3	Paid six months rent in advance		3,000	12,000
15	Provide services in cash	5,000		17,000
21	Received cash in advance for services	1,000		18,000
27	Paid salaries to employees		3,200	14,800

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Salary Expense				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 27	Paid salaries to employees		3,200	3,200

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 10**: On December 30, the corporation paid $1,500 on dividends to stockholders.

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1 and 2**

- **Transaction 10**: On December 30, the corporation paid $1,500 on dividends to stockholders.

GENERAL JOURNAL				J-10
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 30	Dividends		1,500	
	Cash			1,500
	(Paid dividends to stockholders)			

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Cash

Date	Description	Debit	Credit	Balance
Dec. 1	Issuance of Stock	30,000		30,000
2	Borrowed cash from bank	5,000		35,000
3	Purchased music equipment		20,000	15,000
3	Paid six months rent in advance		3,000	12,000
15	Provide services in cash	5,000		17,000
21	Received cash in advance for services	1,000		18,000
27	Paid salaries to employees		3,200	14,800
30	Paid dividends to stockholders		1,500	13,300

The Accounting Cycle

6.6 Comprehensive Example B – **Steps 1, 2 and 3**

ACCOUNT TITLE: Dividends				
Date	**Description**	**Debit**	**Credit**	**Balance**
Dec. 30	Paid dividends to stockholders	1,500		1,500

The Accounting Cycle

6.6 <u>Comprehensive Example B – **Step 4**</u>

The Accounting Cycle

6.6 Comprehensive Example B – **Step 4**

- The step 4 is to prepare the Trial Balance.
- You will need to find out the balance of each account of the company at the end of the period, in this case, as of December 31, 2017.
- The balance of each account was computed and updated after each of the ten transactions discussed before. The Trial Balance, using the most recent account balances, as of December 31, 2017, follows:

The Accounting Cycle

VIENNA SCHOOL CORPORATION TRIAL BALANCE DECEMBER 31, 2017		
ACCOUNTS	**DEBIT**	**CREDIT**
Cash	$13,300	
Account Receivable	2,700	
Prepaid Rent	3,000	
Music Supplies	1,500	
Music Equipment	20,000	
Accounts Payable		1,500
Deferred Revenue		1,000
Note Payable		5,000
Common Stock		30,000
Dividends	1,500	
Service Revenue		7,700
Salary Expense	3,200	
TOTAL	**$45,200**	**$45,200**