5

Posting from a General Journal to a General Ledger

AFTER STUDYING CHAPTER 5, YOU WILL BE ABLE TO:

1. Define accounting terms related to posting from a general journal to a general ledger.
2. Identify accounting concepts and practices related to posting from a general journal to a general ledger.
3. Prepare a chart of accounts for a service business organized as a proprietorship.
4. Post amounts from a general journal to a general ledger.
5. Prove cash and journalize correcting entries.

ACCOUNT FORM

Encore Music records transactions in a general journal as described in Chapter 4. A journal is a permanent record of the debit and credit parts of each transaction with transactions recorded in chronological order. A journal does not show, in one place, all the changes in a single account.

If only a journal is used, a business must search through all journal pages to find items affecting a single account balance. For this reason, a form is used to summarize in one place all the changes to a single account. A separate form is used for each account.
Shayla Graham is the bookkeeper at Hammonds Marketing Services. Tony Hammonds, who started the business, hired her to take full charge of accounting, but has never shown a great deal of interest in her daily work. Tony is now talking with Shayla to discuss ways to free up some time for her to take on additional responsibilities in the rapidly growing business.

Tony begins, “Shayla, you’ve done a great job with the accounting system here at Hammonds Marketing. I have come to rely on you totally for everything related to accounts. But now I need to see if we can find some ways for you to do your work in less time so you can help me with some other projects.”

“Thank you for the vote of confidence, Tony,” Shayla says, “I’d be happy to work with you on other projects if we can find a way for me to do so.”

“Well, it looks like there’s a lot of duplication in your work. You look at all the documents and then prepare some additional ones. Then you record them in the journal, and then you record them all again when you post them. You’re doing the same thing three times.”

“Tony,” Shayla replies, “I promise you I am not creating unnecessary work. Each one of these steps is an important part of what we call the accounting cycle. And the accounting firm that audits our books has assured both you and me that I am following the correct procedures. Let me explain why each of these steps is important.”

**Critical Thinking:**

1. How should Shayla explain the care she takes examining and preparing source documents?
2. What would be a good way to explain why both journalizing and posting are important?
An account form is based on and includes the debit and credit sides of a T account. In addition to debit and credit columns, space is provided in the account form for recording the transaction date and journal page number. This information can be used to trace a specific entry back to where a transaction is recorded in a journal.

The major disadvantage of the account form shown is that no current, up-to-date account balance is shown. If this form is used, an up-to-date balance must be calculated each time the account is examined. When an account has a large number of entries, the balance is difficult and time consuming to calculate. Therefore, a more commonly used account form has Debit and Credit Balance columns as shown below.

Because the form has columns for the debit and credit balance, it is often referred to as the balance-ruled account form.

The account balance is calculated and recorded as each entry is recorded in the account. Recording information in an account is described later in this chapter. The T account is a useful device for analyzing transactions into debit and credit parts. However, the balance-ruled account form is more useful as a permanent record of changes to account balances than is the T account. Encore Music uses the balance-ruled account form.
A group of accounts is called a **ledger**. A ledger that contains all accounts needed to prepare financial statements is called a **general ledger**. The name given to an account is known as an account title. The number assigned to an account is called an **account number**.

### Preparing a Chart of Accounts

A list of account titles and numbers showing the location of each account in a ledger is known as a chart of accounts. Encore Music’s chart of accounts is shown above.

For ease of use while studying Cycle 1, Encore Music’s chart of accounts is also shown on page 3.

Accounts in a general ledger are arranged in the same order as they appear on financial statements. Encore Music’s chart of accounts shows five general ledger divisions: (1) Assets, (2) Liabilities, (3) Owner’s Equity, (4) Revenue, and (5) Expenses.

### ACCOUNT NUMBERS

Encore Music assigns a three-digit account number to each account. For example, Supplies is assigned the number 150, as shown.

The first digit of each account number shows the general ledger division in which the account is located. For example, the asset division accounts are numbered in the 100s.

Therefore, the number for the asset account, Supplies, begins with a 1.

The second two digits indicate the location of each account within a general ledger division. The 50 in the account number for Supplies indicates that the account is located between account number 140 and account number 160.
Encore Music initially assigns account numbers by 10s so that new accounts can be added easily. Nine numbers are unused between each account on Encore Music’s chart of accounts. For example, numbers 111 to 119 are unused between accounts numbered 110 and 120. New numbers can be assigned between existing account numbers without renumbering all existing accounts. The procedure for arranging accounts in a general ledger, assigning account numbers, and keeping records current is called file maintenance.

Unused account numbers are assigned to new accounts. Encore Music records payments for gasoline in Miscellaneous Expense. If Ms. Treviño found that the amount paid each month for gasoline had become a major expense, she might decide to use a separate account. The account might be titled Gasoline Expense. Encore Music arranges expense accounts in alphabetic order in its general ledger. Therefore, the new account would be inserted between Advertising Expense and Insurance Expense.

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When a new account is added at the end of a ledger division, the next number in a sequence of 10s is used. For example, suppose Encore Music needs to add another expense account, Water Expense, to show more detail about one of the utility expenses. The expense accounts are arranged in alphabetic order. Therefore, the new account would be added at the end of the expense section of the chart of accounts. The last used expense account number is 560, as shown on the chart of accounts. The next number in the sequence of 10s is 570, which is assigned as the number of the new account.

Encore Music has relatively few accounts in its general ledger and does not anticipate adding many new accounts in the future. Therefore, a three-digit account number adequately provides for the few account numbers that might be added. However, as the number of general ledger accounts increases, a business may change to four or more digits. Charts of accounts with more than three digits are described in later chapters.
Writing an account title and number on the heading of an account is called **opening an account**. A general ledger account is opened for each account listed on a chart of accounts. Accounts are opened and arranged in a general ledger in the same order as on the chart of accounts.

Cash, account number 110, is the first account on Encore Music’s chart of accounts. The cash account is opened using the following steps.

The same procedure is used to open all accounts listed on Encore Music’s chart of accounts.

### Opening an account in a general ledger

1. Write the account title, *Cash*, after the word *Account* in the heading.
2. Write the account number, 110, after the words *Account No.* in the heading.

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**Can I Say This on My Resume?**

Kendra Wheeler applied for a payroll clerk job with the Hampton Group, a market research firm. To improve her chances, she exaggerated her work experience on her resume.

Based on this resume, Kendra was hired. After one year, she received above-average ratings during her annual review. Shortly thereafter, her boss met Kendra’s former supervisor and learned the truth.

**Instructions**

Use the three-step checklist to help determine whether or not each action demonstrated ethical behavior. (Suggested answers are provided for this case.)

1. **Is the action illegal?** No.

   Overstating qualifications is not illegal, but the employer could terminate your employment.

2. **Does the action violate company or professional standards?** No.

   Kendra was neither an employee of the company nor a member of any profession.

3. **Who is affected, and how, by the action?** Kendra: She obtained employment, but now she could be terminated. If retained, she could have difficulty being promoted. Other applicants: More highly qualified applicants lost an opportunity for employment. The Hampton Group: Managers may lose trust in employees.

Based on the above analysis, Kendra’s actions were unethical.
Preparing a chart of accounts and opening an account

Forms are given in the Working Papers. Your instructor will guide you through the following examples.

Clara Roseman owns a service business called Roseman’s Services, which uses these accounts:
- Accts. Pay.—Kammerer Supplies
- Miscellaneous Expense
- Cash
- Automobile Expense
- Accts. Rec.—Tyler Cobb
- Insurance Expense
- Sales
- Accts. Pay.—Campbell Office Supplies
- Prepaid Insurance
- Rent Expense
- Supplies
- Accts. Rec.—Amber Jorgenson
- Clara Roseman, Drawing
- Clara Roseman, Capital

3. Prepare a chart of accounts. Arrange expense accounts in alphabetical order. Use 3-digit account numbers and number the accounts within a division by 10s.

4. Two new accounts, Gasoline Expense and Utilities Expense, are to be added to the chart of accounts prepared in Instruction 3. Assign account numbers to the two new accounts.

5. Using the account form in the Working Papers, open Cash.

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Preparing a chart of accounts and opening an account

Eric Yunger owns a service business called Yunger’s Hair Care, which uses these accounts:
- Accts. Pay.—Otgen Company
- Supplies Expense
- Cash
- Delivery Expense
- Accts. Rec.—Sarych Supplies
- Insurance Expense
- Sales
- Accts. Pay.—North Star
- Prepaid Insurance
- Telephone Expense
- Supplies
- Accts. Rec.—Jaeson Keene
- Eric Yunger, Drawing
- Eric Yunger, Capital

6. Prepare a chart of accounts. Arrange expense accounts in alphabetical order. Use 3-digit account numbers and number the accounts within a division by 10s.

7. Two new accounts, Rent Expense and Water Expense, are to be added to the chart of accounts prepared in Instruction 6. Assign account numbers to the two new accounts.

8. Using the account form in the Working Papers, open Delivery Expense.
Transferring information from a journal entry to a ledger account is called posting. Posting sorts journal entries so that all debits and credits affecting each account are brought together in one place. For example, all changes to Cash are brought together in the cash account.

Each amount in the Debit and Credit columns of a general journal is posted to the account written in the Account Title column.

The numbers in the Post. Ref. columns of the general ledger account and the general journal serve three purposes. (1) An entry in an account can be traced to its source in a journal. (2) An entry in a journal can be traced to where it was posted in an account. (3) If posting is interrupted, the accounting personnel can easily see which entries in the general journal still need to be posted. A blank in the Post. Ref. column of the journal indicates that posting for that line still needs to be completed. Therefore, the posting reference is always recorded in the journal as the last step in the posting procedure.

**Steps for Posting an Amount from the Debit Column of a General Journal**

1. Write the date, 20__, Aug. 1, in the Date column of the account, Cash.
2. Write the journal page number, G1, in the Post. Ref. column of the account. The letter G is an abbreviation for the general journal. Post. Ref. is an abbreviation for Posting Reference.
3. Write the debit amount, $10,000.00, in the Debit amount column of the account.
4. Write the new account balance, $10,000.00, in the Balance Debit column. Because this entry is the first in the cash account, the previous balance is zero. The new account balance is calculated as shown.

\[
\text{Previous Balance} + \text{Debit Column Amount} = \text{New Debit Balance}
\]

\[
\$0.00 + \$10,000.00 = \$10,000.00
\]

5. Return to the journal and write the account number, 110, in the Post. Ref. column of the journal.
As stated previously, each amount in the Debit and Credit columns of a general journal is posted to the account written in the Account Title column. The five steps used to post an amount from the Credit column are described below.

**Posting an amount from the Credit column of a general journal**

1. Write the date, 20—, Aug. 1, in the Date column of the account, Barbara Treviño, Capital.
2. Write the journal page number, G1, in the Post. Ref. column of the account.
3. Write the credit amount, $10,000.00, in the Credit amount column of the account.
4. Write the new account balance, $10,000.00, in the Balance Credit column. Because this entry is the first in the capital account, the previous balance is zero. The new account balance is calculated as shown.
5. Return to the journal and write the account number, 310, in the Post. Ref. column of the journal.

\[
\begin{align*}
\text{Previous Balance} & + \text{Credit Column Amount} = \text{New Credit Balance} \\
$0.00 & + $10,000.00 = $10,000.00
\end{align*}
\]

**Accounting in Ancient Civilizations**

In the ancient civilizations of Asia Minor and northern Africa, most citizens were illiterate. The scribe, who could read and write, became a very important person in society. The scribe has been called the forerunner of today’s accountant. Most scribes recorded transactions on moist clay tablets that were then dried in the sun.

Another important contribution to accounting was made by the Greeks around 630 B.C. The Greeks invented coined money, which facilitated assigning values to transactions.

The Babylonians in Asia Minor used an early form of banking. They transferred funds with a system resembling our modern-day checking accounts.

These early practices provided the foundation for today’s financial system and recordkeeping methods.
**POSTING A DEBIT AMOUNT TO AN ACCOUNT WITH A BALANCE**

**Posting a debit amount to an account with a debit balance**

1. Write the date, 7, in the Date column of the account. The month and the year are written only once on a page of a ledger account unless the month or year changes.
2. Write the journal page number, G1, in the Post. Ref. column of the account.
3. Write the debit amount, $2,720.00, in the Debit amount column of the account.
4. Write the new balance, $4,297.00, in the Balance Debit column. When both the previous balance and a newly posted amount are debits, the new balance is a debit.
5. Return to the journal and write the account number, 150, in the Post. Ref. column of the journal.

**Posting a debit amount to an account with a credit balance**

1. Write the date, 11, in the Date column of the account.
2. Write the journal page number, G1, in the Post. Ref. column of the account.
3. Write the debit amount, $1,360.00, in the Debit amount column of the account.
4. Write the new balance, $1,360.00, in the Balance Credit column. Whenever the credits in an account exceed the debits, the balance is a credit. Whenever the debits in an account exceed the credits, the balance is a debit.
5. Return to the journal and write the account number, 210, in the Post. Ref. column of the journal.

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**GENERAL JOURNAL**

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACCOUNT TITLE</th>
<th>DOC. NO.</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Supplies</td>
<td>M1</td>
<td>150</td>
<td>2,720</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>A/P—Ling Music Supplies</td>
<td>3</td>
<td>210</td>
<td>2,720</td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>Accounts Payable—Ling Music Supplies</td>
<td>3</td>
<td>210</td>
<td>1,360</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>Cash</td>
<td></td>
<td></td>
<td>136</td>
<td>0</td>
</tr>
</tbody>
</table>

**ACCOUNT SUPPLIES**

<table>
<thead>
<tr>
<th>DATE</th>
<th>ITEM</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 3</td>
<td>G1</td>
<td>1,577</td>
<td>0</td>
<td>4,297</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ACCOUNT ACCOUNT NO. 150</th>
</tr>
</thead>
<tbody>
<tr>
<td>DATE</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>Aug. 7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ACCOUNT ACCOUNT NO. 210</th>
</tr>
</thead>
<tbody>
<tr>
<td>DATE</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>Aug. 11</td>
</tr>
</tbody>
</table>
Page 1 of Encore Music’s August general journal, after all posting has been completed, is shown above. Notice that the Post. Ref. column is completely filled in with account numbers.

**REMEMBER**

Posting will go smoothly if you consistently follow the five steps of posting. The last step in posting is to put the account number in the Post. Ref. column of the general journal.
**Term Review**

posting

**Audit Your Understanding**

1. List the five steps of posting from the general journal to the general ledger.

2. When both debit and credit amounts have been posted to an account, what determines whether the balance is a debit or a credit?

**Work Together**

**Posting to a general ledger**

A completed general journal and general ledger accounts are given in the *Working Papers*. Your instructor will guide you through the following example.

Leonard Witkowski owns a service business that uses the following accounts:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Owner's Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>110 Cash</td>
<td>310 Leonard Witkowski, Capital</td>
</tr>
<tr>
<td>120 Accounts Receivable—Danielle Braastad</td>
<td>320 Leonard Witkowski, Drawing</td>
</tr>
<tr>
<td>130 Supplies</td>
<td></td>
</tr>
<tr>
<td>140 Prepaid Insurance</td>
<td>410 Sales</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>210 Accounts Payable—Joshua’s Supplies</td>
<td>510 Rent Expense</td>
</tr>
</tbody>
</table>

3. Post all the entries in the general journal.

**On Your Own**

**Posting to a general ledger**

A completed general journal and general ledger accounts are given in the *Working Papers*. Work this problem independently.

Melanie Komoko owns a service business which uses the following accounts:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Owner's Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>110 Cash</td>
<td>310 Melanie Komoko, Capital</td>
</tr>
<tr>
<td>120 Accounts Receivable—Brenden Otto</td>
<td>320 Melanie Komoko, Drawing</td>
</tr>
<tr>
<td>130 Supplies</td>
<td></td>
</tr>
<tr>
<td>140 Prepaid Insurance</td>
<td>410 Sales</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>210 Accounts Payable—Signs Plus</td>
<td>510 Utilities Expense</td>
</tr>
</tbody>
</table>

4. Post all the entries in the general journal.
Encore Music’s general ledger, after all posting from the August journal is completed, is shown here and on the next several pages.

The use of the accounts Income Summary, Insurance Expense, and Supplies Expense is described in Chapter 7.
### CHAPTER 5 Posting from a General Journal to a General Ledger

#### ACCOUNT Supplies

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 3</td>
<td></td>
<td>G1</td>
<td>157700</td>
<td></td>
<td>157700</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>G1</td>
<td>272000</td>
<td></td>
<td>429700</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td></td>
<td>G1</td>
<td>2000</td>
<td></td>
<td>431700</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td></td>
<td>G2</td>
<td>4340</td>
<td></td>
<td>475100</td>
<td></td>
</tr>
</tbody>
</table>

#### ACCOUNT Prepaid Insurance

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 4</td>
<td></td>
<td>G1</td>
<td>120000</td>
<td></td>
<td>120000</td>
<td></td>
</tr>
</tbody>
</table>

#### ACCOUNT Accounts Payable—Ling Music Supplies

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 7</td>
<td></td>
<td>G1</td>
<td>272000</td>
<td></td>
<td>272000</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td></td>
<td>G1</td>
<td>136000</td>
<td></td>
<td>136000</td>
<td></td>
</tr>
</tbody>
</table>

#### ACCOUNT Accounts Payable—Sullivan Office Supplies

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 20</td>
<td></td>
<td>G1</td>
<td>2000</td>
<td></td>
<td>2000</td>
<td></td>
</tr>
</tbody>
</table>

#### ACCOUNT Barbara Treviño, Capital

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 1</td>
<td></td>
<td>G1</td>
<td>100000</td>
<td></td>
<td>100000</td>
<td></td>
</tr>
</tbody>
</table>

#### ACCOUNT Barbara Treviño, Drawing

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 12</td>
<td></td>
<td>G1</td>
<td>10000</td>
<td></td>
<td>10000</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td></td>
<td>G2</td>
<td>5000</td>
<td></td>
<td>60000</td>
<td></td>
</tr>
</tbody>
</table>

#### ACCOUNT Income Summary

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance Debit</th>
<th>Credit</th>
</tr>
</thead>
</table>

A General Ledger after Posting Has Been Completed (continued)
### Account Sales

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 12</td>
<td>G1</td>
<td>32500</td>
<td>32500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>G1</td>
<td>52500</td>
<td></td>
<td>52500</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>G1</td>
<td>54500</td>
<td></td>
<td>54500</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>G1</td>
<td>66500</td>
<td></td>
<td>66500</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>G2</td>
<td>27090</td>
<td></td>
<td>27090</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>G2</td>
<td>41210</td>
<td></td>
<td>41210</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>G2</td>
<td>44110</td>
<td></td>
<td>44110</td>
<td></td>
</tr>
</tbody>
</table>

### Account Advertising Expense

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 14</td>
<td>G1</td>
<td>6800</td>
<td>6800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>G1</td>
<td>26800</td>
<td></td>
<td>26800</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>G2</td>
<td>27300</td>
<td></td>
<td>27300</td>
<td></td>
</tr>
</tbody>
</table>

### Account Insurance Expense

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 31</td>
<td>G1</td>
<td>700</td>
<td>700</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>G2</td>
<td>1000</td>
<td></td>
<td>1000</td>
<td></td>
</tr>
</tbody>
</table>

### Account Miscellaneous Expense

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 31</td>
<td>G1</td>
<td>4500</td>
<td>4500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>G2</td>
<td>11500</td>
<td></td>
<td>11500</td>
<td></td>
</tr>
</tbody>
</table>

### A General Ledger after Posting Has Been Completed (concluded)
Determining that the amount of cash agrees with the balance of the cash account in the accounting records is called **proving cash**. Cash can be proved at any time Encore Music wishes to verify the accuracy of the cash records. However, Encore Music *always* proves cash at the end of a month. To prove cash, Encore Music compares the cash balance as shown in the checkbook with the cash balance in the cash account. If the two balances equal, cash is proved.

### PROVING CASH

<table>
<thead>
<tr>
<th>NO.</th>
<th>DATE</th>
<th>ACCOUNT</th>
<th>AMT. DEPOSITED</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>20___</td>
<td>Cash</td>
<td>8,272.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BAL. BRO'T. FOR'D.</th>
<th>AMT. THIS CHECK</th>
<th>BAL. CARD. FOR'D.</th>
</tr>
</thead>
</table>

**ACCOUNTS PAYABLE**

<table>
<thead>
<tr>
<th>DATE</th>
<th>ITEM</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>31</td>
<td>G2</td>
<td>29000</td>
<td></td>
<td></td>
<td>827200</td>
</tr>
</tbody>
</table>

**MEMORANDUM FOR A CORRECTING ENTRY**

**MEMORANDUM**

A cash payment of $120.00 for advertising, October 30, 20--*, was debited in error to Miscellaneous Expense.

Signed: Barbara Trevino Date: November 13, 20--*

Errors can be made even though care is taken in recording transactions. Simple errors may be corrected by ruling through the item, as described in Chapter 4. However, a transaction may have been improperly journalized and posted to the ledger. When an error in a journal entry has already been posted, the incorrect journal entry should be corrected with an additional journal entry. A journal entry made to correct an error in the ledger is called a **correcting entry**.

If an accounting error is discovered, a memorandum is prepared describing the correction to be made. The source document for a correcting entry is the memorandum.
November 13. Discovered that a payment of cash for advertising in October was journalized and posted in error as a debit to Miscellaneous Expense instead of Advertising Expense, $120.00. Memorandum No. 45.

To correct the error, an entry is made to add $120.00 to the advertising expense account. The entry must also deduct $120.00 from the miscellaneous expense account. The correcting entry increases the advertising expense account balance and decreases the miscellaneous expense account balance.

Because the advertising expense account has a normal debit balance, Advertising Expense is debited for $120.00 to show the increase in this expense account. The miscellaneous expense account also has a normal debit balance. Therefore, Miscellaneous Expense is credited for $120.00 to show the decrease in this expense account.

The same four steps are followed when making a correcting entry as when making any journal entry.

**Journalizing a correcting entry**

1. **Date.** Write the date, 13, in the Date column.
2. **Debit.** Write the title of the account debited, Advertising Expense, in the Account Title column. Write the debit amount, $120.00, in the Debit column.
3. **Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, Miscellaneous Expense, in the Account Title column. Write the credit amount, $120.00, in the Credit column.
4. **Source document.** On the first line of this entry, write the source document number, M45, in the Doc. No. column.

**Remember**

Two zeroes are written in the cents column when an amount is in even dollars, such as $500.00. If the cents column is left blank, doubts may arise later about the correct amount.
Journalizing correcting entries

A general journal is given in the *Working Papers*. Your instructor will guide you through the following example.

**Transactions:**

1. Discovered that a transaction for office supplies bought last month was journalized and posted in error as a debit to Prepaid Insurance instead of Supplies, $60.00. M15.

1. Discovered that a transaction for rent expense for last month was journalized and posted in error as a debit to Repair Expense instead of Rent Expense, $550.00. M16.

5. Journalize each correcting entry discovered during November of the current year. Use page 21 of the general journal.

---

**Work Together**

Journalizing correcting entries

A general journal is given in the *Working Papers*. Your instructor will guide you through the following example.

**Transactions:**

1. Discovered that a transaction for office supplies bought last month was journalized and posted in error as a debit to Prepaid Insurance instead of Supplies, $60.00. M15.

1. Discovered that a transaction for rent expense for last month was journalized and posted in error as a debit to Repair Expense instead of Rent Expense, $550.00. M16.

5. Journalize each correcting entry discovered during November of the current year. Use page 21 of the general journal.

---

**On Your Own**

Journalizing correcting entries

A general journal is given in the *Working Papers*. Work this problem independently.

**Transactions:**

1. Discovered that a transaction for office supplies bought last month was journalized and posted in error as a debit to Supplies—Store instead of Supplies—Office, $45.00. M23.

1. Discovered that a transaction for utilities expense for last month was journalized and posted in error as a debit to Miscellaneous Expense instead of Utilities Expense, $550.00. M24.

6. Journalize each correcting entry discovered during June of the current year. Use page 11 of the general journal.
Each company designs its chart of accounts to meet the needs of that company. Encore Music, the company described in this section of the textbook, has a relatively simple chart of accounts, with a small number of accounts. Therefore, Encore Music can use a three-digit account number for each account. A company with more accounts may need to use a four- or five-digit account number for each account. The numbering system used by the company should ensure that each account can be assigned a unique number.

When setting up a chart of accounts, a company does not have to use a straight series of numbers. If a company has several departments, it may choose to use account numbers such as 12-150. The first two digits (12) can be used to designate a specific department. The last three digits (150) identify a unique account within that department. If this company has many departments or many accounts within each department, it may have to increase the number of digits in the account, such as 123-4567.

A large corporation made up of smaller companies may have one chart of accounts for the entire corporation. If the managers of the corporation also want to be able to separate out the accounts for each company, they may choose to set up the account numbers in an xx-yyy-zzzz format. The first two digits (xx) would be a unique number for each company, the second set of numbers (yyy) refer to a department number, and the third set of numbers (zzzz) is a unique account.

Another example would be a company that manufactures goods for its customers. Such a company may want to include the job order number in each account number, so that it can easily trace the cost of each job.

As you can see, there is an infinite number of possible systems that can be followed when assigning account numbers. A company should consider future growth when first setting up a system so that it can avoid having to renumber accounts at a later date.

**Group Activity:**
Develop a chart of accounts for an imaginary business. Write a detailed description of the company and a rationale for the account numbering system you have developed.
CHAPTER 5 Posting from a General Journal to a General Ledger

APPLICATION PROBLEM
Preparing a chart of accounts and opening an account

Lillian Deters owns a service business called Deters Duplicating, which uses the following accounts:

- Accounts Receivable—Teegan Walters
- Accounts Receivable—Austin Kirncyzuk
- Accounts Payable—Dakota Company
- Accounts Payable—Falls Supply
- Lillian Deters, Capital
- Lillian Deters, Drawing
- Prepaid Insurance
- Advertising Expense
- Postage Expense
- Charitable Expense
- Sales
- Supplies
- Rent Expense
- Cash

Instructions:
1. Prepare a chart of accounts similar to the one described in this chapter. Arrange expense accounts in alphabetical order. Use 3-digit account numbers and number the accounts within a division by 10s.
2. Two new accounts, Delivery Expense and Telephone Expense, are to be added to the chart of accounts prepared in Instruction 1. Assign account numbers to the two new accounts.
3. Using the account forms in the Working Papers, open the Prepaid Insurance and the Postage Expense accounts.

APPLICATION PROBLEM
Posting to a general ledger

A completed general journal and general ledger accounts are given in the Working Papers. Michael Byrum owns a service business which uses the following accounts:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Owner’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>110 Cash</td>
<td>310 Michael Byrum, Capital</td>
</tr>
<tr>
<td>120 Accounts Receivable—Cheri Frank</td>
<td>320 Michael Byrum, Drawing</td>
</tr>
<tr>
<td>130 Supplies</td>
<td>Revenue</td>
</tr>
<tr>
<td>140 Prepaid Insurance</td>
<td>Sales</td>
</tr>
<tr>
<td>Liabilities</td>
<td>Expenses</td>
</tr>
<tr>
<td>210 Accounts Payable—Golden Gate Supply</td>
<td>510 Advertising Expense</td>
</tr>
</tbody>
</table>

Instructions:
1. Post all entries in the general journal.
2. Prove cash. The balance on the next unused check stub is $1,638.00.

APPLICATION PROBLEM
Journalizing correcting entries

The following errors were discovered after the incorrect entries were already journalized and posted.

Transactions:
1. Discovered that a transaction for advertising expense was journalized and posted in error as a debit to Miscellaneous Expense instead of Advertising Expense, $135.00. M87.
5. Discovered that a cash withdrawal by Gregg Moen, owner, was journalized and posted in error as a credit to Sales instead of Cash, $550.00. M88.
8. Discovered that a check received on account was journalized and posted in error as a credit to Accounts Receivable—Carol Jussila instead of Accounts Receivable—Cindy Joelson, $278.00. M90.

Instructions:
Journalize each correcting entry discovered during February of the current year. Use page 3 of a general journal given in the Working Papers.
MASTERY PROBLEM
Journalizing transactions and posting to a general ledger

Allan Derner owns a service business called Derner Cleaning. Derner Cleaning's general ledger accounts are given in the Working Papers.

Transactions:
Nov. 1. Received cash from owner as an investment, $7,000.00. R1.
5. Sold services on account to Alphonse Gutenberg, $180.00. S1.
6. Received cash from sales, $750.00. T6.
13. Received cash from sales, $700.00. T13.
18. Paid cash on account to Major Supplies, $300.00. C5.
20. Received cash on account from Alphonse Gutenberg, $90.00. R2.
27. Paid cash for supplies, $100.00. C8.
27. Received cash from sales, $1,800.00. T27.
30. Received cash from sales, $410.00. T30.

Instructions:
1. Open an account for Utilities Expense. Use the 3-digit numbering system described in the chapter.
2. Journalize the transactions completed during November of the current year. Use page 1 of a general journal. Source documents are abbreviated as follows: check, C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T.
3. Post from the general journal to the general ledger.
4. Prove cash. The balance on the next unused check stub is $9,025.00.

CHALLENGE PROBLEM
Posting using a variation of the general journal

Nathan Jackson owns a service business called HouseCare. HouseCare uses a general journal that is different from the general journal used in this chapter. HouseCare's March general journal and general ledger accounts (before posting) are given in the Working Papers.

Instructions:
1. Post from the general journal to the general ledger.
2. Prove cash. The balance on the next unused check stub is $9,875.00.
Janna Sturm does not use a general journal in her business records. She records the debits and credits for each transaction directly in the general ledger accounts. Is Ms. Sturm using the correct procedure? Explain your answer.

Trent Marvets does the accounting work for his business. When posting, he first transfers all of the information to the general ledger accounts. Then he returns to the general journal and, all at one time, writes the account numbers in the Post. Ref. column of the journal. Diana Young also does the accounting work for her business. When posting, she writes all the account numbers in the Post. Ref. column of the general journal before she transfers any information to the accounts. Is Mr. Marvets or Ms. Young following the correct procedure? Explain your answer.

INTERNET ACTIVITY

Applied Communication

A fax machine allows a business to send documents anywhere in a matter of minutes using a telephone line. Most fax machines in offices are located in one or more central locations and used by a number of different workers for both sending and receiving documents. To facilitate directing the document to the intended receiver, it is usual practice to include a cover sheet in the fax transmission. The cover sheet should include the information below:

1. Names of the person sending the message and the person to receive the message.
2. Phone number of both sending and receiving fax machines.
3. Total number of pages being transmitted, including the cover sheet.

Instructions:
1. Write a memorandum responding to the following scenario: Barbara Treviño is at the bank, applying for a business loan. Ms. Treviño has just called you and asked that you fax her with the following information: Encore Music’s asset, liability, owner’s equity, sales, and expense accounts, and their current balances. In your memorandum, include an introductory sentence or paragraph and end with a concluding statement.
2. Prepare a cover sheet for transmitting a fax message. The bank’s fax machine telephone number is 800-555-3333. Use your own name and personal telephone number or school telephone number.

Cases for Critical Thinking

Case 1
Janna Sturm does not use a general journal in her business records. She records the debits and credits for each transaction directly in the general ledger accounts. Is Ms. Sturm using the correct procedure? Explain your answer.

Case 2
Trent Marvets does the accounting work for his business. When posting, he first transfers all of the information to the general ledger accounts. Then he returns to the general journal and, all at one time, writes the account numbers in the Post. Ref. column of the journal. Diana Young also does the accounting work for her business. When posting, she writes all the account numbers in the Post. Ref. column of the general journal before she transfers any information to the accounts. Is Mr. Marvets or Ms. Young following the correct procedure? Explain your answer.
A group of accounts is called a ledger. A ledger that contains all accounts needed to prepare financial statements is called a general ledger. Each account is assigned a title and a number to be used in a manual as well as an automated accounting system.

Creating a Chart of Accounts
The automated accounting system includes a chart of accounts, which includes a list of account titles and numbers showing the location of each account in a ledger. The chart of accounts can be created or changed by clicking the Accts. toolbar button. Next, click on the Accounts tab to access the Chart of Accounts maintenance screen. Accounts can be added or deleted on this screen. Adding a new account would be considered opening an account, just as deleting an account would be considered removing an account.

Chart of Accounts Maintenance
It’s important to keep a business’s chart of accounts up to date. This process of adding new accounts, changing titles of existing accounts, and deleting accounts is called file maintenance or account maintenance. The Account Maintenance screen will appear when you choose the Maintain Accounts menu item from the Data drop-down list or click on the Accts. toolbar button.

Adding a New Account
1. Enter the account number in the Account column at the end of the list, then hit the Tab key.
2. Enter the title for the new account.
3. For a departmentalized business, enter the department number.
4. Click the Add Account button.
5. Click the Close button to exit the Accounts window.

Changing an Account Title
1. Select the account that you wish to change.
2. Enter the correct account title or department number.
3. Click the Change button when the account title has been changed.
   The account number cannot be changed. If an account number needs to be changed because of an incorrect account number, the account must be deleted, then added as a new account number.

Deleting an Account
1. Select the account that you wish to delete.
2. Click the Delete button. General ledger accounts cannot be deleted unless the account has a zero balance.
3. Click the OK button.

General Ledger Account Numbers
As described in Chapter 5, general ledger accounts are assigned a number based on a division. The first digit of each account number shows the general ledger division in which the account is located. The other digits indicate the location of each account within a general ledger division. Every business sets up its general ledger differently, but the concept is generally the same.

Posting Amounts to the General Ledger
Posting journal entries to the general ledger is done automatically in automated accounting. For example, all changes in cash are brought together into the cash account. When transactions are entered into a journal, the debit and credit amounts are automatically transferred to the general ledger accounts. Accounts with debit balances are increased by debit entries to the account, and accounts with credit balances are increased by credit entries to the account.

Every entry that is made to the journal includes the date, reference, account number, and the debit or credit entry. This is the information that is transferred to the general and subsidiary ledgers, updating the accounts immediately. See the illustration of a general
ledger report with the posting completed.

**AUTOMATING APPLICATION PROBLEM 5-1: Preparing a chart of accounts and opening an account**

**Instructions:**

1. Load Automated Accounting 7.0 or higher software.
2. Select database F05-1 from the appropriate directory/folder.
3. Select File from the menu bar and choose the Save As menu command. Key the path to the drive and directory that contains your data files. Save the database with a file name of XXX051 (where XXX are your initials).
4. Access Problem Instructions through the Help menu (7.0) or Browser tool (8.0). Read the Problem Instructions screen.
5. Refer to page 119 for data used in this problem.
6. Exit the Automated Accounting software.

**AUTOMATING MASTERY PROBLEM 5-5: Journalizing transactions and posting to a general ledger**

**Instructions:**

1. Load Automated Accounting 7.0 or higher software.
2. Select database F05-2 from the appropriate directory/folder.
3. Select File from the menu bar and choose the Save As menu command. Key the path to the drive and directory that contains your data files. Save the database with a file name of XXX052 (where XXX are your initials).
4. Access Problem Instructions through the Help menu (7.0) or Browser tool (8.0). Read the Problem Instructions screen.
5. Key the transactions listed on page 120.
6. Exit the Automated Accounting software.