Accounting Notes

Account types, Debits/Credits, Journal

Asset Accounts:

Cash - includes money and any medium of exchange that a bank accepts at face value

Accounts Receivable - a record of an oral or implied promise of future cash receipts in exchange for goods or services provided.

Notes Receivable - a record of written promissary notes the business expects to collect in cash

Prepaid Expenses - expenses that are paid for in advance of their use by the business
(Examples: Rent, Insurance premiums, Supplies)

Land - a record of the cost of land a business **owns and uses** in its normal operations
Land not used in the business ˇnormal operations is recorded as an investment

Building - a record of the cost of a business ˇbuildings used in its normal operations

Liability Accounts:

Accounts Payable - an oral or implied promise to pay off debts arising from credit purchases

Notes Payable - amounts the business must pay because it signed promissary notes to borrow money or to purchase goods and services.

Accrued Liabilities - a liability for an expense that has been incurred but that has not been paid for yet.

Owner ˇs Equity Accounts:

Capital - the owner ˇs claim to the assets of the business

Withdrawals - withdrawals of cash or other assets by the owner for personal use

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Debits and Credits:

A business' debits must equal their credits. Applying this to the accounting equation, which states that a business' assets must equal their liabilities and owner's equity, shows how the normal balances for the accounts are determined.

Assets	=	Liabilities + Owner's Equity
Debits	=	Credits

Assets		Liabilities		Owner's Equity	
Dr	Cr	Dr	Cr	Dr	Cr
+	-	-	+	-	+

Recording Transactions in the Journal:

Recording transactions in a journal is similiar to how they are recorded in the T-accounts

Cash	
50,000	

Smith, Capital	
	50,000

Journal

Date	Accounts & Explanation	Debit	Credit
19X1 April 2	Cash Smith, Capital Initial investment in business	50,000	 50,000

Posting from the journal to the ledger:

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

Step 1: Enter the date from the journal entry into the date column of the ledger account
Step 2: Enter the journal page number in the journal reference column of the ledger account
Step 3: Transfer the amount for the first account in the entry to its ledger account as it is in the journal. Debits in journal are recorded as debits in the ledger and the same for credits
Step 4: Update the account balance. If there is no beginning balance, then just transfer the amount to the appropriate balance column (Dr Dr, Cr Cr). If there is a beginning balance, then add or subtract the amount from the current balance and enter the new balance. If the transaction amount and the current balance are both in the same columns (Dr & Dr, or Cr & Cr), then add the amounts together for the new balance and enter the result in the same column. If the transaction amount and the current balance are in different columns, then subtract the amounts and enter the result in the column that has the larger amount.
Step 5: Enter the ledger account number in the journal's Post Ref. column.

Repeat these steps until all amounts have been posted to the ledger accounts.

	Journal			Page 1
Date	Accounts & Explanation	Post Ref	Debit	Credit
19X1				
May 1	Cash	101	15000	
	Smith, Capital	311		15000
	Initial investment			

1 2 3 5

Account: Cash Account No. 101

Date	Item	Journal Ref.	Debit	Credit	Balance Debit	Balance Credit
19X1					-0-	
May 1		J.1	15000		15000	

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Chart of Accounts:

Chart of accounts - a list of all the accounts and their assigned account numbers in the ledger

Accounts are assigned numbers consisting of 2 or more digits. The number of digits used is dependent on how many accounts a company has in their ledger. A small company may use only 2 digits while a large corporation may use 5 digit account numbers.

The first digit is used to identify the main category in which the account falls under.

- 1 is used for Asset accounts
- 2 is used for Liabilitiy accounts
- 3 is used for Owner's Equity accounts
- 4 is used for Revenue accounts
- 5 is used for Expense accounts

The second digit indicates the subclassification of the account if there are any.

- Asset Accounts
  - 1 is used to represent Current Assets
  - 2 is used to represent Plant Assets
  - 3 is used to represent Investments
  - 4 is used to represent Intangible Assets

- Liability Accounts
  - 1 is used for Current Liabilities
  - 2 is used for Long Term Liabilities

- Expense Accounts
  - 1 is used for Selling Expenses
  - 2 is used for General and Administrative Expenses

All other digits are used just to indicate the order in which the accounts are listed in the chart of accounts.

Finding and Correcting Trial Balance Errors:

If in your trial balance your total debits do not equal your total credits, then perform the following steps to try to locate the error(s):

(1) Find the difference between the two column totals and search the trial balance for a missing account
(2) Search the journal entries for an entry with the amount of the difference and make sure it was posted to the ledger correctly.
(3) Divide the difference between the debit and credit totals by 2, and search the journal again for an entry containing this amount and make sure it was posted correctly.
(4) Divide the difference between the debit and credit totals by 9, and check the journal entries and the ledger for a slide or transposition error.