

Financial Accounting

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MGM611

Lecture 2
Analyzing and Recording process

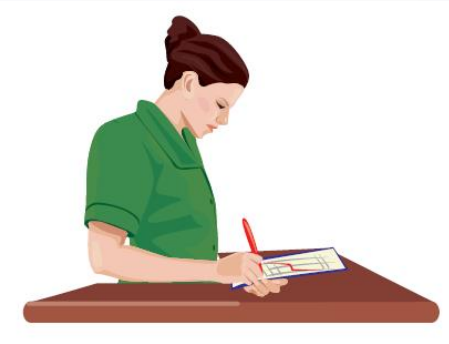


Learning outcomes

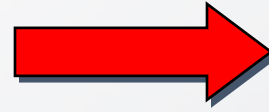
- LO 1** Identify the Recording process in the general journal.
- LO 2** Explain the Posting process to ledger accounts (T-Accounts).
- LO 3** Describe the trial balance as a Main source of preparing the financial statements.



Step 2,3&4 Analyzing ,Recording& posting Process



Analyze each transaction and event from **source documents**



Record relevant transactions and events in a **journal**



Prepare and analyze the trial balance



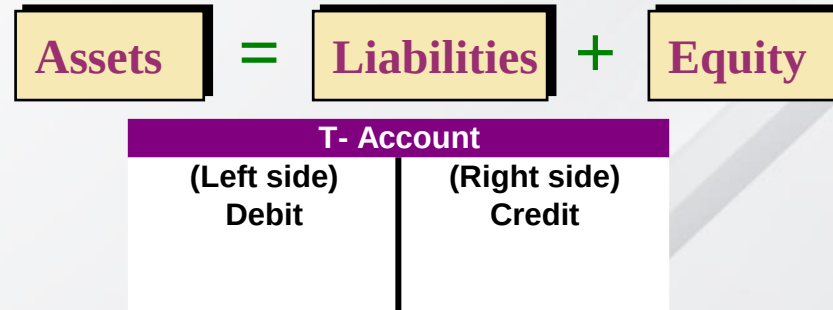
Post journal information to ledger accounts



JOURNALIZING & POSTING TRANSACTIONS



Step 1: Analyze transactions and source documents.



Step 2: Apply double-entry accounting



GENERAL JOURNAL			Page 123	
Date	Description	Post. Ref.	Debit	Credit

Step 3: Record journal entry



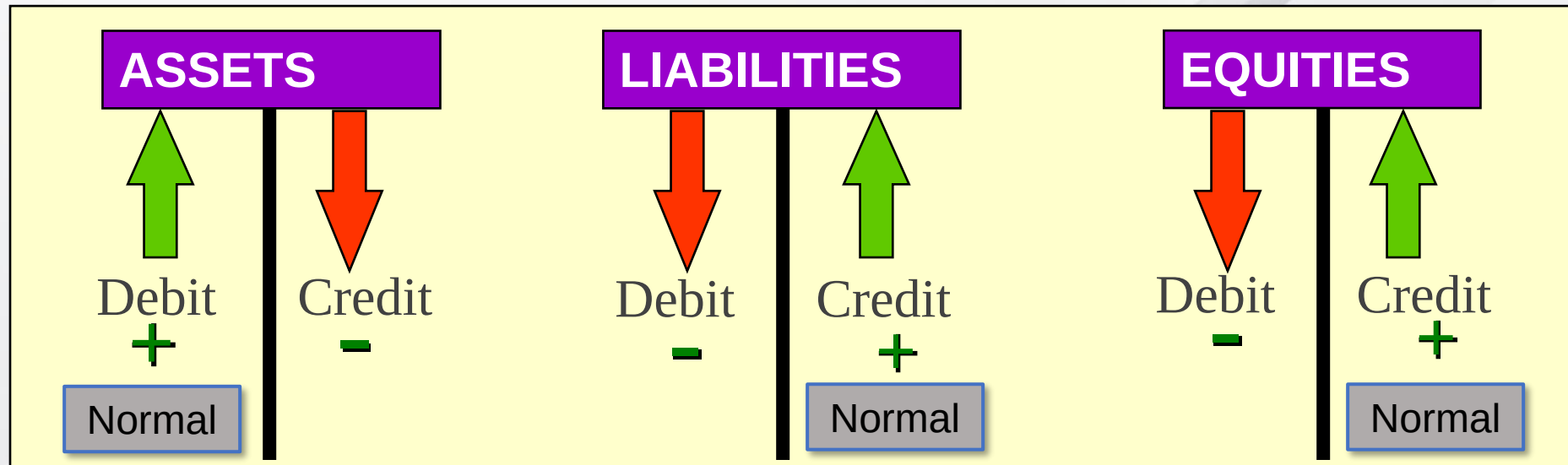
ACCOUNT NAME:			ACCOUNT No.		
Date	Description	PR	Debit	Credit	Balance

Step 4: Post entry to ledger



Double-Entry Accounting (Reminder)

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$



Journalizing Transactions

① Transaction Date

② Titles of Affected Accounts

Date		Description	Debit	Credit
2011				
Dec.	1	Cash	30,000	
		C. Taylor, Capital		30,000
		<i>Investment by owner</i>		
Dec.	2	Supplies	2,500	
		Cash		2,500
		<i>Purchased supplies for cash</i>		

④ Transaction explanation

③ Dollar amount of debits and credits



Posting Journal Entries

2011					
Dec.	1	Cash		30,000	
		C. Taylor, Capital			30,000
		Investment by owner			

Enter the amount and description.

CASH			ACCOUNT No. 101		
Date	Description	PR	Debit	Credit	Balance
2011					
Dec. 1	Investment by owner		30,000		



Kind Reminder

Accounting Equation (Balance sheet Equation)



Debit

Assets
100,000

=



liabilities
40,000 Credit

+



Owner's Equity (Capital)
60,000 Credit

Fixed Assets (Long- term)

Land (Debit)
Building (Debit)
Machines (Debit)
Equipment (Debit)
Furniture (Debit)
Trucks (Debit)

Current Assets (Short term)

Cash (Debit)
Accounts Receivable (Debit)
Notes Receivable (Debit)
Supplies (Debit)
Prepaid expense (Debit)

Short-term Liabilities

Account payable (Credit)
Notes payable (Credit)
Bank overdraft (Credit)
Expense payable (Credit)
Unearned Revenue (Credit)

Long-term Liabilities

Long term loans (Credit)
Bonds Payable (Credit)

By Dr.Emad Zaher

Owners capital (Credit)

Drawings (Debit)

revenues (Credit)

-

Expenses (Debit)



Net income



Revenues > Expenses = Profit (Credit)

Revenues < Expenses = Loss (Debit)



Analyzing Transactions

<i>Transaction:</i>	Owner invested \$30,000 in FastForward on Dec. 1.
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Analysis:

Assets	=	Liabilities	+	Equity
Cash 30,000				Capital 30,000

Double entry:

(1)	Cash	101	30,000	
	C. Taylor, Capital	301		30,000

Posting:

Cash		101	C. Taylor, Capital		301
(1)	30,000			(1)	30,000



<i>Transaction:</i>	FastForward purchases supplies by paying \$2,500 cash.
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Analysis:

Assets		=	Liabilities	+	Equity
Cash	Supplies				Capital
(2,500)	2,500				

Double entry:

(2)	Supplies	126	2,500	
	Cash	101		2,500

Posting:

Supplies		126	Cash		101
(2)	2,500		(1)	30,000	(2) 2,500



<i>Transaction:</i>	FastForward purchases equipment by paying \$26,000 cash.
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Analysis:

Assets		=	Liabilities	+	Equity
Cash	Equipment				Capital
(26,000)	26,000				

Double entry:

(3)	Equipment	167	26,000	
	Cash	101		26,000

Posting:

Equipment		167	Cash		101
(3)	26,000		(1)	30,000	(2) 2,500
					(3) 26,000



Transaction: FastForward purchases \$7,100 of supplies on credit.

Analysis:

Assets		=	Liabilities		+	Equity
Supplies			Accounts Payable			Capital
7,100			7,100			

Double entry:

(4)	Supplies	126	7,100	
	Accounts payable	201		7,100

Posting:

Supplies		126	Accounts Payable		201
(2)	2,500			(4)	7,100
(4)	7,100				



<i>Transaction:</i>	FastForward provides consulting services and immediately collects \$4,200 cash.
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Analysis:

Assets	=	Liabilities	+	Equity
Cash 4,200				Revenue 4,200

Double entry:

(5)	Cash	101	4,200	
	Consulting Revenue	403		4,200

Posting:

Cash		101	Consulting Revenue		403
(1)	30,000	(2)	2,500	(5)	4,200
(5)	4,200	(3)	26,000		



After processing its remaining transactions for December, FastForward's Trial Balance is prepared.

FastForward Trial Balance December 31, 2011		
	<i>Debits</i>	<i>Credits</i>
Cash	\$ 5700	
Accounts receivable	-	
Supplies	9600	
Equipment	26,000	
Accounts payable		\$ 7100
C. Taylor, Capital		30,000
Consulting revenue		4200
Total	<u>\$ 41300</u>	<u>\$ 41300</u>

The **trial balance** lists all account balances in the general ledger. If the books are in balance, the total debits will equal the total credits.



Another Example (Analyzing, recording & Posting)



- | | | | |
|--------|---------------|--------|--------|
| Oct. 1 | Equipment | 50,000 | |
| | Notes payable | | 50,000 |



Posting

3. **October 2:** Pioneer **receives** a ₦12,000 **cash advance** from KC, a client, for advertising services that are expected to be completed by **December 31**.

Oct. 2	Cash	12,000	
	Unearned Service Revenue		12,000

Cash		Unearned Service Revenue	
Debit	Credit	Debit	Credit
100,000			12,000
12,000			



Posting

4. October 3: Pioneer **pays** ₪9,000 office **rent**, in **cash**, for October.

ILLUSTRATION 3-12

Oct. 3	Rent Expense	9,000	
	Cash		9,000

Cash		Rent Expense	
Debit	Credit	Debit	Credit
100,000			
12,000			
	9,000	9,000	



Posting

5. **October 4:** Pioneer **pays** £6,000 for a one-year **insurance** policy that will expire next year on **September 30**.

Oct. 4	Prepaid Insurance	6,000	
	Cash		6,000

Cash		Prepaid Insurance	
Debit	Credit	Debit	Credit
100,000			
12,000		6,000	
	9,000		
	6,000		



Posting

6. October 5: Pioneer **purchases**, for ₦25,000 **on account**, an estimated 3-month **supply** of advertising materials from Aero Supply.

Oct. 5	Supplies	25,000	
	Accounts Payable		25,000

Supplies		Accounts Payable	
Debit	Credit	Debit	Credit
25,000			25,000



Posting

7. **October** 9: Pioneer signs a contract with a local newspaper for advertising inserts (flyers) to be distributed starting the last Sunday in November. Pioneer **will** start work on the content of the flyers in **November**. Payment of ₪7,000 is due following delivery of the Sunday papers containing the flyers.

A business transaction has not occurred. There is only an agreement between Pioneer Advertising and the newspaper for the services to be provided in November. Therefore, no journal entry is necessary in October.



Posting

9. October 26: Employees are **paid** every four weeks. The total payroll is ₱2,000 per day. The pay period ended on Friday, October 26, with **salaries** of ₱40,000 being paid.

Oct. 26	Salaries and Wages Expense	40,000	
	Cash		40,000

Cash		Salaries and Wages Expense	
Debit	Credit	Debit	Credit
100,000			
12,000	9,000	40,000	
	6,000		
	5,000		
	40,000		



10. October 31: Pioneer receives ₪28,000 in **cash** and bills
Copa Company ₪72,000 for advertising **services** of
₪100,000 provided in October.

Oct. 31	Cash	28,000	
	Accounts Receivable	72,000	
	Service Revenue		100,000

Cash		Accounts Receivable		Service Revenue	
Debit	Credit	Debit	Credit	Debit	Credit
100,000	9,000	72,000			100,000
12,000	6,000				
28,000	5,000				
	40,000				
80,000					



A Trial Balance

- ◆ List of each account and its balance in the order in which they appear in the ledger.
- ◆ Debit balances listed in the left column and credit balance in the right column.
- ◆ Used to prove the mathematical equality of debit and credit balances.
- ◆ Uncovers errors in journalizing and posting.



PIONEER ADVERTISING AGENCY INC.

**TRIAL BALANCE
OCTOBER 31, 2015**

ILLUSTRATION 3-19

	Debit	Credit
Cash	₹ 80,000	
Accounts Receivable	72,000	
Supplies	25,000	
Prepaid Insurance	6,000	
Equipment	50,000	
Notes Payable		₹ 50,000
Accounts Payable		25,000
Unearned Service Revenue		12,000
Share Capital—Ordinary		100,000
Dividends	5,000	
Service Revenue		100,000
Salaries and Wages Expense	40,000	
Rent Expense	9,000	
	<u>₹287,000</u>	<u>₹287,000</u>



Additional Examples



Sept. 1 The owner deposited L.E 50000 in the bank account of the business.

[illegible]



- Sept. 7 Purchased equipment on account for L.E 8000.

Date	Account titles	Debit	Credit
Sept.1	Cash Owner's capital	50000	50000
Sept.4	Supplies Cash	3000	3000
Sept.7	Equipment Accounts payable	8000	8000



- Sept. 11 Paid **salaries** for L.E 6000 **Cash**.

Date	Account titles	Debit	Credit
Sept. 1	Cash	50000	50000
	Owner's capital		
Sept.4	Supplies	3000	
	Cash		3000
Sept.7	Equipment	8000	
	Accounts payable		8000
Sept.11	Salaries expense	6000	
	Cash		6000



- **Sept. 15** Performed **services** for customer for L.E 2,500 **on account**.

Date	Account titles	Debit	Credit
Sept.1	Cash	50000	
	Owner's capital		50000
Sept.4	Supplies	3000	
	Cash		3000
Sept.7	Equipment	8000	
	Accounts payable		8000
Sept.11	Salaries expense	6000	
	Cash		6000
Sept.15	Accounts receivable	2500	
	Service revenue		2500



Date	Account titles	Debit	Credit
Sept.1	Cash	50000	
	Owner's capital		50000
Sept.4	Supplies	3000	
	Cash		3000
Sept.7	Equipment	8000	
	Accounts payable		8000
Sept.11	Salaries expense	6000	
	Cash		6000
Sept.15	Accounts receivable	2500	
	Service revenue		2500
Sept.20	Adv. expense	500	
	Accounts payable		500

-Sept. 20 Received bill from ElAhram for the advertising
-of the opening of the
- company for L.E 500.



-Sept. 22 Received L.E 1000 **cash** from customers billed on Sept.15.

Date	Account titles	Debit	Credit
Sept.1	Cash	50000	
	Owner's capital		50000
Sept.4	Supplies	3000	
	Cash		3000
Sept.7	Equipment	8000	
	Accounts payable		8000
Sept.11	Salaries expense	6000	
	Cash		6000
Sept.15	Accounts receivable	2500	
	Service revenue		2500
Sept.20	Adv. expense	500	
	Accounts payable		500
Sept.22	cash	1000	
	Accounts receivable		1000



-Sept. 25 withdrew L.E 800 cash for personal use of owner.

Date	Account titles	Debit	Credit
Sept. 1	Cash	50000	
	Owner's capital		50000
Sept.4	Supplies	3000	
	Cash		3000
Sept.7	Equipment	8000	
	Accounts payable		8000
Sept.11	Salaries expense	6000	
	Cash		6000
Sept.15	Accounts receivable	2500	
	Service revenue		2500
Sept.20	Adv. expense	500	
	Accounts payable		500
Sept.22	cash	1000	
	Accounts receivable		1000
Sept.25	Drawings	800	
	cash		800



- **Sept. 30 Paid** L.E 1500 for September **rent** for office space.

Date	Account titles	Debit	Credit
Sept. 1	Cash	50000	
	Owner's capital		50000
Sept.4	Supplies	3000	
	Cash		3000
Sept.7	Equipment	8000	
	Accounts payable		8000
Sept.11	Salaries expense	6000	
	Cash		6000
Sept.15	Accounts receivable	2500	
	Service revenue		2500
Sept.20	Adv. expense	500	
	Accounts payable		500
Sept.22	cash	1000	
	Accounts receivable		1000
Sept.25	Drawings	800	
	cash		800
Sept.30	Rent expense	1500	
	cash		1500



Date	Account titles	Debit	Credit
Sept.1	Cash	50000	
	Owner's capital		50000
Sept.4	Supplies	3000	
	Cash		3000
Sept.7	Equipment	8000	
	Accounts payable		8000
Sept.11	Salaries expense	6000	
	Cash		6000
Sept.15	Accounts receivable	2500	
	revenue		2500
Sept.20	Adv. expense	500	
	Accounts payable		500
Sept.22	cash	1000	
	Accounts receivable		1000
Sept.25	Drawings	800	
	cash		800
Sept.30	Rent expense	1500	
	cash		1500

Cash ledger

50.000	3.000
1.000	6.000
	800
	1500
51000	11.300
39700	
Account receivable	
2500	1000
1500	
Account payable	
	8000
	500
	8500

Trail balance

Account	Debit	Credit
Cash	39700	
Supplies	3000	
Equipment	8000	
Accounts receivable	1500	
Accounts payable		8500
Owner's capital		50.000
Owner's drawings	800	
Revenues		2500
Salaries expense	6.000	
Advertising expense	500	
Rent expense	1.500	
	61000	61000



Net income = revenues - expenses = 2500 - (6000+ 500 + 1500) = - 5500 loss

Owner`s equity = capital + Net income - drawings

Balance sheet

$$= 50.000 + (- 5500) - 800 = 43700$$

Cash	39.700	
Supplies	3.000	
Equipment	8.000	
Accounts receivable	1.500	
Total Assets		52200
Accounts payable	8500	
Owner`s capital	43700	
Total Liabilities		52200

Account	Debit	Credit
Cash	39700	
Supplies	3000	
Equipment	8000	
Accounts receivable	1500	
Accounts payable		8500
Owner`s capital		50.000
Owner's drawings	800	
Revenues		2500
Salaries expense	6.000	
Advertising expense	500	
Rent expense	1.500	
	61000	61000

What did the Company shows as total credits on its trial balance?

A	61000 LE	B	52200 LE
C	22,000 LE	D	24,000 LE

What did the Company shows as total debit on its balance sheet ?

A	61000 LE	B	52200 LE
C	22,000 LE	D	24,000 LE



Choose the correct answer for each of the following

1- A debit to an asset account indicates :

A	an error	B	a credit was made to a liability account
C	a decrease in the asset	D	An increase in the assets

2-When the owner invests cash in the business:

A	Owner's capital is debited and Cash is credited.	B	Cash is debited and Dividends is credited
C	Cash is debited and owner's capital is credited.	D	None of the above

3-Accounts that normally have debit balances are:

A	assets, expenses, and revenues.	B	assets, expenses, and equity.
C	assets, liabilities, and owner's drawing.	D	assets, owner's drawing, and expenses.

4- Assets normally show:

A	credit balances.	B	debit balance
C	debit and credit balance	D	debit or credit balances

5- A credit is not the normal balance for which account listed below?

A	Capital account	B	Revenue account
C	Liability account	D	Owner's Drawings account

6-Credits:

A	decrease both assets and liabilities	B	decrease Assets and increase Liabilities.
C	increase both assets and liabilities	D	increase assets and decrease liabilities



7- A debit is not the normal balance for which account listed below?

A	Owner's Drawings	B	Cash
C	Accounts Receivable	D	Service Revenue

8- An account consists of

A	one part	B	two parts
C	three parts	D	four parts

9- An account will have a credit balance if the

A	credits exceed the debits	B	first transaction entered was a credit.
C	debits exceed the credits	D	last transaction entered was a credit



10- An account consists of

A	a title, a debit balance, and a credit balance.	B	a title, a left side, and a debit balance.
C	a title, a debit side, and a credit side.	D	a title, a right side, and a debit balance.

11- Which one of the following is not a part of an account?

A	Credit side	B	Trial balance
C	Debit side	D	Title

12- After transaction information has been recorded in the journal, it is transferred to the

A	trial balance.	B	income statement.
C	book of original entry	D	Ledger



6- The right side of an account

A	is the correct side.	B	reflects all transactions for the accounting period.
C	shows all the balances of the accounts in the system.	D	Is the credit side

7-Posting

A	normally occurs before journalizing	B	transfers ledger transaction data to the journal
C	transfers journal entries to ledger accounts	D	Is an optional step in the recording process

8- Which of the following is the correct sequence of steps in the recording process?

A	Posting, journalizing, analyzing	B	Journalizing, analyzing, posting
C	Analyzing, posting, journalizing	D	Analyzing, journalizing, posting

9- ABC Company showed the following balances at the end of its first year:

Cash	2,000	Notes payable	3,500
Prepaid insurance	3,500	Owner's Capital	1,500
Accounts receivable	4,000	Owner's Drawings	1,000
Accounts payable	2,000	Revenues	16,000
		Expenses	12,500

What did the Company shows as total credits on its trial balance?

A	7,000 LE	B	23,000 LE
C	22,000 LE	D	24,000 LE

The credit balance

$$\begin{aligned}
 &\text{revenue} + \text{Capital} + \text{Notes payable} + \text{Accounts payable} = \\
 &= 2000 + 3500 + 1500 + 16000 = \mathbf{23000 \text{ LE}}
 \end{aligned}$$



3- Which of the following is not a correct form of the accounting equation?

- A. Assets = Equities.
- B. Assets = Liabilities + owner's equity.
- C. Assets – Liabilities = owner's equity.
- D. Assets + owner's equity = Liabilities

4- Owner's equity is best described by the following

- A. Assets = Liabilities.
- B. Liabilities + Assets.
- C. Assets – Liabilities.
- D. None of the above

5- The basic accounting equation may be expressed as

- A. Assets = Equities.
- B. Assets – Liabilities = Owner's Equity.
- C. Assets = Liabilities + Owner's Equity.
- D. All of these answer choices are correct



(6) Liabilities of a company would not include

- A. Notes payable.
- B. Accounts payable.
- C. Salaries and wages payable.
- D. cash.

(7) Owner's equity is decreased by all of the following except

- A. Owner's drawings.
- B. Owner's withdrawals.
- C. Expenses.
- D. Owner's investments.

8- Sources of increases to owner's equity are

- A. Additional investments by owners.
- B. Purchases of merchandise.
- C. Withdrawals by the owner.
- D. Expenses.



9- Owner's equity is decreased by

- A. Liabilities.
- B. Assets
- C. Expenses.
- D. Revenues.

10- Net income results when

- A. $\text{Assets} > \text{Liabilities}$.
- B. $\text{Revenues} = \text{Expenses}$.
- C. $\text{Revenues} > \text{Expenses}$.
- D. $\text{Revenues} < \text{Expenses}$



11) A Balance sheet shows

- A. Revenues, liabilities, and owner's equity.
- B. Assets, liabilities, and owner's equity
- C. Revenues, expenses, and drawings.
- D. Expenses, drawings, and owner's equity

(12) A net loss will result during a time period when

- a. Drawings exceed investments.
- b. Expenses exceed revenues
- c. Liabilities exceed assets.
- d. Revenues exceed expenses.

13) On December 31, 2019, ABC company has assets of L.E 200,000 and owner's equity of L.E 120,000. What are the liabilities for the company on December 31, 2019?

- a. L.E 200,000.
- b. L.E 80,000.
- c. L.E 320,000.
- d. L.E 640,000





Thank You