Principles Accounting in English 1

CHAPTER THREE
(Accounting Cycle)

ACCOUNTING DEPATMENT

2022-2023

First: Double Entry Method:

Accounting to the double entry method, every transaction in money is recorded in accounts. Every transaction has two fundamental aspects, that of receiver or payer, profit or loss. The account that receives the value is debited and the account that gives the value is credited with the result that there is an equivalent debit for every credit.

In order to make it more understandable to locate the debit and the credit, a discussion of the kinds of accounts will be made first. This will assist in differentiating the debit from the credit.

second: Accounting cycle:

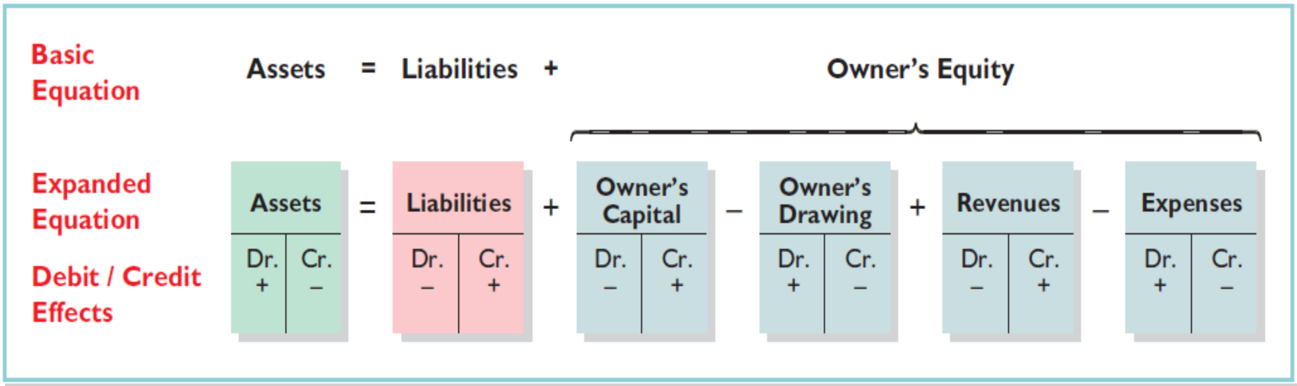
The processes of accounting cycle consist of the following steps:

1. Analysis of transactions from source documents.
2. Journalizing transactions.
3. Posting from the Journal to the Ledger.
4. Balancing of each ledger account.
5. Preparation a Trial Balance.
6. Adjusting Entries.
7. Adjusted Trial Balance.
8. Closing Entries
9. Financial Statements

Debits and Credits

The terms debit and credit are directional signals: Debit indicates left, and credit indicates right. They indicate which side of a T account a number will be recorded on. Entering an amount on the left side of an account is called debiting the account. Making an entry on the right side is crediting the account. We commonly abbreviate debit as Dr. and credit as Cr.

Summary of Debit/Credit Rules



1. The Journal:

Companies initially record transactions in chronological order (the order in which they occur). Thus, the journal is referred to as the book of original entry. For each transaction the journal shows the debit and credit effects on specific accounts.

Companies may use various kinds of journals, but every company has the most basic form of journal, a general journal. Typically, a general journal has spaces for dates, account titles and explanations, references, and two amount columns. See the format of the journal in Illustration 2-13 (on page 56). Whenever we use the term "journal" in this textbook without a modifying adjective, we mean the general journal.

The journal makes several significant contributions to the recording process:

1. It discloses in one place the complete effects of a transaction.
2. It provides a chronological record of transactions.
3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared

JOURNALIZING

Entering transaction data in the journal is known as journalizing. Companies make separate journal entries for each transaction. A complete entry consists of: (1) the date of the transaction, (2) the accounts and amounts to be debited and credited, and (3) a brief explanation of the transaction.

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Date	Account Titles and Explanation	Ref.	Debit	Credit
2010		$\boxed{5}$		
Sept. 1 $\boxed{2}$	Cash		15,000	
$\boxed{1}$ $\boxed{3}$	R. Neal, Capital			15,000
$\boxed{4}$	(Owner's investment of cash in business)			
1	Computer Equipment		7,000	
	Cash			7,000
	(Purchase of equipment for cash)			

1- The date of the transaction is entered in the Date column.

2- The debit account title (that is, the account to be debited) is entered first at the extreme left margin of the column headed "Account Titles and Explanation," and the amount of the debit is recorded in the Debit column.

3- The credit account title (that is, the account to be credited) is indented and entered on the next line in the column headed "Account Titles and Explanation," and the amount of the credit is recorded in the Credit column.

4- A brief explanation of the transaction appears on the line below the credit account title. A space is left between journal entries. The blank space separates individual journal entries and makes the entire journal easier to read.

5- The column titled Ref. (which stands for Reference) is left blank when the journal entry is made. This column is used later when the journal entries are transferred to the ledger accounts.

SIMPLE AND COMPOUND ENTRIES

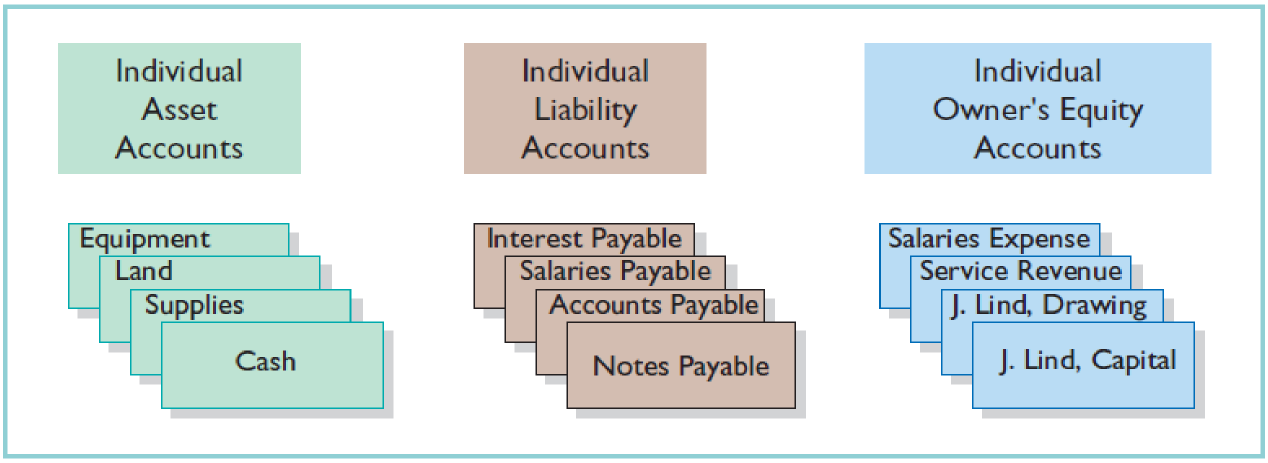
Some entries involve only two accounts, one debit and one credit. (See, for example, the entries in Illustration below.) An entry like these is considered a simple entry. Some transactions, however, require more than two accounts in journalizing. An entry that requires three or more accounts is a compound entry. To illustrate, assume that on July 1, Butler Company purchases a delivery truck costing $14,000. It pays $8,000 cash now and agrees to pay the remaining $6,000 on account (to be paid later).The compound entry is as follows.

GENERAL JOURNAL J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2010				
July 1	Delivery Equipment		14,000	
	Cash			8,000
	Accounts Payable			6,000
	(Purchased truck for cash with balance on account)			

The Ledger

The entire group of accounts maintained by a company is the ledger. The ledger keeps in one place all the information about changes in specific balances.
Companies may use various kinds of ledgers, but every company has a general ledger. A general ledger contains all the asset, liability, and owner's equity accounts,



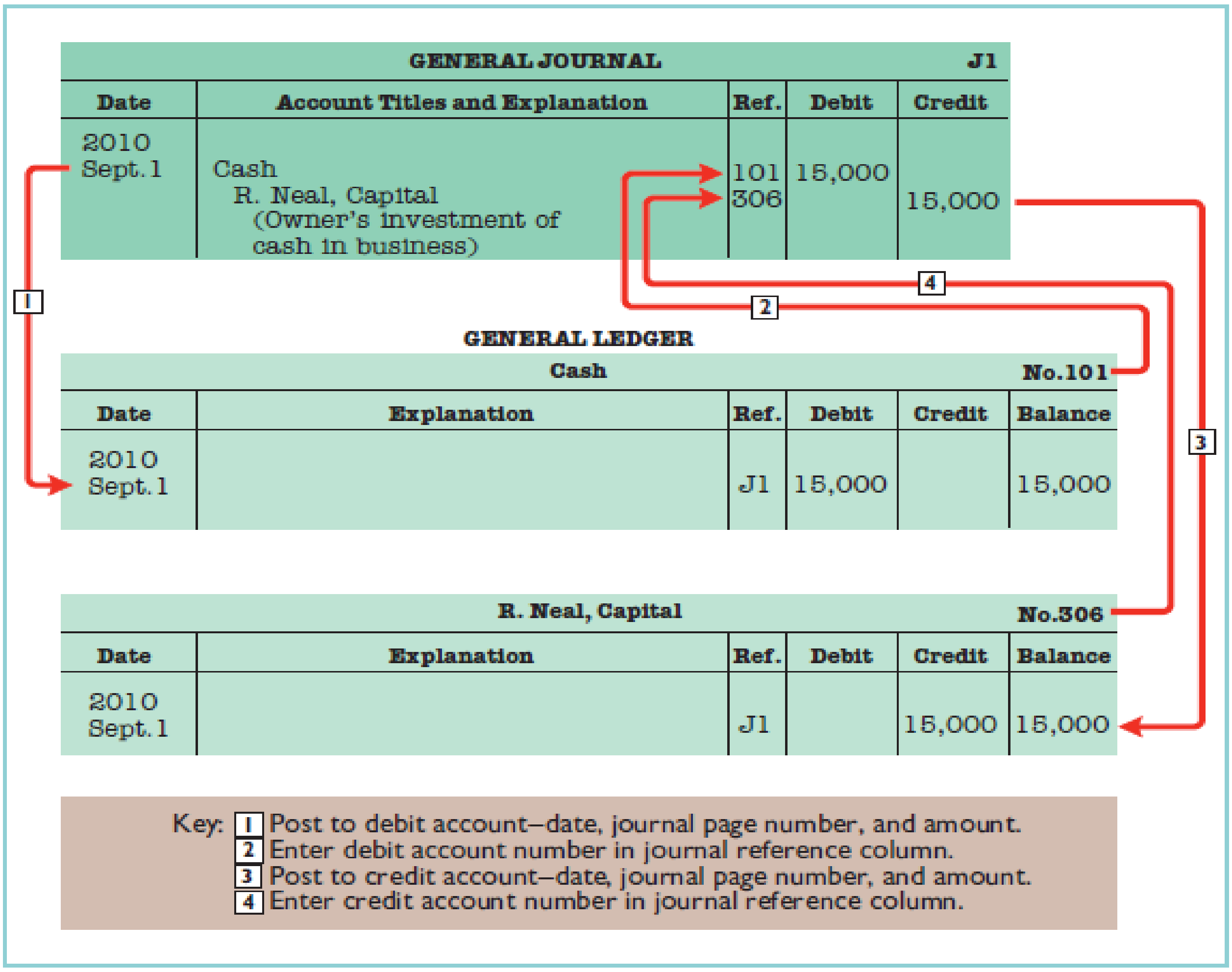
POSTING

Transferring journal entries to the ledger accounts is called posting.
This phase of the recording process accumulates the effects of journalized transactions into the individual accounts. Posting involves the following steps.
1. In the ledger, in the appropriate columns of the account(s) debited, enter the date, journal page, and debit amount shown in the journal.
2. In the reference column of the journal, write the account number to which the

debit amount was posted.

3. In the ledger, in the appropriate columns of the account(s) credited, enter the date, journal page, and credit amount shown in the journal.

4. In the reference column of the journal, write the account number to which the credit amount was posted.



GENERAL JOURNAL J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2010 Sept. 1	Cash	101	15,000	
	R. Neal, Capital	306		15,000
	(Owner's investment of cash in business)			

GENERAL LEDGER

Cash No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
2010 Sept. 1		J1	15,000		15,000

R. Neal, Capital No. 306

Date	Explanation	Ref.	Debit	Credit	Balance
2010 Sept. 1		J1		15,000	15,000

Key: 1 Post to debit account–date, journal page number, and amount.
2 Enter debit account number in journal reference column.
3 Post to credit account–date, journal page number, and amount.
4 Enter credit account number in journal reference column.

THE RECORDING PROCESS ILLUSTRATED

Transaction	On October 1, C. R. Byrd invests $10,000 cash in an advertising company called Pioneer Advertising Agency.
Basic Analysis	The asset Cash increases $10,000, and owner's equity C. R. Byrd, Capital increases $10,000.
Equation Analysis	Assets = Liabilities + Owner's Equity Cash = C.R. Byrd, Capital +10,000 +10,000
Debit – Credit Analysis	Debits increase assets: debit Cash $10,000. Credits increase owner's equity: credit C. R. Byrd, Capital $10,000.

Journal Entry

Date	Account	Ref.	Debit	Credit
Oct. 1	Cash	101	10,000	
	C. R. Byrd, Capital	301		10,000
	(Owner's investment of cash in business)			

Posting

Cash	101
Oct. 1 10,000	

C. R. Byrd, Capital	301
	Oct. 1 10,000

Transaction	On October 1, Pioneer purchases office equipment costing $5,000 by signing a 3-month, 12%, $5,000 note payable.
Basic Analysis	The asset Office Equipment increases $5,000, and the liability Notes Payable increases $5,000.
Equation Analysis	Assets = Liabilities + Owner's Equity Office Equipment = Notes Payable +5,000 +5,000
Debit – Credit Analysis	Debits increase assets: debit Office Equipment $5,000. Credits increase liabilities: credit Notes Payable $5,000.

Journal Entry

Date	Account	Ref.	Debit	Credit
Oct. 1	Office Equipment	157	5,000	
	Notes Payable	200		5,000
	(Issued 3-month, 12% note for office equipment)			

Posting

Office Equipment	157
Oct. 1 5,000	

Notes Payable	200
	Oct. 1 5,000

Transaction

On October 2, Pioneer receives a $1,200 cash advance from R. Knox, a client, for advertising services that are expected to be completed by December 31.

Basic Analysis

The asset Cash increases $1,200; the liability Unearned Revenue increases $1,200 because the service has not been provided yet. That is, when Pioneer receives an advance payment, it should record an unearned revenue (a liability) in order to recognize the obligation that exists. Note also that although many liabilities have the word "payable" in their title, unearned revenue is considered a liability even though the word payable is not used.

Equation Analysis

Assets	=	Liabilities	+	Owner's Equity
Cash	=	Unearned Revenue		
+1,200		+1,200		

Debit – Credit Analysis

Debits increase assets: debit Cash $1,200.
Credits increase liabilities: credit Unearned Revenue $1,200.

Journal Entry

Oct. 2	Cash	101	1,200	
	Unearned Revenue	209		1,200
	(Received cash from R. Knox for future service)			

Posting

Cash		101
Oct. 1	10,000	
2	1,200	

Unearned Revenue		209
	Oct. 2	1,200

Transaction

On October 3, Pioneer pays office rent for October in cash, $900.

Basic Analysis

The expense account Rent Expense increases $900 because the payment pertains only to the current month; the asset Cash decreases $900.

Equation Analysis

Assets	=	Liabilities	+	Owner's Equity
Cash	=			Rent Expense
-900				-900

Debit – Credit Analysis

Debits increase expenses: debit Rent Expense $900.
Credits decrease assets: credit Cash $900.

Journal Entry

Oct. 3	Rent Expense	729	900	
	Cash	101		900
	(Paid October rent)			

Posting

Cash			101
Oct. 1	10,000	Oct. 3	900
2	1,200		

Rent Expense			729
Oct. 3	900		

Transaction

On October 5, Pioneer purchases an estimated 3-month supply of advertising materials on account from Aero Supply for $2,500.

Basic Analysis

The asset Advertising Supplies increases $2,500; the liability Accounts Payable increases $2,500.

Equation Analysis

Assets	=	Liabilities	+	Owner's Equity
Advertising Supplies	=	Accounts Payable		
+2,500		+2,500		

Debit – Credit Analysis

Debits increase assets: debit Advertising Supplies $2,500.
Credits increase liabilities: credit Accounts Payable $2,500.

Journal Entry

Oct. 5	Advertising Supplies	126	2,500	
	Accounts Payable	201		2,500
	(Purchased supplies on account from Aero Supply)			

Posting

Advertising Supplies			126
Oct. 5	2,500		

Accounts Payable			201
		Oct. 5	2,500

Transaction: On October 20, C. R. Byrd withdraws $500 cash for personal use.

Basic Analysis: The owner's equity account C. R. Byrd, Drawing, increases $500; the asset Cash decreases $500.

Equation Analysis

Assets	=	Liabilities	+	Owner's Equity
Cash	=			C.R. Byrd, Drawing
-500				-500

Debit – Credit Analysis: Debits increase drawings: debit C. R. Byrd, Drawing $500. Credits decrease assets: credit Cash $500.

Journal Entry

Oct. 20	C. R. Byrd, Drawing	306	500	
	Cash	101		500
	(Withdrew cash for personal use)			

Posting

Cash			101
Oct. 1	10,000	Oct. 3	900
2	1,200	4	600
		20	500

C. R. Byrd, Drawing			306
Oct. 20	500		

Transaction: On October 26, Pioneer owes employee salaries of $4,000 and pays them in cash. (See October 9 transaction.)

Basic Analysis: The expense account Salaries Expense increases $4,000; the asset Cash decreases $4,000.

Equation Analysis

Assets	=	Liabilities	+	Owner's Equity
Cash	=			Salaries Expense
-4,000				-4,000

Debit – Credit Analysis: Debits increase expenses: debit Salaries Expense $4,000. Credits decrease assets: credit Cash $4,000.

Journal Entry

Oct. 26	Salaries Expense	726	4,000	
	Cash	101		4,000
	(Paid salaries to date)			

Posting

Cash			101
Oct. 1	10,000	Oct. 3	900
2	1,200	4	600
		20	500
		26	4,000

Salaries Expense			726
Oct. 26	4,000		

Transaction

On October 31, Pioneer receives $10,000 in cash from Copa Company for advertising services provided in October.

Basic Analysis

The asset Cash increases $10,000; the revenue account Service Revenue increases $10,000.

Equation Analysis

Assets	=	Liabilities	+	Owner's Equity
Cash	=			Service Revenue
+10,000				+10,000

Debit – Credit Analysis

Debits increase assets: debit Cash $10,000.
Credits increase revenues: credit Service Revenue $10,000.

Journal Entry

Oct. 31	Cash	101	10,000	
	Service Revenue	400		10,000
	(Received cash for services provided)			

Posting

Cash			101
Oct. 1	10,000	Oct. 3	900
2	1,200	4	600
31	10,000	20	500
		26	4,000

Service Revenue			400
		Oct. 31	10,000

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Date	Account Titles and Explanation	Ref.	Debit	Credit
2010				
Oct. 1	Cash	101	10,000	
	C. R. Byrd, Capital	301		10,000
	(Owner's investment of cash in business)			
1	Office Equipment	157	5,000	
	Notes Payable	200		5,000
	(Issued 3-month, 12% note for office equipment)			
2	Cash	101	1,200	
	Unearned Revenue	209		1,200
	(Received cash from R. Knox for future service)			
3	Rent Expense	729	900	
	Cash	101		900
	(Paid October rent)			
4	Prepaid Insurance	130	600	
	Cash	101		600
	(Paid one-year policy; effective date October 1)			
5	Advertising Supplies	126	2,500	
	Accounts Payable	201		2,500
	(Purchased supplies on account from Aero Supply)			
20	C. R. Byrd, Drawing	306	500	
	Cash	101		500
	(Withdrew cash for personal use)			
26	Salaries Expense	726	4,000	
	Cash	101		4,000
	(Paid salaries to date)			
31	Cash	101	10,000	
	Service Revenue	400		10,000
	(Received cash for services provided)			

Example 1 :

Bob Sample opened the Campus Laundromat on September 1, 2010. During the first month of operations the following transactions occurred.

Sept. 1 Bob invested $20,000 cash in the business.

2 The company paid $1,000 cash for store rent for September.

3 Purchased washers and dryers for $25,000, paying $10,000 in cash and signing a $15,000, 6-month, 12% note payable.

4 Paid $1,200 for a one-year accident insurance policy.

10 Received a bill from the Daily News for advertising the opening of the laundromat $200.

20 Bob withdrew $700 cash for personal use.

30 The company determined that cash receipts for laundry services for the month were $6,200.

The chart of accounts for the company is the same as that for Pioneer Advertising Agency plus the following: No. 154 Laundry Equipment, No. 610 Advertising Expense, No. 301 Bob Sample, Capital; and No. 306 Bob Sample, Drawing.

Instructions (a) Journalize the September transactions. (b) Open ledger accounts and post the September transactions.

Example 2 :

Presented below is information related to Hanshew Real Estate Agency.

Oct. 1 Pete Hanshew begins business as a real estate agent with a cash investment of $15,000.

2 Hires an administrative assistant.

3 Purchases office furniture for $1,900, on account.

6 Sells a house and lot for B. Kidman; bills B. Kidman $3,200 for realty services provided.

27 Pays $700 on the balance related to the transaction of October 3.

30 Pays the administrative assistant $2,500 in salary for October.

Instructions:

(a) Journalize the transactions.

(b) Post to the ledger accounts.

Example 3 :

The T accounts below summarize the ledger of Simon Landscaping Company at the end of the first month of operations.

Cash No. 101

4/1	15,000	4/15	600
4/12	900	4/25	1,500
4/29	400		
4/30	1,000		

Unearned Revenue No. 205

		4/30	1,000

Accounts Receivable No. 112

4/7	3,200	4/29	400

J. Simon, Capital No. 301

		4/1	15,000

Supplies No. 126

4/4	1,800		

Service Revenue No. 400

		4/7	3,200
		4/12	900

Accounts Payable No. 201

4/25	1,500	4/4	1,800

Salaries Expense No. 726

4/15	600		

Instructions

Prepare the complete general journal (including explanations) from which the postings to Cash were made.

Example 4 :

Frontier Park was started on April 1 by C. J. Mendez.The following selected events and transactions occurred during April.

Apr. 1 Mendez invested $40,000 cash in the business.

4 Purchased land costing $30,000 for cash.

8 Incurred advertising expense of $1,800 on account.

11 Paid salaries to employees $1,500.

12 Hired Park manager at a salary of $4,000 per month, effective May 1.

13 Paid $1,500 cash for a one-year insurance policy.

17 Withdrew $1,000 cash for personal use.

20 Received $5,700 in cash for admission fees.

25 Sold 100 coupon books for $25 each. Each book contains 10 coupons that entitle the holder to one admission to the park. 30 Received $8,900 in cash admission fees.

30 Paid $900 on balance owed for advertising incurred on April 8.

Mendez uses the following accounts: Cash, Prepaid Insurance, Land, Accounts Payable, Unearned Admission Revenue, C. J. Mendez, Capital; C. J. Mendez, Drawing; Admission Revenue, Advertising Expense, and Salaries Expense.

Instructions:

(a) Journalize the transactions.

(b) Post to the ledger accounts.

Example 5 :

1. Ray Neal decides to open a computer programming service which he names soft byte. On September 1, 2010, he invests $15,000 cash in the business.
2. Soft byte purchases computer equipment for $7,000 cash.
3. Soft byte purchases for $1,600 from Acme Supply Company computer paper and other supplies expected to last several months. Acme agrees to allow soft byte to pay this bill in October.
4. Soft byte receives $1,200 cash from customers for programming services it has provided.
5. Soft byte receives a bill for $250 from the *Daily News* for advertising but postpones payment until a later date.
6. Soft byte provides $3,500 of programming services for customers. The company receives cash of $1,500 from customers, and it bills the balance of $2,000 on account.
7. Soft byte pays the following Expenses in cash for September: store rent $600, salaries of employees $900, and utilities $200.
8. Soft byte pays its $250 *Daily News* bill in cash [in Transaction (5)].
9. Soft byte receives $600 in cash from customers who had been billed for services [in Transaction (6)].
10. Ray Neal withdraws $1,300 in cash from the business for his personal use.

Instructions:

(a) Journalize the transactions.

(b) Post to the ledger accounts.