

COLLEGE ACCOUNTING

A collage of financial and business-related images arranged in a diamond shape on a dark background. The collage includes a calculator, a keyboard, a dollar bill, a coin, a check, and a ledger. The dollar bill is a \$100 bill, and the coin is a quarter. The check is for \$100.00, and the ledger is a financial statement. The collage is set against a dark background, and the diamond shape is defined by a white border.

IRWIN INTRODUCTORY ACCOUNTING SERIES

COLLEGE ACCOUNTING

Chapters 15–28 with Working Papers



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IRWIN

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ABOUT THE AUTHOR



Ken Koerber served from 1977 to 1990 as head of the accounting faculty at Bucks County Community College. During those 13 years, he assisted in instituting an occupational program of study and several new accounting courses including the college level accounting course for which this text is intended.

Since September of 1972, he has served on the full-time staff at Bucks County Community College. During these years, he has instructed students in diverse subject matter, ranging from the introductory accounting course to intermediate and cost accounting courses.

Prof. Koerber has been responsible for personally writing the proposals for hundreds of thousands of dollars' worth of grants. Those grants have assisted his department in purchasing state-of-the-art computer equipment which has introduced students to the technology of the 21st century. Personal educational grants include a study of the effect that audiovisual material and computer-assisted instruction have on students' learning potential, and the development of a computerized instructional system for students.

After receiving his bachelor of science degree in business administration from Villanova University, he joined the audit staff of Touche Ross where he was involved in the audits of service, retail, wholesale, and manufacturing businesses. Personal interest brought him into the field of teaching, and after a one-year trial period, he decided to continue his teaching career.



PREFACE



College Accounting is intended for use at the undergraduate level. The text and its supplements are designed to provide entry-level students with a complete foundation in general financial accounting. The course is intended to serve as a springboard for those students entering the financial accounting field at the bookkeeper level, as well as for those going on to a more advanced course of studies.

Accounting is a skill. It uses the art of interpreting data and the science of recording those data within a disciplined system. To help the student learn the system, a building block approach is used: each topic is identified, discussed, and then demonstrated. However, a skill is best learned by doing. The wealth of end-of-chapter material, both for self-test and assignment purposes, encourages students to review and apply their newly gained knowledge.

Each chapter begins with a brief look backwards at any pertinent information on which the new chapter will build. Showing how each chapter builds on previous chapters ties the text together and provides the student with a smooth transition from one topic to the next.

In organizing the chapter topics, I have tried to follow as logical a sequence as possible. The book begins with the basic accounting cycle for a service-oriented business. I have focused on the service business in Chapters 1–10 because it represents the largest segment of the economy and is the simplest for educational purposes. Chapter 7 discusses the types of special journals often used in small service businesses. Early placement of special journals is also convenient for schools that are preparing students to enter the medical or legal clerical job market. Chapters 8–10 cover the two topics common to most businesses: cash and payroll. By completing Chapters 1–10 of this textbook, the student is prepared to do basic bookkeeping functions for a service business.

The next sequence of chapters, 11–14, deals with the accounting cycle for a merchandising business. Merchandising, as the second most common form of business, will also employ a number of your students in the future. Chapter 15 begins a sequence that explores the balance sheet items. It is included with the first half of the text because so many reviewers felt they would like to cover it. After all, accounts receivable is a topic that touches most businesses.

The second half of the text explores the more advanced topics of the course. The series of chapters from 15 to 19, as I have indicated above, examines various balance sheet topics: notes receivable, notes payable, merchandise inventory, and plant and equipment, respectively. Chapter 15 is repeated in the second half of the text in recognition that instructors may prefer to include this topic in the second half of the course.

Chapters 20 and 21 explore the owner's equity area by discussing partnerships and corporations. Chapters 22 through 26 discuss topics encountered in more complex business structures. Chapters 27 and 28 complete the text with a discussion of how departmentalization and manufacturing affect financial accounting.

PEDAGOGICAL FEATURES

The features included in this textbook are genuinely useful learning tools, not just “hype.” I have carefully considered how students approach the subject matter and what would help them learn. The following is a brief description of each of these features.

CHAPTER MATERIAL

Learning objectives The learning objectives are at the front of the chapter so that students have a road map to guide them. To provide continuity, the objectives are identified throughout the text, the chapter summary, and the end-of-chapter material.

Key terms The key terms are identified at the start of the chapter so that students can begin to become familiar with them as soon as possible.

Steps to Success Whenever possible, tasks have been broken down into a series of basic steps. This provides the student with a memory and application tool.

Refresh Your Memory Accounting builds continually on what has gone before. To assist the student in recalling a word, phrase, or calculation, the Refresh Your Memory feature provides a helpful reminder. It is designed to save the student time and reduce the frustration level.

Internal Control Internal control is becoming increasingly important to the survival of businesses. Since students who will be entering the fields of business need to pay special attention to these issues, topics involving internal control are identified by a marginal notation.

Comments in the illustrations When drawing on the blackboard, showing a slide, or projecting a transparency, instructors have the liberty of pointing out certain aspects of an illustration and commenting on them. I have tried to capture this tactic by using screened comments in the illustrations that draw the student’s attention to an item he or she should notice.

Placing accounts in their financial statement context Starting after Chapter 2, each time an account is introduced within the chapter, it is repeated at the end of the chapter in its context within the financial statements. This feature is for reinforcement of the financial statement formats as well as the accounts within each group.

Yesterday, Today, and Tomorrow Each chapter ends with a brief discussion of accounting practices or procedures, and how technology can be used to accomplish them.

Chapter Summary This provides students with a study tool for reviewing the highlights of the chapter. Each learning objective is summarized and keyed back to the chapter.

Glossary The glossary restates the definition of terminology introduced in the chapter. Page references identify where the term was first used within the chapter so the student can review the appropriate section.

You Try It Instead of having a demonstration problem, this text engages the student in solving a problem that emphasizes the chapter material. This practical application of chapter material is also a self-test because the correct answers appear with a discussion of the solution at the end of the chapter. Working papers are provided.

Test Yourself This self-test quizzes students on the concepts, theory, and terminology covered in the chapter. Again, the answers are provided for

instant feedback. If the answer to a question is false, a rationale for *why* is provided. This section includes true/false and fill-in-the-blank items.

Questions These items require students to describe in their own words concepts or practices covered in the chapters. The answers require from one sentence to one short paragraph.

Exercises These include identification, matching, or short problems that ask the student to employ a single concept from the chapter. These are linked to the chapter material by learning objective and can be used to identify each student's weak areas.

Problems—Series A and B These series contain similar problems so that the instructor can assign the second set of problems in the second semester. Series B might also be used for additional assignments for students requiring more practice with certain concepts. The instructor has my assurance that like numbers in a different series cover the same material. For example, a student having difficulty with problem 2A can be assigned problem 2B for additional practice. Both series have working papers provided at the back of the text.

Problems—Series C This problem series is similar in nature to series A and B, but has been designed for use with the microcomputer software available with this text. Symbols denote whether a given problem is available on GLAS and/or SPATS (see pages xiii and xiv for details).

Continuing Problem The study of accounting continuously builds on what the student has already learned. Every chapter studied relies on the base of knowledge since the first chapter. To reinforce this dependency on earlier learning, the continuing problem follows throughout the chapters of the book. The student participates in the accounting for one business as it matures. Each chapter adds another component—one that is covered in that particular chapter—but brings all records and practices forward from the previous chapters. The continuing problem is in fact a growing practice set. The working papers are included at the back of the text.

Business Plan Accounting has long been recognized as the language of business and it is well known that accountants do not operate in a sealed environment. This text has been written to convey the relationship between accounting and management. For instance, certain accounting procedures are developed specifically to provide information for management. The business plan is one special feature designed to help the student make the transition from the academic world into the business world. Using this assignment with small groups of students encourages the active participation by each student in the formation of a business. Deciding what must be produced by the business and how it will affect the recording process places students in the real world decision-making process as they apply the knowledge they have received from that particular chapter. The assignment of the business plan will require active participation and the development of oral and written communication skills.

Written Project Accounting has long been viewed as the “language of business,” but how often do we teach communication skills? The written project at the end of each chapter requires the student to exercise and develop writing skills while reinforcing chapter material.

GENERAL

Review Sections Students need a solid understanding of the accounting cycle before covering additional topics. To this end, I have included a brief review section after Chapter 6.

Review Problems Two review problems have been included, the first after Chapter 4 and another after Chapter 6. Both problems present facsimiles of source documents and include a limited number of transactions that occur during one month. The working papers are provided at the back of the text.

Acetate Overlays In Chapter 5, during the discussion of preparing the worksheet, a series of four transparency overlays is used to build the worksheet, thus giving students a more visual presentation of this important material.

Mini Practice Sets There are five mini practice sets located at key intervals in the text. Each covers the end of an accounting year and the first week of the new year. Therefore each requires the student to complete the end-of-period accounting activity. The working papers are provided at the back of the text.

Topics covered	After Chapter
Accounting cycle for a service business	6
Accounting cycle and payroll for a service business	10
Accounting cycle for a merchandiser	15
Accounting cycle for a merchandising partnership	20
Accounting cycle for a merchandising corporation	26

Practical Applications Following Chapter 7 there are two detailed recordkeeping problems that concentrate on day-to-day recordkeeping using special journals. I have included these problems for those students who are interested in clerical work for the medical or legal field. The first practical application uses patient journals and a general journal in a medical practice. The second uses the combined cash journal in a legal practice. The working papers are provided at the back of the text.

THE PACKAGE

FOR THE INSTRUCTOR

The support package for *College Accounting* includes many items to assist the instructor. They are:

Solutions Manual Separate volumes for Chapters 1–15 and 15–28.

Solutions to Practice Sets Provided for Practice Set I (for Chapters 1–6) and Practice Set II (for Chapters 7–15).

Test Bank Prepared for Chapters 1–15 and 15–28 by Harold Holdeman of Davenport College. These volumes contain true/false, matching, multiple choice, exercise, and short-answer tests for each chapter of the text.

Instructor's Resource Guide Prepared for Chapters 1–15 and Chapters 15–28 by Sharon Niblock of Spokane Community College. Designed to help the instructor structure the course, these volumes contain a chapter overview, list of learning objectives, lecture outline (including helpful hints and points to stress), a review quiz, an analysis of chapter exercises and problems, and transparency masters.

Instructor's Edition Includes the Instructor's Resource Guide material, minus the transparency masters, in the instructor's copy of *College Accounting*. This will facilitate use by the instructor.

Solutions Transparencies Volume I (Chapters 1–15); Volume II (Chapters 16–28). These include all exercises and all problems. These transparencies (acetates) are printed in boldface in a new, exceptionally large typeface so that visibility from a distance is strikingly improved.

Teaching Transparencies Designed with color to aid in classroom presentation of topics. These transparencies reinforce important illustrations from *College Accounting*.

Irwin's Computerized Testing Software Available in 3.5" and 5.25" versions. This improved test generator program allows editing of questions, provides up to 99 different versions of each test, and allows question selection based on type of question (i.e., true/false, multiple choice, etc.), level of difficulty, or learning objective.

Classroom Presentation Software Uses Authorware Professional®. This Classroom Presentation Software will show progressive solutions for selected problems from *College Accounting*.

Videos Series of videos approximately 15 minutes in length available to adopters of *College Accounting*. Consult your Irwin representative for more details.

Supplement Sampler An efficient reviewing device that includes sample pages of all supplements and teaching materials.

FOR THE STUDENT

In addition to the text, the package of support items for the student includes the following:

Study Guide Written for Chapters 1–10, 1–15, or 15–28 by Anita Brownstein, Vice President of Drake Business Schools. These volumes, which provide a basis for independent study and review, include (for each chapter) a list of learning objectives, self-tests and answers, a demonstration problem, and a "Do you know. ." section, which outlines the chapter focusing on the key elements.

Practice Sets Practice Set I (after Chapter 6) by Loretta Kilgore of Spokane Community College and Practice Set II (after Chapter 15) by Sue Simmons of Heald Colleges. Both reinforce the presentation of topics in *College Accounting*.

Computerized Practice Sets Available in 3.5" and 5.25" versions. Both Practice Set I and Practice Set II can be solved using the General Ledger Applications Software (GLAS). Instructors often assign the practice sets manually first, and then have their students work the practice sets on the computer.

Computerized Tutorials Prepared for Chapters 1–15 and Chapters 15–28 (3.5" and 5.25" versions) by Leland Mansuetti of Sierra College. These software packages include true/false and multiple choice questions with explanations for both correct and incorrect answers by students. Upon adoption, these computerized tutorials are available to instructors for classroom or laboratory use.

Spreadsheet Applications Template Software (SPATS) Available in 3.5" and 5.25" versions. This software package is designed by Minta Berry of Berry Publications Services, Cincinnati, Ohio, for use with the text. The software includes a Lotus® 1-2-3® tutorial and innovatively designed templates that may be used with Lotus® 1-2-3® to solve many of the exercises and problems in the text. Upon adoption, this package is available to instructors for classroom or laboratory use.

General Ledger Applications Software (GLAS) Can be used with the text to solve a large number of the exercises and problems. GLAS can be ordered separately (in 3.5" and 5.25" versions) or with either Chapters 1–10 or Chapters 1–15 of the text.

Check Figures Provided to verify correct solutions. Check figures ensure that students are on the right track when working the problems.

ACKNOWLEDGMENTS

Although I am the sole author of this text, it is not solely the result of my efforts. Authoring an accounting text is similar to the subject matter itself—it is a building block approach, always building on the past. This text has been influenced by all other accounting authors that came before me, beginning with Fr. Lucia Paciola in 1494. The thousands of students that I have taught have also had an effect; my approach to teaching accounting is a result of the interaction between students and myself.

More easily identified are the following reviewers whose comments, concerns, and suggestions proved invaluable in developing the manuscript:

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illustrations, transparencies, working papers, etc.—and seeing to it that they all were placed between the covers of this book.

My wife, Kathie, whose help and understanding made this project possible, is deserving of very special thanks. The text has taken five years from the initial draft to completed manuscript. During those years and what must have seemed like endless hours of proofreading each revision, she was the student—reading for understanding and clarity—and copy editor—reading for grammatical and mathematical accuracy.

A handwritten signature in black ink, reading "Kenneth A. Foerster". The signature is written in a cursive style with a large, stylized initial 'K'.



HOW TO USE COLLEGE ACCOUNTING



There is an old saying that still applies to education, *you can lead a horse to water, but you can't make him drink*. **You** have the best teachers. **You** have the best text and supplements. **You** must take advantage of **your** teacher by participating in class and asking questions outside of class. **You** must read and study **your** text. **You** must put **your** supplements to work. Yes, everything hinges on **you**. I have written this text for you—to study and learn from. In the text you will find a wide range of educational tools and techniques at work. Material is introduced, discussed, and reinforced. There is nothing in this text just for the sake of having it there. Every bit of information is pertinent and necessary to establish a good foundation.

CHAPTER MATERIAL

Each chapter begins with a list of learning objectives that are educational goals for you. This is what you should concentrate on learning while you study the chapter. Because accounting is the language of business, a list of terminology is provided at the start of each chapter to help you learn that language.

Each chapter begins with a brief discussion of anything learned in a previous chapter(s) that has a direct bearing on the material being studied in the current one. If something from an earlier part of the text can be expanded to help the understanding of current coverage, then time is devoted to a quick review. All new topics are discussed thoroughly when introduced. That discussion is followed by an example, which is then summarized.

In the body of each chapter, several tools have been put to use:

Figure 2-7 The basic format for the statement of change in owner's equity

THE NAME OF THE COMPANY Statement of Change in Owner's Equity The Period of Time Covered		
Beginning owner's equity	Determined on the income statement	The amount from the beginning of the period
Plus any net income	Determined on the income statement	
Plus any additional investments found in the owner's equity column		
Total increases to owner's equity		
Less any net loss	Determined on the income statement	
Less any withdrawals found in the owner's equity column		
Total decreases to owner's equity		
The change in owner's equity (the difference between the total increases and the total decreases)		
Ending owner's equity	The sum of the beginning owner's equity and the change that has occurred during the year.	

REFRESH YOUR MEMORY

There will be either a net income or a net loss. There can never be both for the same accounting period.

Figure 2-8 Earl's Sign Painting statement of change in owner's equity

EARL'S SIGN PAINTING Statement of Change in Owner's Equity For the Month of September 1992		
Beginning owner's equity	\$ 775.00	(who) \$7,000.00 (what) 1
Plus: Net income		
Additional investments	200.00	
Increases in owner's equity	\$ 975.00	
Less: Withdrawals	1,100.00	
Change in owner's equity—decrease	1,125.00	
Ending owner's equity	\$6,875.00	

REFRESH YOUR MEMORY

The net income is from the income statement
 Net Income = Revenue - Expenses
 \$775 = \$3,200 - \$2,425

INTERNAL CONTROL

deposits the payment, and the bank sends it out to an international bank for collection. The value of the payment is not known until the amount is actually collected. If a customer pays \$100 in Canadian currency, it might be worth \$105 American or \$95 American. We won't know until it is collected because the rate of exchange fluctuates from day to day.

Automatic savings or investment deposits: A prearranged deduction from the checking account for investment purposes. It may be that a business arranges to have any amount in excess of \$5,000 in the checking account automatically deposited in an interest-bearing account.

Notes or other instruments collected: Different types of financial paper left with the bank for collection at some other bank. When the paper is collected, the bank deposits the amount less any collection fee in the checking account.

Errors found on the business books: A recordkeeping error on the part of the business that caused the cash account to be either overstated or understated. Usually this is a math error, or a mistake in recording the check for one amount, and journalizing a different amount.

Errors found on the bank's books: A recordkeeping error on the part of the bank that caused the bank statement balance to be either overstated or understated. Usually this type of error is caused by the bank recording a check or deposit of another business or individual against your account.

Internal Control Procedures

As soon as the bank statement is received by the business, it should be presented to a designated individual who is not involved in making deposits or writing checks. Remember that internal control calls for a person other than the one who has access to the cash to keep the records for cash. This is an example of the separation of duties. A third person will prepare the bank reconciliation and will check on the accuracy of those who kept the records and had access to the cash.

When the business receives the bank statement, the person preparing the reconciliation will put the enclosed canceled checks in numerical order by their preprinted check numbers and confirm that they are all from that specific checking account and have an authorized signature. If there were any voided checks, they should also be placed in numerical order along with the canceled checks, so when we are done, we will have all checks on file. Any checks that are not from our checking account indicate a bank error and will be a reconciling item. Next, each check should be matched with the entry in the check register to confirm the payee and the amount. Any checks that do not match up with our records become a reconciling item. A list of all checks recorded but not returned by the bank should be prepared and totaled. This total becomes a reconciling item.

All deposit slips should be checked against the amount shown on the bank statement and the entry made in the general ledger cash account. Be sure that the amount being recorded on the business books agrees with the bank teller's count of the cash being deposited. Any deposits that were not correctly recorded become a reconciling item.

Included with the bank statement will usually be debit and credit memos. Since the bank statement is a copy of the bank's subsidiary ledger for demand deposits (a liability on the bank's books), a **debit memo** is for an item that is decreasing the bank's liability. A printing charge would create a debit memo. A **credit memo** would indicate that the bank is increasing its liability to us. A deposit of interest from our savings account would create a credit memo. All supplemental debit and credit memos should be reviewed, and any amounts that have not been previously recorded in the general ledger cash account become a reconciling item.

1. Refresh Your Memory

Very often accomplishing a task will require an understanding of a word or phrase, or the use of a previously determined number. To save you time and make the learning process easier, a quick review is given to refresh your memory.

2. Illustrations

When there are especially important items for you to notice, they are set off in a boxed format.

3. Internal Control

In the later chapters, you will be introduced to internal control, an extremely important element used in reducing waste, theft, and/or inaccuracies.

ACCOUNTING

Yesterday
TODAY
Tomorrow

It was not too long ago that computers did not exist and all recordkeeping was done by hand, using pen and ink. The first computer was developed in the mid-1940s and was created and used for very involved mathematical calculations. It was basically a gigantic calculator that took up an entire room. As time passed and technology improved, the transistor replaced the tube, and the chip replaced the transistor. With these changes came smaller and smaller units that could do the processing faster and faster.

As the size and price of computers came down they became more accessible to the general business sector. This led to a growth in the use of computers to perform repetitive tasks. We will be including a brief discussion in each chapter on how computers can be put to use to help process the data or solve problems discussed in that chapter. First, what makes up a computer?

Basically there are three parts to a computer:

1. A device for inputting data—usually the keyboard.
2. A device for manipulating the data that was input—a CPU, central processing unit. This is where we would find most or all of the chips and memory.
3. A device for outputting data—usually a screen and/or printer.

The CPU works by responding to a series of logical arguments put into memory—a program. It is the program that determines how a computer will respond to the data being input. If you've ever seen or played a video game, then you've witnessed a program in action.

If the paddle/trigger is clicked/pulled when the sights are on the target, then score one point.

If the paddle/trigger is clicked/pulled when the sights are not on the target, then score zero points.

The IF/THEN is the logical argument that is used to process data. As you proceed through this text, you will be exposed to how computers can be used in business. You will see that if we can identify a specific task to be performed and reduce it to a logical argument, then it can be computerized.

Analyze the Transaction

First, since the business provided services, we must record the revenue as an increase to the capital. The services were worth \$500, so capital is increased by \$500. Revenue is the inflow of assets from providing goods or services to another economic entity. This time there are two assets to record. One is the cash collected, so cash increases by \$100. The other is the remaining \$400 which the business has a right to collect in the future, or accounts receivable.

SUMMARY

The general journal/general ledger system was created for recording transactions not only to maintain increases, decreases, and balances in each account, but also to link the transaction with the source document.

The general journal is the book of original entry. This is where the transaction will be recorded first. We record the date, the accounts, and the amounts to be debited. Indent and record the accounts and amounts to be credited. The journal entry contains a description of the source document. The description can be written out or coded using such identification as the check number, deposit slip number, and so on.

Once the transaction has been journalized, it is posted to the general ledger accounts. The general ledger is the group of accounts, the book of final entry. Each account will be on a separate card or page. Accounts are used to record increases and decreases of specific assets, liabilities, owner's equity, revenues, and expenses. A four column general ledger account also allows us to maintain a running balance.

Cross referencing is achieved by recording the general journal page number on which the transaction was journalized in the account's posting reference column. The account number to which the entry was posted is then recorded in the journal posting reference column.

Remember:

STEPS TO SUCCESS

- Step 1** Identify the accounts involved.
- Step 2** For each account, identify the category involved.
- Step 3** Determine whether the category is increasing or decreasing.
- Step 4** Apply the debit/credit rule for that category.
- Step 5** Record the entry in the general journal, always recording the debit portion of the entry first and indenting to record the credit portion.
- Step 6** Post the entry to the general ledger. Record the appropriate posting references.

After the last transaction has been journalized and posted, prepare a trial balance to test the equality of debits and credits in the general ledger. If the trial balance is in balance, prepare the financial statements. If it is not, locate and correct the mistakes.

When errors are found in the general journal or general ledger, they must be corrected either by (1) drawing a line through the incorrect information and neatly writing the correct information or by (2) recording a correcting general journal entry and posting it to the general ledger. Regardless of the method used, the correction should be initialed.

GLOSSARY

Account numbers the number used to identify a general ledger account. 000

General ledger account numbers follow one general rule—

- Assets always begin with the numeral 1.
- Liabilities always begin with the numeral 2.
- Owner's equity always begins with the numeral 3.

4. Yesterday, Today, and Tomorrow

There is a section at the end of each chapter to help show how recordkeeping has changed over the years, how it can be done with the aid of a computer, and where appropriate, how it may be done in the near future.

5. Chapter Summary

The summary provides a review of the chapter contents. You can locate the chapter material by the learning objective noted next to the material in the summary.

6. Steps to Success

Whenever a series of steps exists for the performance of a task, the steps are organized for you in steps to success.

7. Glossary

The glossary restates the definition of terminology introduced in the chapter and identifies the page where the term was first introduced.

108
Chapter 3

YOU TRY IT

◆◆ You are to record the following transactions in the T-accounts provided on page 000. After you record the last transaction, foot the accounts, determine the memorandum balance, and prepare a trial balance. Once your trial balance is in balance, prepare the financial statements, using the current month. The answers are given at the end of this chapter.

- (a) Paul Popadopolis invested \$4,000 in the Popadopolis Catering Service.
- (b) Paid \$1,000 rent for the current month on suitable shop space.
- (c) Paid \$250 for advertising.
- (d) Purchased \$5,000 worth of kitchen equipment, paying \$500 cash and placing the balance on account.
- (e) Rented a delivery van, paying the first month's rent of \$400 in cash.
- (f) Purchased food supplies for \$800 cash.
- (g) Purchased \$150 worth of office supplies on credit.
- (h) Collected \$300 from a customer for catering their college's alumni chapter annual meeting.
- (i) Purchased \$400 worth of food supplies for cash.
- (j) Catered a local credit union's annual dinner for \$1,500 on account.
- (k) Paul invested \$2,000 cash.
- (l) Paid the employees' wages, \$800.
- (m) Purchased \$250 worth of food supplies, paying cash.
- (n) Collected \$700 for catering a private party.
- (o) Collected the amount due from transaction (j).
- (p) Paid \$125 for repairs to the kitchen equipment.
- (q) Paul withdrew \$300 to pay personal expenses.
- (r) Received the gas and oil bill, \$35.
- (s) Purchased \$600 worth of food supplies on credit.
- (t) Catered a political fund-raising dinner, collecting \$500 in cash with \$1,500 being placed on account.

TEST YOURSELF

Given the following 10 questions, you are to determine whether the statement is true or false. The answers are given at the end of this chapter.

- T F 1. An account is a place to record increases and decreases in a specific asset, liability, owner's equity, revenue, or expense.
- T F 2. Debit means right.
- T F 3. Assets are increased by debits.
- T F 4. Credit means right.
- T F 5. To credit an account means to enter an amount on the left side of an account.

8. You Try It

At the end of each chapter there is a problem for you to solve. This problem should be completed before doing any of the questions, exercises, or other problems. The answers are provided for you to check your progress. The working papers are provided at the back of the text.

9. Test Yourself

Following the You Try It problem are 10 true/false questions testing concept, theory, and/or terminology. There are also 5 fill-in-the-blank questions involving terminology. The answers are provided for you to grade yourself.

Analysing and Recording Business Transactions Using T-Accounts
109

- T F 6. Capital is the account used to record any additional investments made by the owner.
- T F 7. Withdrawals is a positive owner's equity account.
- T F 8. Expenses are increased by debits.
- T F 9. Expenses decrease the owner's equity.
- T F 10. If the trial balance is in balance we know that no mistakes were made in recording the business transactions.

You are to complete the following five statements by filling in the blank(s) using the terms found in the glossary of this chapter. Each blank represents only one word. The answers are provided at the end of the chapter.

11. To _____ an account means to enter an amount on the left side of the account.
12. _____, _____, and _____ are increased by debits.
13. _____, _____, and _____ are increased by credits.
14. When the _____ is in balance it is presumptive proof of recording accuracy.
15. _____ is the difference between the pencil footings of an account.

QUESTIONS

1. Describe a T-account.
2. Explain what is meant by debit and credit.
3. List the five major groups of accounts and indicate which side, debit or credit, is the increase side.
4. Explain why there are two accounts, capital and withdrawals, for the owner's equity group.
5. If withdrawals and expenses are on the right side of the equation, why are they increased by debits?
6. How does the debit and credit rule apply to double-entry accounting?
7. List the steps that you would go through to prepare a trial balance.
8. What kinds of errors could have occurred during the recording of business transactions that would not effect the balancing of the trial balance?
9. What kinds of errors could have occurred during the recording of business transactions that would cause the trial balance not to balance?

EXERCISES

Exercise 3-1
Complete the following chart by inserting the terms *debit* or *credit*.

Categories	Increases	Decreases	Normal Balance
Assets			
Liabilities			
Owner's equity:			
Capital			
Withdrawals			
Revenue			
Expense			

10. Questions

Each chapter is accompanied by nine questions covering material from that chapter. The answers require from one sentence to one short paragraph. You should use notebook paper for your answers.

11. Exercises

There are seven short-problem, identification, or matching types of questions for you to demonstrate your comprehension of the chapter material. You should use notebook paper for your solutions.

ADDITIONAL ITEMS

1. **Review Sections** You need a solid understanding of the accounting cycle before covering additional topics. Following Chapter 6 is a brief review of the accounting cycle.
2. **Review Problems** Two review problems have been included, the first after Chapter 4 and another after Chapter 6. Both problems present facsimiles of source documents and include a limited number of transactions that occur during one month. The working papers are provided at the back of the text.
3. **Mini Practice Sets** There are five mini practice sets located at key intervals in the text. Each covers the end of an accounting year and the first week of the new year. This gives you added reinforcement of accounting procedures and allows you to see “the big picture.” The working papers are provided at the back of the text.

Topics covered	After Chapter
Accounting cycle for a service business	6
Accounting cycle and payroll for a service business	10
Accounting cycle for a merchandiser	15
Accounting cycle for a merchandising partnership	20
Accounting cycle for a merchandising corporation	26

4. **Practical Applications** Following Chapter 7 there are two detailed recordkeeping problems that concentrate on day-to-day recordkeeping using special journals. The first practical application uses patient journals and a general journal in a medical practice. The second uses the combined cash journal in a legal practice. The working papers are provided at the back of the text.