LIFEPAC® Accounting

Student Book

Unit 4

Alpha Omega Publications

ACCOUNTING LIFEPAC 4

POSTING TO THE GENERAL LEDGER

CONTENTS

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ACCOUNTING LIFEPAC 4
POSTING TO THE GENERAL LEDGER

OVERVIEW

This LIFEPAC® will take you through the third step in the financial process: posting. Step one is to analyze each transaction to see what accounts are affected. The second step is to record the debit and credit parts of each transaction, listing the accounts that are changed as a result of the transaction. This information is recorded in the general journal. In step three the transactions in the general journal are posted to individual accounts which are grouped together in the general ledger. The ledger sorts by account the transactions recorded in the journal and provides a quick summary of the activity that has occurred in each of the accounts. You will also learn how to determine ledger account balances and prove the accuracy of your posting by preparing a trial balance.

OBJECTIVES

When you have completed this LIFEPAC you will be able to:

1. Define accounting terms associated with posting transactions from the general journal to the general ledger.
2. Identify accounting concepts.
3. Explain the purpose and use of a chart of accounts.
4. Prepare a chart of accounts based on the balance sheet and income statement.
5. Accurately post from a general journal to a general ledger.
6. Prepare a cash proof.
7. Prepare a trial balance.

VOCABULARY

Account – a device used to summarize all the changes that affect a single item in the accounting equation.

Account Balance – the difference between the debits and credits recorded in an account.

Account Number – the number assigned to an account in the ledger.

Balance Column Account – an account that has debit and credit columns for entering changes in the account and a column for entering the new account balance after each debit or credit is posted to the account.

Balance Sheet – a form that shows the financial position of a business on a specific date.

Book of Original Entry – a journal in which transactions are first recorded.

Book of Secondary Entry – a ledger to which amounts from the journal are posted.

Chart of Accounts – a list of all the accounts used by a business entity.

File Maintenance – the procedure of arranging accounts in a general ledger, inserting and deleting accounts, and keeping records current.

General Ledger – a book that contains all of the accounts needed to prepare the financial reports of a business entity.

Income Statement – a financial statement that reports the revenue, expenses, and net income or net loss of a business for a specific period of time.

Ledger – a group of accounts.

Opening an Account – writing the account title and number on the heading line of an account.

Opening Entry – the first entry made in a general journal that opens the accounts in a new set of books.

Posting – transferring information from a journal entry to a ledger account.

Proving Cash – the process of determining whether the amount of cash, both on hand and in the bank, is the same amount that exists in the accounting records.

Trial Balance – a proof (test) to show that the total debit balances in the ledger equal the total credit balances.

SECTION I. THE LEDGER ACCOUNTS

Most small businesses record transactions in a general journal. A journal is a record of the debit and credit parts of each business transaction. These transactions are entered (journalized) in chronological order. The journal is referred to as the **book of original entry**. If the journal was the only tool used in the accounting system of a business, the bookkeeper would have to sort through all the journal pages to find any entry affecting a single account in the system. In order to determine the account balance the bookkeeper would have to go through every journal entry and make a list of all debit and credit entries to that account. This would be very-time consuming, and the accuracy of the work would be in question.

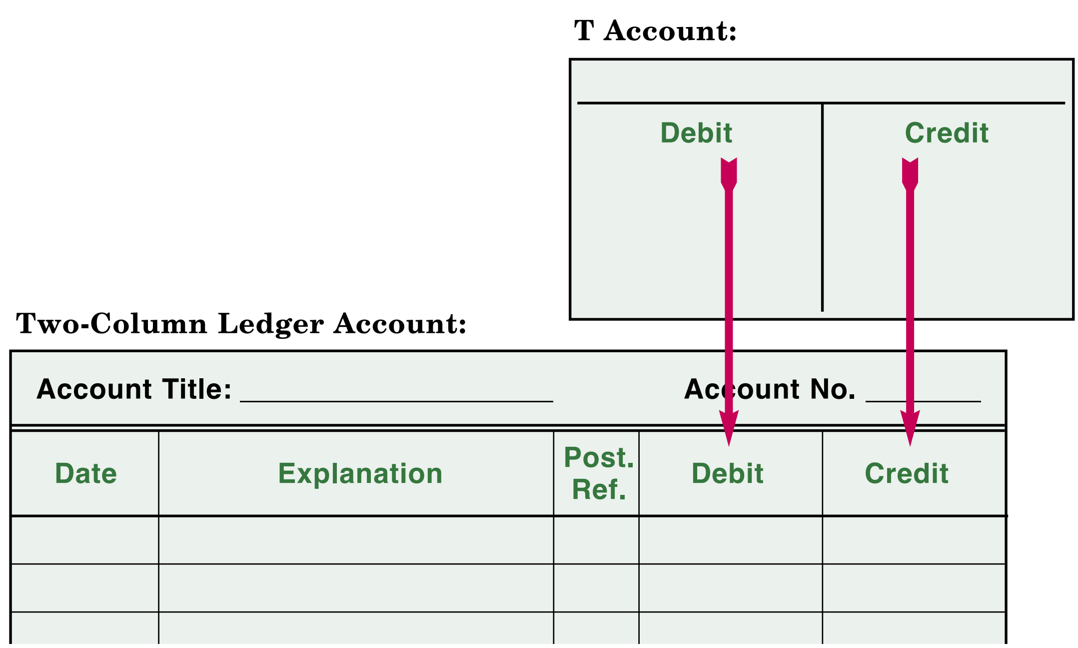
For this reason, accountants designed a form called an **account** that summarizes in one place all the changes to a single item on the chart of accounts. Each item in the accounting system has its own account, and these individual accounts are collected into a book called a **ledger**. The ledger is called the **book of secondary entry**.

Every entry in the general journal is transferred to the ledger accounts in a procedure called **posting**. Posting is the third step in the financial process.

Types of Ledger Accounts

Each ledger account has a debit and credit side just like the T accounts you used in LIFEPAC 3. Like a general journal, it also has space to record the transaction date and the journal page number (the source of the transaction). You will find this information helpful in tracing a specific entry back to the journal where it originated.

Two-Column Ledger Account. One type of a general ledger account called the two-column ledger is illustrated below, along with its relationship to the T account.



A disadvantage of this account form is that no current account balance is shown. The bookkeeper must determine the current balance each time the account is used. This procedure is difficult and time-consuming if the account has a large number of entries; therefore, it is advantageous to use a four-column account called a **balance column ledger account**.

Balance Column Ledger Account. This type of account allows for a running balance of each account to be calculated at all times. Like the two-column account form, the balance-column account has debit and credit columns for entering changes in the account. In addition, it has a debit balance or credit balance column for entering the new debit or credit balance after each transaction is posted. This balance column account form is illustrated below.

Balance Column Ledger Account:

Account Title:											Account No.	
Date		Explanation	Post. Ref.	Debit		Credit		Balance				
								Debit		Credit		

To use the balance column account effectively, the balance must be entered on the first line of the ledger account. Usually, only the permanent accounts (assets, liabilities, and owner's equity) have balances for the beginning of a fiscal period. The temporary accounts (revenue and expenses) are normally closed at the end of a fiscal period and have no balances to carry forward.

When the ledger page becomes full, the balance needs to be transferred to a new ledger page. In the example below, the date and the words "Balance Brought Forward," plus the last balance from the previous ledger page, are written in the balance column of the next page for that ledger account. A check mark (✔) is placed in the Post. Ref. column to indicate that this amount was carried forward rather than being posted from a journal entry.

Account Title: Accounts Payable											Account No. 210	
Date 20—		Explanation	Post. Ref.	Debit		Credit		Balance				
								Debit		Credit		
Jan.	1	Balance Brought Forward	✔							6150	00	

Preparing the Expanded Chart of Accounts

It is important to design a systematic method of identifying and locating each account used in the accounting equation. A **chart of accounts** is a list of all accounts used by an entity indicating the identifying number, the account title, and the classification of each account.

The chart of accounts of any entity is based on the two formal reports that must be prepared at the end of every accounting cycle. These two reports are the **balance sheet** and the **income statement**.

In LIFEPAC 2 you learned how to prepare a partial chart of accounts that included only the balance sheet items: assets, liabilities and capital. This LIFEPAC will discuss how to create an expanded chart of accounts that includes income statement items: revenue and expenses.

As you studied in LIFEPAC 2, the design of a numbering system should provide adequate flexibility to permit expansion without having to revise the basic system. Generally, blocks of numbers are assigned to various groups of accounts such as assets, liabilities, capital, revenue and expenses. The numbering system must commonly consist of three or four digits. The setup of a numbering system is usually at the discretion of the accountant.

An example of a system designed for a service business might appear as follows:

Assets accounts	110 through 199
Liability accounts	210 through 299
Capital accounts	310 through 399
Revenue accounts	410 through 499
Expense accounts	510 through 599

The first digit indicates the classification of the account, and the second or third number indicates the position of that account in the category.

Shown below is an expanded chart of accounts for **Kline's Cleaning Service**, owned by Art Kline.

KLINE'S CLEANING SERVICE
CHART OF ACCOUNTS

Balance Sheet Accounts		Income Statement Accounts	
Assets		**Revenue**	
Cash	110	Sales	410
Petty Cash	120	**Expenses**	
Supplies	130	Advertising Expense	510
Prepaid Insurance	140	Miscellaneous Expense	520
Equipment	150	Rent Expense	530
Liabilities		Repair Expense	540
Main's Supply Co.	210	Supplies Expense	550
Office Max	220	Utilities Expense	560
Mike's Garage	230		
Owner's Equity			
Art Kline, Capital	310		
Art Kline, Drawing	320		

The general ledger accounts are numbered in the order in which they appear on the balance sheet and income statement. This system organizes the ledger in such a manner that the accounts with common characteristics are grouped together:

1. Assets are listed in order of liquidity. Liquidity is the ease in which the assets account can be converted to cash.
2. Liabilities are listed in alphabetical order.
3. Owner's Equity is listed by investment (Capital) and withdrawals (Drawing).
4. Revenue and expense accounts are usually listed in alphabetical order.

The accounts are numbered using increments of ten. This allows flexibility to add accounts without revising the entire numbering system.

A general ledger is usually assembled in a loose-leaf binder which permits insertion and deletion of pages without handicapping the system. This also allows new accounts to be added between existing accounts, with a new number assigned between the existing numbers in the system. In this way, all accounts with the same characteristics remain in the same position of the ledger.

The general ledger binder is assembled so that assets are placed first, liability accounts are second, owner's equity is third, revenue is fourth, and expenses are fifth. This matches the development of the numbering system used on the chart of accounts. A binder compiled in this manner leads to consistency between the chart of accounts, analyzing transactions, journalizing, posting to the general ledger, and the system of financial reporting.

Accountants remove accounts that are no longer needed and assign the existing number to a new account with the same classification. They also will divide accounts that are currently in use. If a business is using just one revenue account, Sales (410), but it is discovered that a greater proportion of revenue than expected is being received from vending machines, then the accountant will set up two revenue accounts: one for Sales (410) and the other for Vending Machine Income (420), thus presenting a more accurate picture of revenue sources.

With the current numbering system, this new account can be added at the end of the list because in the example Sales (410) comes alphabetically before Vending Machine Income (420).

Another example of the flexibility of this type of numbering system would be the insertion of Delivery Expense between Advertising Expense (510) and Insurance Expense (520). In this example, Delivery Expense would be assigned 515 to keep the expense in the proper order. The process of arranging the general ledger, inserting and deleting accounts, and keeping records current is called **file maintenance**.

Review the material in this section in preparation for the Self Test. The Self Test will check your mastery of this particular section. The items missed on this Self Test will indicate specific areas where restudy is needed for mastery.

SELF TEST 1

Answer these questions (each answer, 5 points).

1.01 Which two financial statements are the basis for the expanded chart of accounts?

a. ______________________________

b. ______________________________

1.02 What is the main advantage of the balance-column ledger account?

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Define the following terms (each answer, 10 points).

1.03 Account: ______________________________

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1.04 General ledger: ______________________________

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____

1.05 Chart of accounts: ______________________________

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____

1.06 File maintenance: ______________________________

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Complete these activities (each lettered answer, 3 points).

1.07 List the five divisions of an expanded chart of accounts and the number for each division:

	Division	Number
a.	______________	__________
b.	______________	__________
c.	______________	__________
d.	______________	__________
e.	______________	__________

1.08 Organize the following accounts in the order they would appear on the chart of accounts, then assign each a number according to the current numbering system:

Cash • Jennie Johnson, Capital • Advertising Expense • Sales
Accounts Payable • Miscellaneous Expense • Supplies

Account Title	*Account Number*
a. ____________________	____________
b. ____________________	____________
c. ____________________	____________
d. ____________________	____________
e. ____________________	____________
f. ____________________	____________
g. ____________________	____________

73 / **91**

Score ____________

Adult Check ____________
Initial Date