

Chapter 2

The Recording Process

CHAPTER 2

THE RECORDING PROCESS

After studying this chapter, you should be able to:

- 1 Explain what an account is and how it helps in the recording process**
- 2 Define debits and credits and explain how they are used to record business transactions**
- 3 Identify the basic steps in the recording process**
- 4 Explain what a journal is and how it helps in the recording process**

CHAPTER 2

THE RECORDING PROCESS

After studying this chapter, you should be able to:

- 5 Explain what a ledger is and how it helps in the recording process**
- 6 Explain what posting is and how it helps in the recording process**
- 7 Prepare a trial balance and explain its purpose**

THE ACCOUNT

STUDY OBJECTIVE 1

- An **account** is an individual accounting record of increases and decreases in a specific asset, liability, or owner's equity item.
- There are separate accounts for the items we used in transactions such as **cash**, **salaries expense**, **accounts payable**, etc.

BASIC FORM OF ACCOUNT

STUDY OBJECTIVE 2

- The simplest form an account consists of
 - 1 the title of the account
 - 2 a left or debit side
 - 3 a right or credit side
- The alignment of these parts resembles the letter T = **T account**

Title of Account	
Left or debit side	Right or credit side
Debit balance	Credit balance

DEBITS AND CREDITS

- **Debit** indicates left and **Credit** indicates right
- Recording \$ on the **left** side of an account is debiting the account
- Recording \$ on the **right** side is crediting the account
- If the total of debit amounts is bigger than credits, the account has a **debit** balance
- If the total of credit amounts is bigger than debits, the account has a **credit** balance

TABULAR SUMMARY COMPARED TO ACCOUNT FORM

Tabular Summary

Cash
\$15,000
-7,000
1,200
1,500
-1,700
-250
600
-1,300
<u>\$ 8,050</u>

Account Form

Cash			
(Debits)	15,000	(Credits)	7,000
	1,200		1,700
	1,500		250
	600		1,300
Balance	8,050		
(Debit)			

DEBITING AN ACCOUNT

Cash	
Debits	Credits
15,000	

Example: The owner makes an initial investment of **\$15,000** to start the business. **Cash** is debited as the owner's **Capital** is credited.

CREDITING AN ACCOUNT

Cash	
Debits	Credits
	7,000

Example: Monthly rent of **\$7,000** is paid.
Cash is credited as **Rent Expense** is debited.

DEBITING / CREDITING AN ACCOUNT

Cash

Debits	Credits
15,000	7,000
8,000	

Example: **Cash** is debited for **\$15,000** and credited for **\$7,000**, leaving a debit balance of **\$8,000**.

DOUBLE-ENTRY SYSTEM

- equal debits and credits made accounts for each transaction
- total debits always equal the total credits
- accounting equation always stays in balance

Assets



Liabilities



Equity

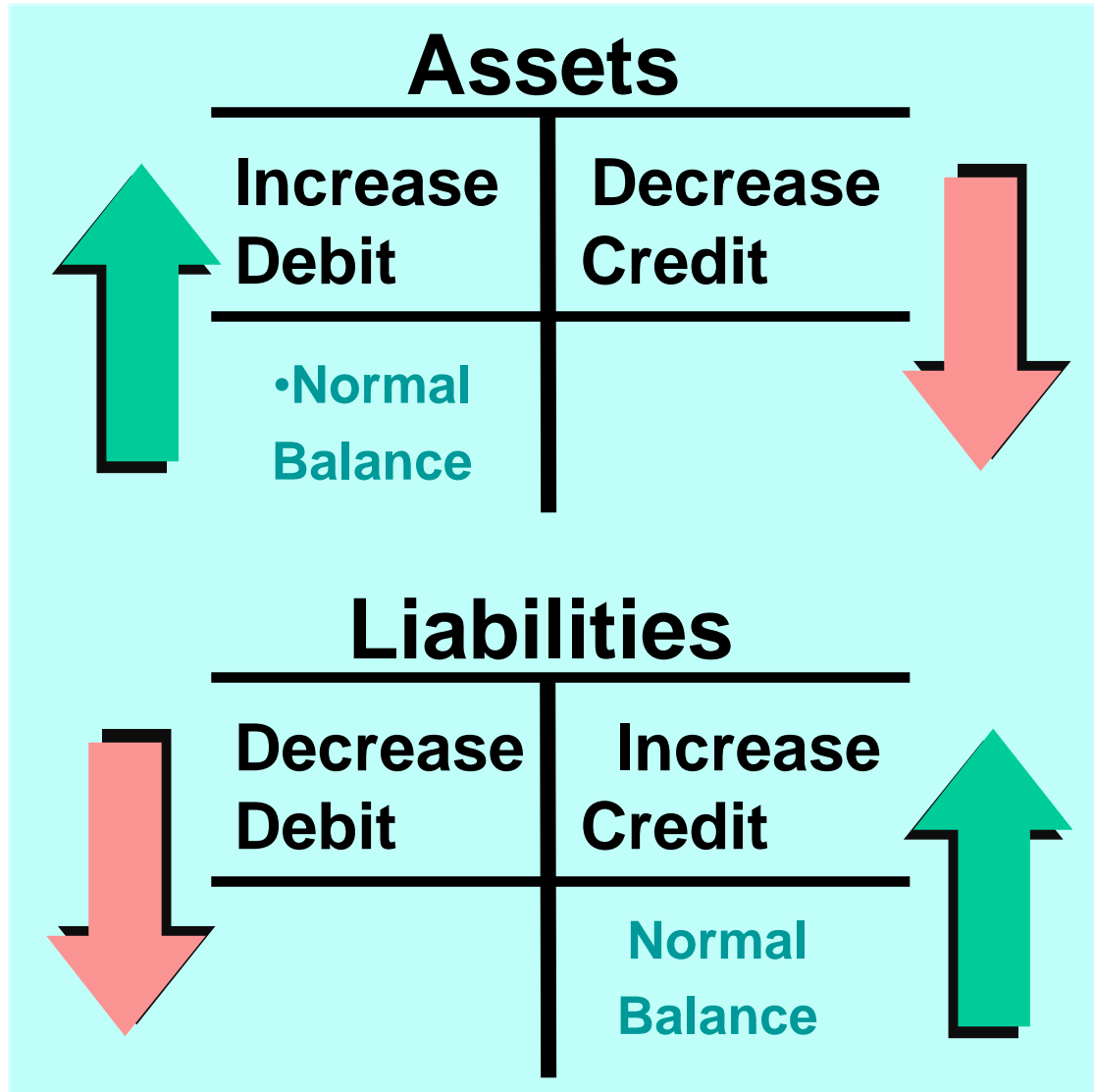
DEBIT AND CREDIT EFFECTS — ASSETS AND LIABILITIES

Debits	Credits
Increase assets Decrease liabilities	Decrease assets Increase liabilities

NORMAL BALANCE

- **every account has a designated **normal** balance.**
 - It is either a debit or credit.
- **accounts rarely have an abnormal balance.**

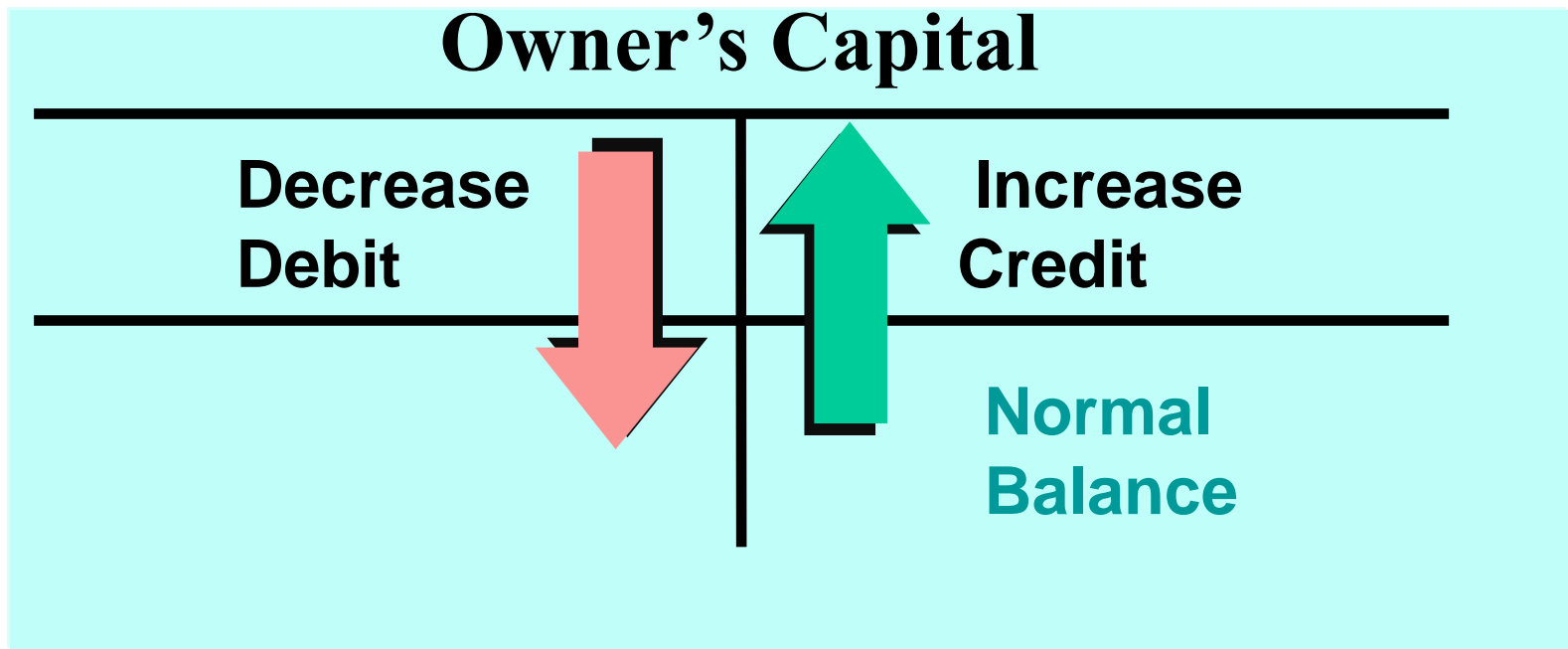
NORMAL BALANCES — ASSETS AND LIABILITIES



DEBIT AND CREDIT EFFECTS — OWNER'S CAPITAL

Debits	Credits
Decrease owner's capital	Increase owner's capital

NORMAL BALANCE — OWNER'S CAPITAL

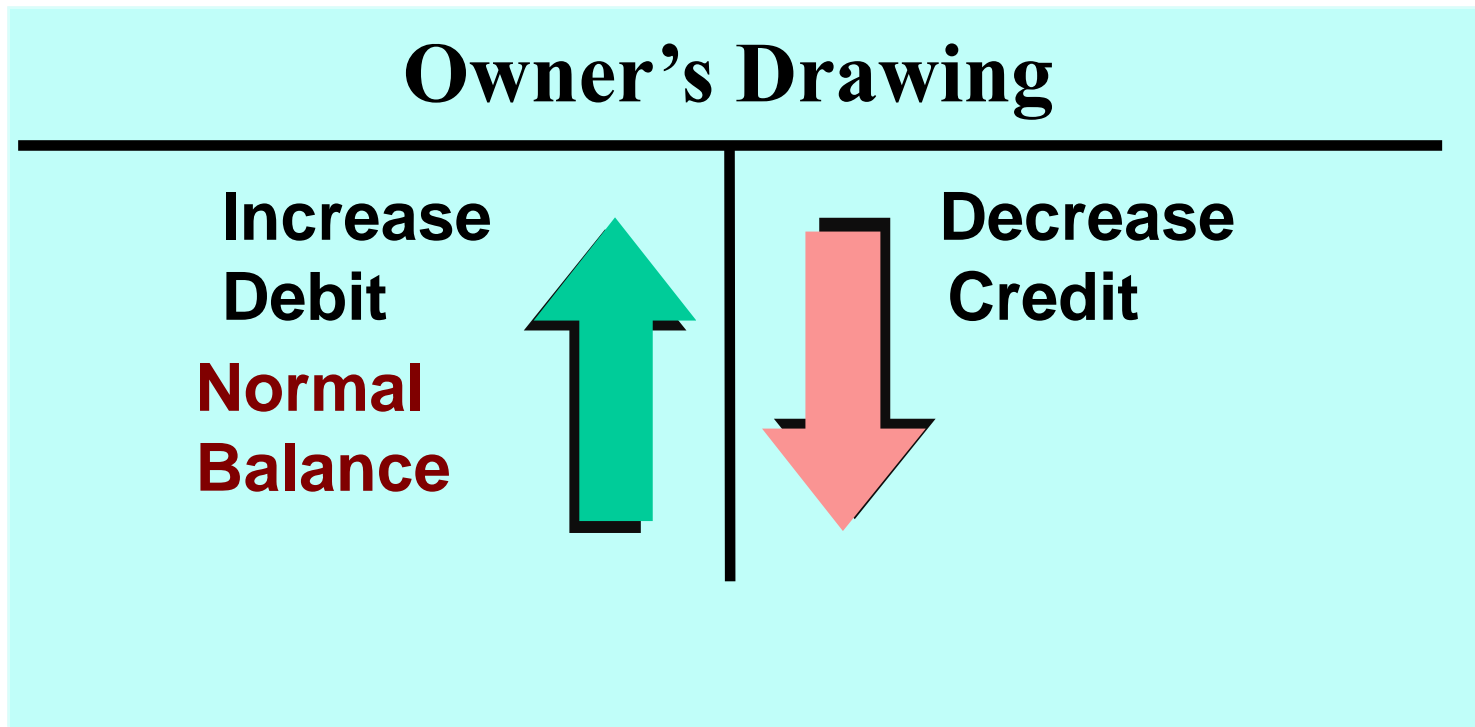


DEBIT AND CREDIT EFFECTS — OWNER'S DRAWING

Debits	Credits
Increase owner's drawing	Decrease owner's drawing

Remember, **Drawing** is a **contra-account** – an account that is backwards from the account it accompanies (the **Capital** account).

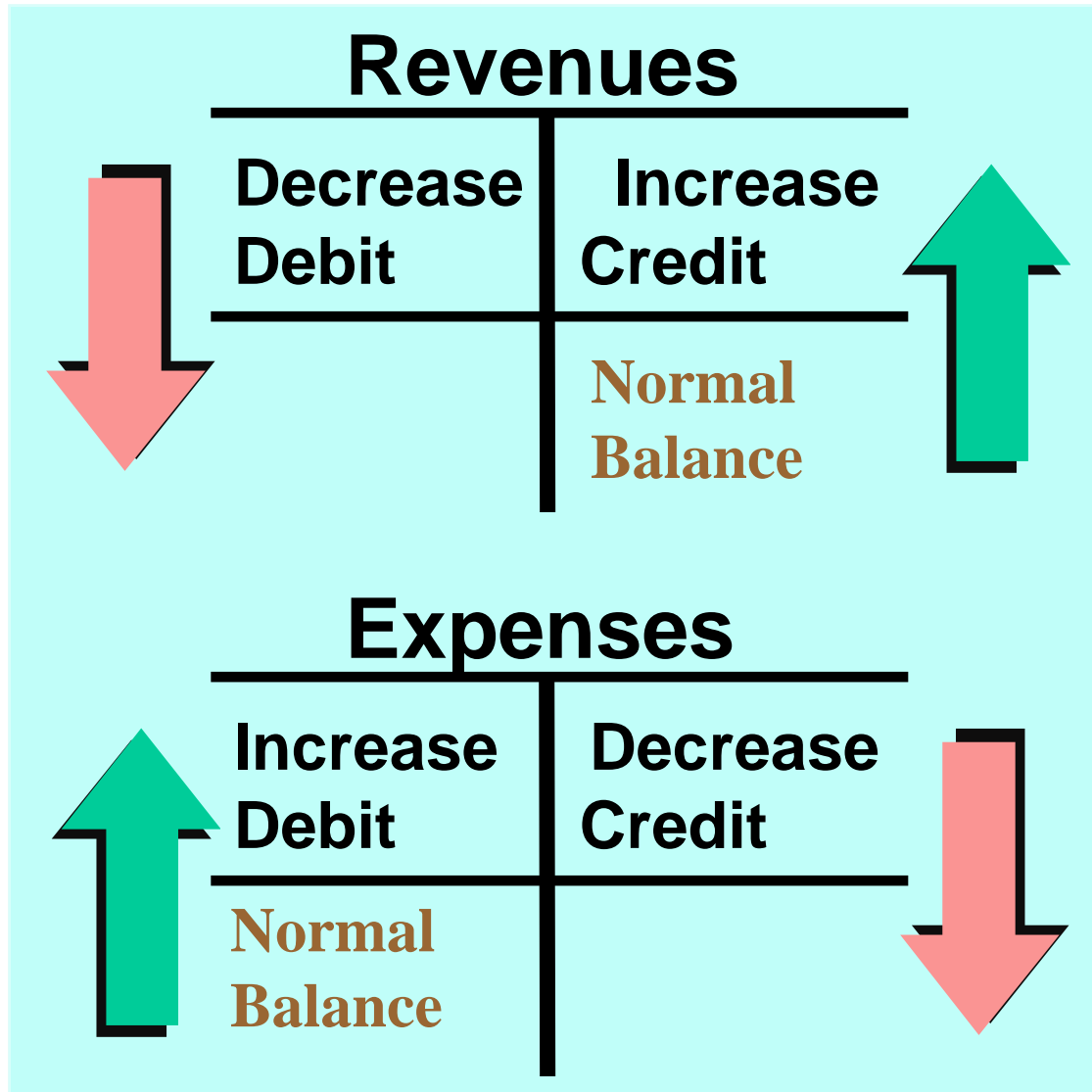
NORMAL BALANCE — OWNER'S DRAWING



DEBIT AND CREDIT EFFECTS — REVENUES AND EXPENSES

Debits	Credits
Decrease revenues Increase expenses	Increase revenues Decrease expenses

NORMAL BALANCES — REVENUES AND EXPENSES



EXPANDED BASIC EQUATION AND DEBIT/CREDIT RULES AND EFFECTS

Assets	=	Liabilities	+	Owner's Equity
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Assets	=	Liabilities	+	Owner's Capital	-	Owner's Drawing																
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center; padding: 5px;">Dr.</td> <td style="width: 50%; text-align: center; padding: 5px;">Cr.</td> </tr> <tr> <td style="text-align: center; padding: 5px;">+</td> <td style="text-align: center; padding: 5px;">-</td> </tr> </table>	Dr.	Cr.	+	-		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center; padding: 5px;">Dr.</td> <td style="width: 50%; text-align: center; padding: 5px;">Cr.</td> </tr> <tr> <td style="text-align: center; padding: 5px;">-</td> <td style="text-align: center; padding: 5px;">+</td> </tr> </table>	Dr.	Cr.	-	+		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center; padding: 5px;">Dr.</td> <td style="width: 50%; text-align: center; padding: 5px;">Cr.</td> </tr> <tr> <td style="text-align: center; padding: 5px;">-</td> <td style="text-align: center; padding: 5px;">+</td> </tr> </table>	Dr.	Cr.	-	+		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center; padding: 5px;">Dr.</td> <td style="width: 50%; text-align: center; padding: 5px;">Cr.</td> </tr> <tr> <td style="text-align: center; padding: 5px;">+</td> <td style="text-align: center; padding: 5px;">-</td> </tr> </table>	Dr.	Cr.	+	-
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Dr.	Cr.																					
-	+																					
Dr.	Cr.																					
+	-																					

	+	Revenues	-	Expenses								
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-	+											
Dr.	Cr.											
+	-											

Review

Which of the following is not true of the terms **debit** and **credit**.

- a. They can be abbreviated as Dr. and Cr.
- b. They can be interpreted to mean increase and decrease.
- c. They can be used to describe the balance of an account.
- d. They can be interpreted to mean left and right.

Review

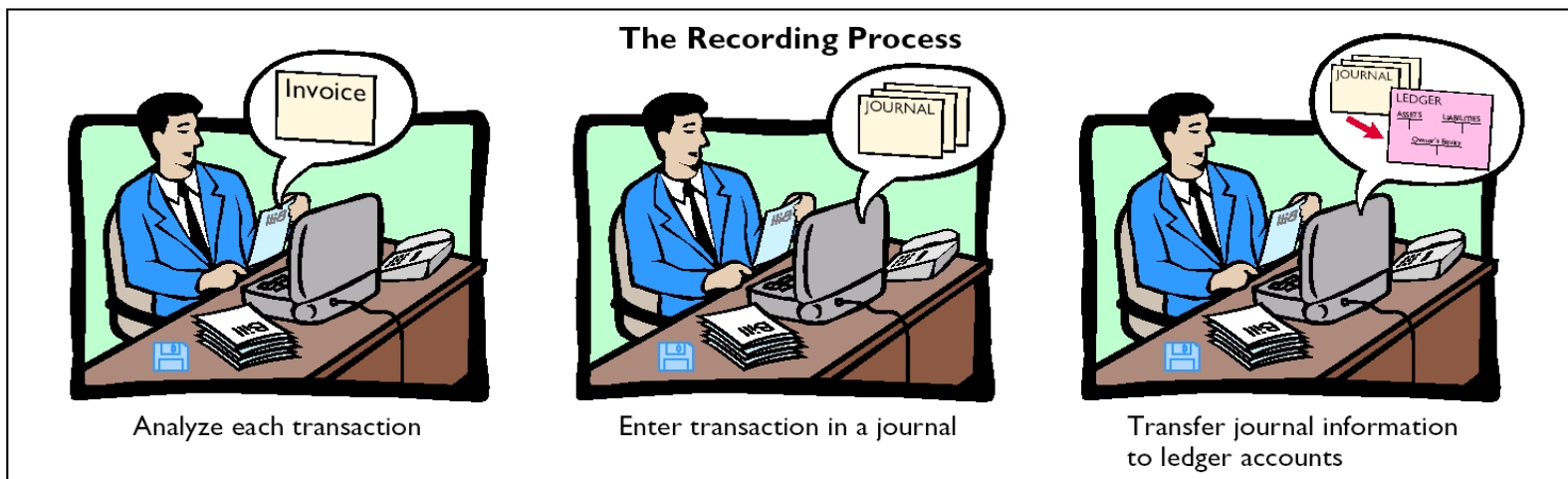
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- a. They can be abbreviated as Dr. and Cr.
- b. They can be interpreted to mean increase and decrease.
- c. They can be used to describe the balance of an account.
- d. They can be interpreted to mean left and right.

THE RECORDING PROCESS

STUDY OBJECTIVE 3

- 1 analyze each transaction (+, -)
- 2 enter transaction in a journal
- 3 transfer journal information to ledger accounts



THE JOURNAL

STUDY OBJECTIVE 4

- **Transactions**
 - Are initially recorded in chronological order before they are transferred to the ledger accounts.
- A **general journal** has
 - 1 spaces for dates
 - 2 account titles and explanations
 - 3 references
 - 4 two amount columns

THE JOURNAL

A **journal** makes several contributions to recording process:

- 1** discloses in one place the complete effect of a transaction
- 2** provides a chronological record of transactions
- 3** helps to prevent or locate errors as debit and credit amounts for each entry can be compared

JOURNALIZING

- Entering transaction data in the journal is known as **journalizing**.
- Separate journal entries are made for each transaction.
- A complete entry consists of:
 - 1 the date of the transaction,
 - 2 the accounts and amounts to be debited and credited,
 - 3 a brief explanation of transaction.

TECHNIQUE OF JOURNALIZING

The date of the transaction is entered into the date column.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (Invested cash in business)		15,000	15,000	
1	Computer Equipment Cash (Purchased equipment for cash)		7,000	7,000	

TECHNIQUE OF JOURNALIZING

The **debit** account title is entered at the extreme left margin of the Account Titles and Explanation column. The **credit** account title is indented on the next line.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (Invested cash in business)		15,000	15,000	
1	Computer Equipment Cash (Purchased equipment for cash)		7,000	7,000	

TECHNIQUE OF JOURNALIZING

The amounts for the **debits** are recorded in the Debit column and the amounts for the **credits** are recorded in the Credit column.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (Invested cash in business)		15,000	15,000	
1	Computer Equipment Cash (Purchased equipment for cash)		7,000	7,000	

TECHNIQUE OF JOURNALIZING

A brief explanation of the transaction is given.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (Invested cash in business)		15,000	15,000	
1	Computer Equipment Cash (Purchased equipment for cash)		7,000	7,000	

TECHNIQUE OF JOURNALIZING

A space is left between journal entries. The blank space separates individual journal entries and makes the entire journal easier to read.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (Invested cash in business)		15,000	15,000	
1	Computer Equipment Cash (Purchased equipment for cash)		7,000	7,000	

TECHNIQUE OF JOURNALIZING

The column entitled Ref. is left blank at the time journal entry is made and is used later when the journal entries are transferred to the ledger accounts.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (Invested cash in business)		15,000		15,000
1	Computer Equipment Cash (Purchased equipment for cash)		7,000		7,000

SIMPLE AND COMPOUND JOURNAL ENTRIES

If an entry involves only two accounts, one debit and one credit, it is considered a **simple entry**.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 July 1	Cash K. Browne, Capital (Invested cash in the business)		20,000	20,000	

COMPOUND JOURNAL ENTRY

When three or more accounts are required in one journal entry, the entry is referred to as a **compound entry**.

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 July 1	Delivery Equipment Cash Accounts Payable (Purchased truck for cash with balance on account)		14,000	8,000 6,000	

1

2

3

COMPOUND JOURNAL ENTRY

This is the wrong format; all debits must be listed before the credits are listed.

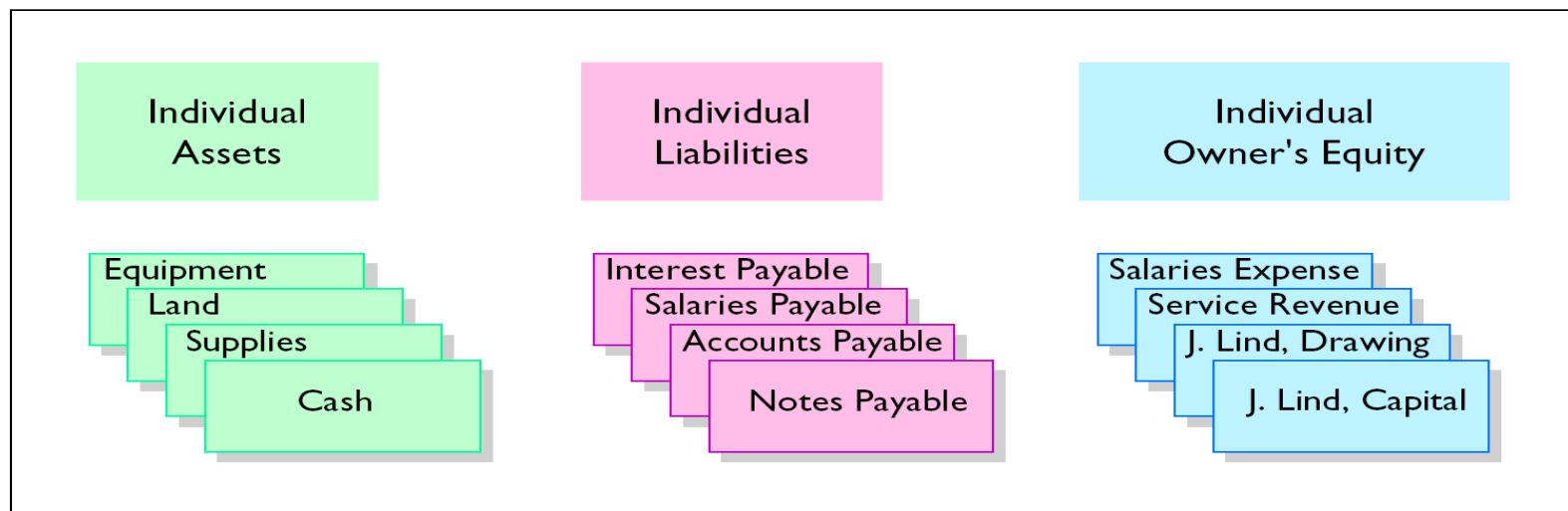
GENERAL JOURNAL				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
2005 July 1	Cash			8,000
	Delivery Equipment		14,000	
	Accounts Payable			6,000
	(Purchased truck for cash with balance on account)			

THE LEDGER

STUDY OBJECTIVE 5

A Group of accounts maintained by a company is called the **ledger**.

A **general ledger** contains all the assets, liabilities, and owner's equity accounts



POSTING A JOURNAL ENTRY

GENERAL JOURNAL						J1
Date	Account Titles and Explanation	Ref.	Debit	Credit		
2005 Sept. 1	Cash R. Neal, Capital (invested cash in business)	10 25	15,000	15,000		

GENERAL LEDGER

CASH					NO. 10
Date	Explanation	Ref.	Debit	Credit	Balance
2005 Sept. 1		J1	15,000		15,000

R. NEAL, CAPITAL					NO. 25
Date	Explanation	Ref.	Debit	Credit	Balance
2005 Sept. 1		J1		15,000	15,000

In the ledger, enter in the appropriate columns of the account(s) debited the **date**, **journal page**, and **debit amount** shown in the journal.

POSTING A JOURNAL ENTRY

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (invested cash in business)	10 25	15,000	15,000	

GENERAL LEDGER					
CASH					NO. 10
Date	Explanation	Ref.	Debit	Credit	Balance
2005 Sept. 1		J1	15,000		15,000

R. NEAL, CAPITAL					NO. 25
Date	Explanation	Ref.	Debit	Credit	Balance
2005 Sept. 1		J1		15,000	15,000

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

POSTING A JOURNAL ENTRY

GENERAL JOURNAL						J1
Date	Account Titles and Explanation	Ref.	Debit	Credit		
2005 Sept. 1	Cash R. Neal, Capital (invested cash in business)	10 25	15,000	15,000		

GENERAL LEDGER

CASH						NO. 10
Date	Explanation	Ref.	Debit	Credit	Balance	
2005 Sept. 1		J1	15,000		15,000	

R. NEAL, CAPITAL						NO. 25
Date	Explanation	Ref.	Debit	Credit	Balance	
2005 Sept. 1		J1		15,000	15,000	

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

POSTING A JOURNAL ENTRY

GENERAL JOURNAL					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
2005 Sept. 1	Cash R. Neal, Capital (invested cash in business)	10 25	15,000	15,000	

GENERAL LEDGER

CASH					NO. 10
Date	Explanation	Ref.	Debit	Credit	Balance
2005 Sept. 1		J1	15,000		15,000

R. NEAL, CAPITAL					NO. 25
Date	Explanation	Ref.	Debit	Credit	Balance
2005 Sept. 1		J1		15,000	15,000

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

CHART OF ACCOUNTS

A Chart of Accounts lists the accounts and the account numbers which identify their location in the ledger.

PIONEER ADVERTISING AGENCY

Chart of Accounts

Assets

101 Cash
112 Accounts Receivable
126 Advertising Supplies
130 Prepaid Insurance
157 Office Equipment
158 Accumulated Depreciation—Office Equipment

Liabilities

200 Notes Payable
201 Accounts Payable
209 Unearned Revenue
212 Salaries Payable
230 Interest Payable

Owner's Equity

301 C. R. Byrd, Capital
306 C. R. Byrd, Drawing
350 Income Summary

Revenues

400 Service Revenue

Expenses

631 Advertising Supplies Expense
711 Depreciation Expense
722 Insurance Expense
726 Salaries Expense
729 Rent Expense
905 Interest Expense

INVESTMENT OF CASH BY OWNER

Transaction

October 1, C.R. Byrd invests \$10,000 cash in an advertising business known as:
The Pioneer Advertising Agency.

Basic Analysis

- The asset Cash is increased \$10,000
- Owner's equity, C. R. Byrd, Capital is increased \$10,000.

Debit-Credit Analysis

Debits increase assets: debit Cash **\$10,000**.
Credits increase owner's equity: credit C.R. Byrd, Capital **\$10,000**.

PURCHASE OF OFFICE EQUIPMENT

JOURNAL ENTRY

Date	Account Titles and Explanation	Ref.	Debit	Credit
Oct. 1	Cash C. R. Byrd, Capital (Owner invests \$10,000 In the business)	101 301	10,000	10,000

POSTING

	Cash	101
Oct. 1	10,000	

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

INVESTMENT OF CASH BY OWNER

Transaction

October 1, C. R. Byrd purchases \$5,000 of equipment by issuing a 3-month, 12% note payable.

Basic Analysis

- The asset Office Equipment is increased \$5,000.
- The liability, Notes Payable is increased \$5,000.

Debit-Credit Analysis

Debits increase assets: debit Office Equipment \$5,000.
Credits increase liabilities: credit Notes Payable \$5,000.

PURCHASE OF OFFICE EQUIPMENT

JOURNAL ENTRY

Date	Account Titles and Explanation	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

RECEIPT OF CASH FOR FUTURE SERVICE

Transaction

October 2, a \$1,200 cash advance is received from a client, for advertising services expected to be completed by December 31.

Basic Analysis

Asset Cash is increased \$1,200

Liability Unearned Fees is increased \$1,200

•Service has not been rendered yet.

Liabilities often have the word “payable” in their title, Unearned fees are a liability.

Debit-Credit Analysis

Debits increase assets: debit Cash **\$1,200.**

Credits increase liabilities: credit Unearned Fees **\$1,200.**

RECEIPT OF CASH FOR FUTURE SERVICE

JOURNAL ENTRY

Date	Account Titles and Explanation	Ref.	Debit	Credit
Oct. 2	Cash	101	1,200	
	Unearned Fees (Received advance from R. Knox for future services)	209		1,200

POSTING

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

Unearned Fees		209
	Oct. 2	1,200

PAYMENT OF MONTHLY RENT

Transaction

October 3, office rent for October is paid in cash, \$900.

Basic Analysis

**The expense Rent is increased \$900
Payment pertains only to the current month
Asset Cash is decreased \$900.**

Debit-Credit Analysis

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

PAYMENT OF RENT EXPENSE

JOURNAL ENTRY

Date	Account Titles and Explanation	Ref.	Debit	Credit
Oct. 3	Rent Expense	729	900	
	Cash	101		900
	(Paid \$900 for October rent)			

POSTING

Rent Expense		729
Oct. 3	900	

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

PAYMENT FOR INSURANCE

Transaction

October 4, \$600 Paid one-year insurance policy- expires next year on September 30.

Basic Analysis

- Asset Prepaid Insurance increases \$600
- Payment extends to more than the current month
- Asset Cash is decreased \$600.
- Payments of expenses benefiting more than one period are prepaid expenses or prepayments.

Debit-Credit Analysis

Debits increase assets: debit Prepaid Insurance \$600. Credits decrease assets: credit Cash \$600.

PAYMENT FOR INSURANCE

JOURNAL ENTRY

Date	Account Titles and Explanation	Ref.	Debit	Credit
Oct. 4	Prepaid Insurance	130	600	
	Cash	101		600
	(Paid one-year policy; effective date October 1)			

POSTING

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

Prepaid Insurance		130
Oct. 4	600	

PURCHASE OF SUPPLIES ON CREDIT

Transaction

October 5, an estimated 3-month supply of advertising materials is purchased on account from Aero Supply for \$2,500.

Basic Analysis

The asset Advertising Supplies is increased \$2,500; the liability Accounts Payable is increased \$2,500.

Debit-Credit Analysis

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

PURCHASE OF SUPPLIES ON CREDIT

JOURNAL ENTRY

Date	Account Titles and Explanation	Ref.	Debit	Credit
Oct. 5	Advertising Supplies Accounts Payable (Purchased supplies on account from Aero Supply)	126 201	2,500	2,500

POSTING

Advertising Supplies		126
Oct. 5	2,500	

Accounts Payable		201
	Oct. 5	2,500

HIRING OF EMPLOYEES

Transaction

October 9, hire four employees to begin work on October 15. Each employee is to receive a weekly salary of \$500 for a 5-day work week, payable every 2 weeks -- first payment made on October 26.

Basic Analysis

A business transaction has not occurred only an agreement between the employer and the employees to enter into a business transaction beginning on October 15.

Debit-Credit Analysis

A debit-credit analysis is not needed because there is no accounting entry.

WITHDRAWAL OF CASH BY OWNER

Transaction

October 20, C. R. Byrd withdraws \$500 cash for personal use.

Basic Analysis

The owner's equity account C. R. Byrd, Drawing is increased \$500.
The asset Cash is decreased \$500.

Debit-Credit Analysis

Debits increase drawings: debit C. R. Byrd, Drawing **\$500**. Credits decrease assets: credit Cash **\$500**.

WITHDRAWAL OF CASH BY OWNER

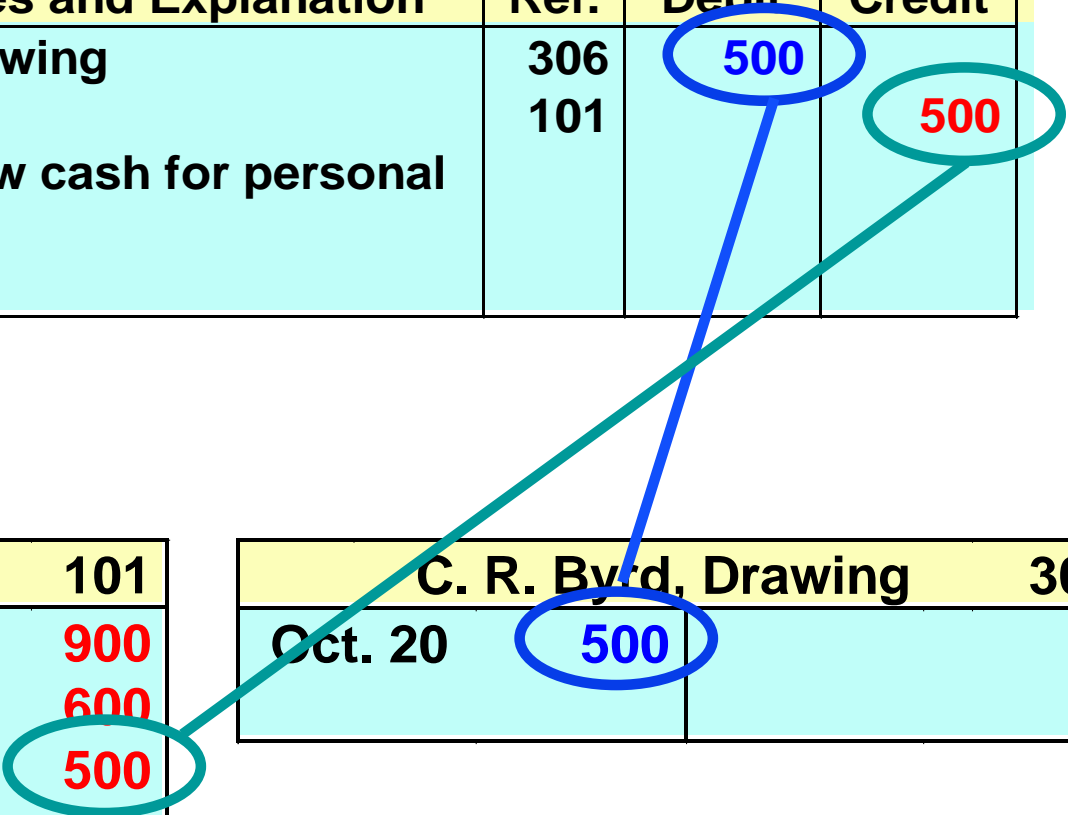
JOURNAL ENTRY

Date	Account Titles and Explanation	Ref.	Debit	Credit
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	



PAYMENT OF SALARIES

Transaction

October 26, employee salaries of \$4,000 are owed and paid in cash. (See October 9 transaction.)

Basic Analysis

The expense account Salaries Expense is increased \$4,000; the asset Cash is decreased \$4,000.

Debit-Credit Analysis

Debits increase expenses: debit Salaries Expense **\$4,000**. Credits decrease assets: credit Cash **\$4,000**.

PAYMENT OF SALARIES

JOURNAL ENTRY

Date	Account Titles and Explanation	Ref.	Debit	Credit
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		

RECEIPT OF CASH FOR FEES EARNED

Transaction

October 31, received \$10,000 in cash from Copa Company for advertising services rendered in October.

Basic Analysis

The asset Cash is increased \$10,000; the revenue Fees Earned is increased \$10,000.

Debit-Credit Analysis

Debits increase assets: debit Cash **\$10,000**. Credits increase revenues: credit Fees Earned **\$10,000**.

RECEIPT OF CASH FOR FEES EARNED

JOURNAL ENTRY

Date	Account Titles and Explanation	Ref.	Debit	Credit
Oct. 31	Cash	101	10,000	
	Fees Earned	400		10,000
	(Received cash for fees earned)			

POSTING

Cash		101	Fees Earned		400
Oct. 1	10,000	Oct. 3	900	Oct. 31	10,000
2	1,200	4	600		
31	10,000	20	500		
		26	4,000		

THE TRIAL BALANCE

STUDY OBJECTIVE 7

- The **trial balance** is a list of accounts and their balances at a given time.
- The primary purpose of a trial balance is to prove debits = credits after posting.
- If debits and credits do not agree, the trial balance can be used to uncover errors in journalizing and posting.

THE TRIAL BALANCE

The Steps in preparing the Trial Balance are:

1. List the account titles and balances
2. Total the debit and credit columns
3. Prove the equality of the two columns

A TRIAL BALANCE

PIONEER ADVERTISING AGENCY

Trial Balance

October 31, 2005

	Debit	Credit
Cash	\$ 15,200	
Advertising Supplies	2,500	
Prepaid Insurance	600	
Office Equipment	5,000	
Notes Payable		\$ 5,000
Accounts Payable		2,500
Unearned Fees		1,200
C. R. Byrd, Capital		10,000
C. R. Byrd, Drawing	500	
Fees Earned		10,000
Salaries Expense	4,000	
Rent Expense	900	
	<u>\$ 28,700</u>	<u>\$ 28,700</u>

The total debits must equal the total credits.

LIMITATIONS OF A TRIAL BALANCE

- **A trial balance does not prove all transactions have been recorded or the ledger is correct.**
- **Numerous errors may exist even though the trial balance columns agree. For example, the trial balance may balance even when:**
 - **a transaction is not journalized**
 - **a correct journal entry is not posted**
 - **a journal entry is posted twice**
 - **incorrect accounts used in journalizing or posting**
 - **offsetting errors are made in recording**

Review

Which one of the following represents the expanded basic accounting equation?

- a. $\text{Assets} = \text{Liabilities} + \text{Owner's Capital} + \text{Owner's Drawings} - \text{Revenue} - \text{Expenses}.$
- b. $\text{Assets} + \text{Owner's Drawings} + \text{Expenses} = \text{Liabilities} + \text{Owner's Capital} + \text{Revenue}.$
- c. $\text{Assets} - \text{Liabilities} - \text{Owner's Drawings} = \text{Owner's Capital} + \text{Revenue} - \text{Expenses}.$
- d. $\text{Assets} = \text{Revenue} + \text{Expenses} - \text{Liabilities}.$

Review

Which one of the following represents the expanded basic accounting equation?

- a. $\text{Assets} = \text{Liabilities} + \text{Owner's Capital} + \text{Owner's Drawings} - \text{Revenue} - \text{Expenses}.$
- b. $\text{Assets} + \text{Owner's Drawings} + \text{Expenses} = \text{Liabilities} + \text{Owner's Capital} + \text{Revenue}.$
- c. $\text{Assets} - \text{Liabilities} - \text{Owner's Drawings} = \text{Owner's Capital} + \text{Revenue} - \text{Expenses}.$
- d. $\text{Assets} = \text{Revenue} + \text{Expenses} - \text{Liabilities}.$