LESSON

4-1 Using Accounts and Preparing and Maintaining a Chart of Accounts

Learning Objectives

LO1 Construct a chart of accounts for a service business organized as a proprietorship.

LO2 Demonstrate correct principles for numbering accounts.

LO3 Apply file maintenance principles to update a chart of accounts.

LO4 Complete the steps necessary to open general ledger accounts.

Account Form

- Used to summarize in one place all the changes to a single account
- A separate form for each account

Sample of a blank account form

Relationship of a T Account to an Account Form
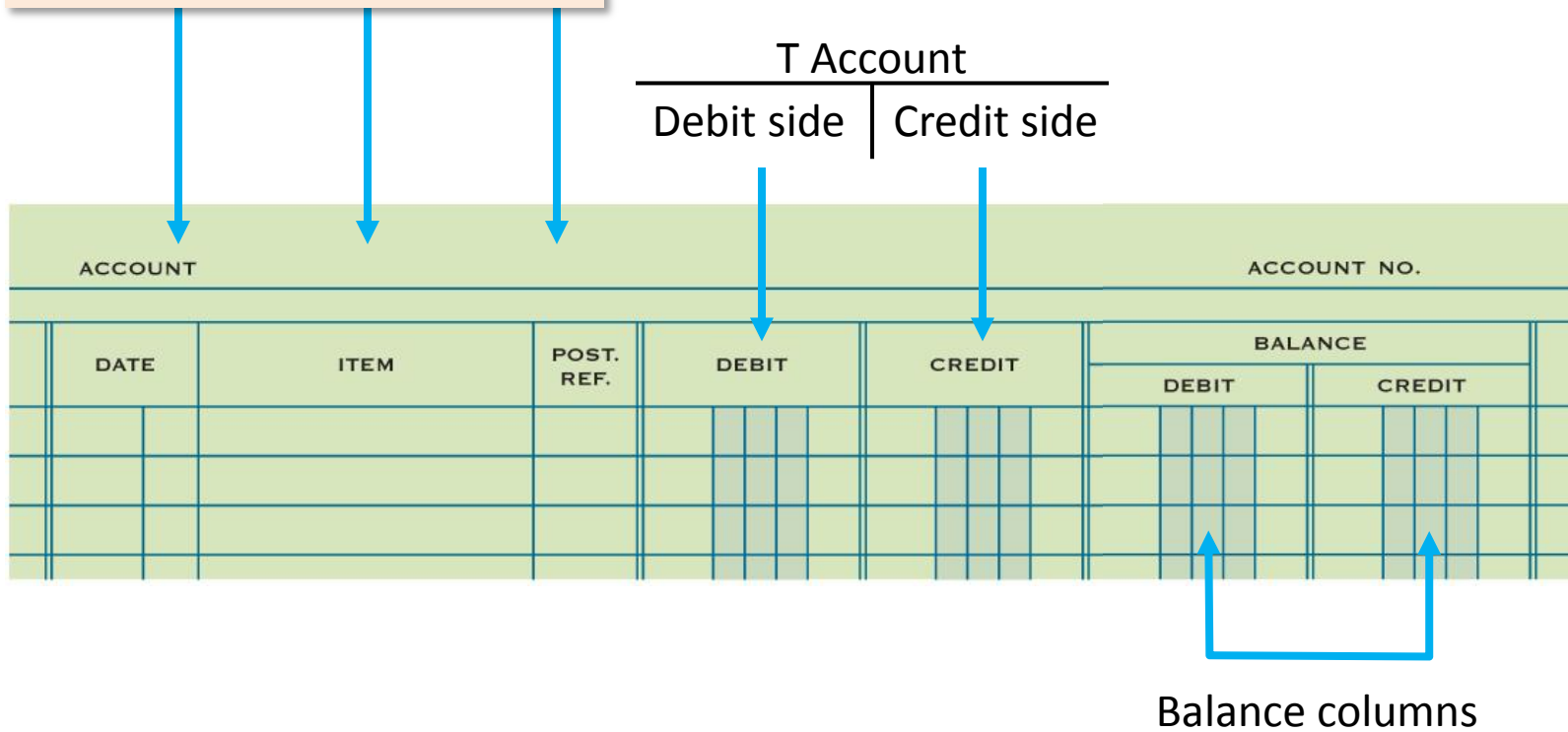
Information needed to trace entry back to journal page.

T Account

Debit side | Credit side

ACCOUNT						ACCOUNT NO.
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT

Balance columns

Chart of Accounts

Delgado Web Services
25402 Rimrock Road
Billings, MT 59102-1820

CHART OF ACCOUNTS

Balance Sheet Accounts	Income Statement Accounts
(100) ASSETS	**(400) REVENUE**
110 Cash	410 Sales
120 Petty Cash	
130 Accounts Receivable—Main Street Services	**(500) EXPENSES**
140 Accounts Receivable—Valley Landscaping	510 Advertising Expense
150 Supplies	520 Cash Short and Over
160 Prepaid Insurance	530 Communications Expense
	540 Equipment Rental Expense
(200) LIABILITIES	550 Insurance Expense
210 Accounts Payable—Canyon Office Supplies	560 Miscellaneous Expense
220 Accounts Payable—Mountain Graphic Arts	570 Supplies Expense
(300) OWNER'S EQUITY	
310 Michael Delgado, Capital	
320 Michael Delgado, Drawing	
330 Income Summary	

Chart of Accounts

LO1

- 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**.

Account Numbers

Delgado Web Services
25402 Rimrock Road
Billings, MT 59102-1820

CHART OF ACCOUNTS

Balance Sheet Accounts	Income Statement Accounts
(100) ASSETS	(400) REVENUE
110 Cash	410 Sales
120 Petty Cash	
130 Accounts	
140 Accounts	
150 Supplies	
160 Prepaid In	
	550 Insurance Expense
(200) LIABILITIES	560 Miscellaneous Expense
210 Accounts Payable—Canyon Office Supplies	570 Supplies Expense
220 Accounts Payable—Mountain Graphic Arts	
(300) OWNER'S EQUITY	
310 Michael Delgado, Capital	
320 Michael Delgado, Drawing	
330 Income Summary	

1   5   0   Supplies

General ledger division   Location within general ledger

Assigning Account Numbers

LO3

● The procedure for arranging accounts in a general ledger, assigning account numbers, and keeping records current is called **file maintenance**.

Assigning Account Numbers

560	Miscellaneous Expense	(Existing account)
565	***Postage Expense***	***(New Account)***
570	Supplies Expense	(Existing account)
580	***Water Expense***	***(New Account)***

Opening an Account in a General Ledger

- Writing an account title and number on the heading of an account is called **opening an account**.

Opening an Account in a General Ledger

LO4

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.

Lesson 4-1 Audit Your Understanding

1. Describe the two parts of an account number.

ANSWER

- The first digit indicates in which general ledger division the account is located.
- The second and third digits indicate the location of the account within that division.

Lesson 4-1 Audit Your Understanding

2. List the two steps for opening an account.

ANSWER

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

Learning Objectives

LO5 Post amounts from the General Debit and General Credit columns of a journal.

Posting an Amount from a General Debit Column

LO5

● Transferring information from a journal entry to a ledger account is called **posting**.

Posting an Amount from a General Debit Column

1. Write the date.
2. Write the journal page number.
3. Write the debit amount.
4. Write the new account balance.
5. Return to the journal and write the account number.

Posting a Second Amount to an Account

1. Write the date.
2. Write the journal page number.
3. Write the debit amount.
4. Write the new account balance.
5. Return to the journal and write the account number.

Posting an Amount from a General Credit Column

1. Write the date.
2. Write the journal page number.
3. Write the credit amount.
4. Write the new account balance.
5. Return to the journal and write the account number.

Lesson 4-2 Audit Your Understanding

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

ANSWER
1. Write the date.
2. Write the journal page number in the Post. Ref. column of the account.
3. Write the amount in the Debit or Credit column.
4. Calculate and write the new account balance in the Balance Debit or Balance Credit column.
5. Return to the journal and write the account number in the Post. Ref. column of the journal.

Lesson 4-2 Audit Your Understanding

2. Are the totals of the General Debit and General Credit columns posted?
Why or why not?

ANSWER

No. Each separate amount in the General Debit and General Credit columns of a journal is posted to the account written in the Account Title column.

Learning Objectives

LO6 Post column totals from a journal to ledger accounts.

Check Marks Show that Amounts Are Not Posted

	DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL DEBIT	GENERAL CREDIT	SALES CREDIT	CASH DEBIT	CASH CREDIT	
1	Jan.	23	Brought Forward		✔	4 2 1 3 00	2 5 2 5 00	3 6 4 0 00	4 9 4 0 00	2 9 8 8 00	1
2		24	✔	T24	✔			2 1 5 00	2 1 5 00		2
14		31	✔	T31	✔			6 8 5 00	6 8 5 00		14
15		31	Equipment Rental Expense	C13		5 4 5 00				5 4 5 00	15
16		31	Totals			5 7 4 8 00	2 5 2 5 00	5 8 2 0 00	7 1 2 0 00	4 5 2 3 00	16
17						(✔)	(✔)				17

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Check mark indicates that amounts ARE NOT posted individually.

Check marks indicate that general amount column totals ARE NOT posted.

Posting the Total of the Sales Credit Column

1. Write the date.
2. Write the journal page number.
3. Write the column total.
4. Write the new account balance.
5. Return to the journal and write the account number.

Posting the Total of the Cash Debit Column

1. Write the date.
2. Write the journal page number.
3. Write the column total.
4. Write the new account balance.
5. Return to the journal and write the account number.

Posting the Total of the Cash Credit Column

1. Write the date.
2. Write the journal page number.
3. Write the column total.
4. Write the new account balance.
5. Return to the journal and write the account number.

Journal Page with Posting Completed

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	DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL DEBIT 1	GENERAL CREDIT 2	SALES CREDIT 3	CASH DEBIT 4	CASH CREDIT 5	
1	Jan.20--	23	Brought Forward		✔	4 2 1 3 00	2 5 2 5 00	3 6 4 0 00	4 9 4 0 00	2 9 8 8 00	1
2		24	✔	T24	✔			2 1 5 00	2 1 5 00		2
3		25	✔	T25	✔			2 8 0 00	2 8 0 00		3
4		26	✔	T26	✔			1 9 0 00	1 9 0 00		4
5		27	✔	T27	✔			1 4 5 00	1 4 5 00		5
6		28	Supplies	C10	150	1 3 0 00				1 3 0 00	6
7		28	✔	T28	✔			3 1 5 00	3 1 5 00		7
8		29	✔	T29	✔			3 5 0 00	3 5 0 00		8
9		31	Miscellaneous Expense	M3	560	2 5 00				2 5 00	9
10		31	Miscellaneous Expense	C11	560	2 0 00				3 5 00	10
11			Advertising Expense		510	1 4 00					11
12			Cash Short and Over		520	1 00					12
13		31	Michael Delgado, Drawing	C12	320	8 0 0 00				8 0 0 00	13
14		31	✔	T31	✔			6 8 5 00	6 8 5 00		14
15		31	Equipment Rental Expense	C13	540	5 4 5 00				5 4 5 00	15
16		31	Totals			5 7 4 8 00	2 5 2 5 00	5 8 2 0 00	7 1 2 0 00	4 5 2 3 00	16
17						(✔)	(✔)	(410)	(110)	(110)	17
18											18
19											19

General Ledger with Posting Completed

LO6

Lesson 4-3 Audit Your Understanding

1. Which column totals of a journal are posted?

ANSWER

Special amount columns

Lesson 4-3 Audit Your Understanding

2. Under what conditions will an account balance be a debit?

ANSWER

Whenever the debits in an account exceed the credits

Lesson 4-3 Audit Your Understanding

3. Under what conditions will an account balance be a credit?

ANSWER

Whenever the credits in an account exceed the debits

Learning Objectives

LO7 Analyze incorrect journal entries and prepare correcting entries.

LO8 Demonstrate how to correct errors made during the posting process.

Memorandum for a Correcting Entry

LO7

- An incorrect journal entry should be corrected with an additional journal entry, called a **correcting entry**.

- A memorandum is prepared as the source document describing the correction to be made.

DELGADO WEB SERVICES
25402 Rimrock Road
Billings, MT 59102-1820

MEMORANDUM No. **15**

A cash payment of $120.00 for Advertising, March 31, 20--, was debited in error to Miscellaneous Expense

Signed: _Michael Delgado_ Date: _April 17, 20--_

Journal Entry to Record a Correcting Entry

April 17. Discovered that a payment of cash for advertising in March was journalized and posted in error as a debit to Miscellaneous Expense instead of Advertising Expense, $120.00. Memorandum No. 15.
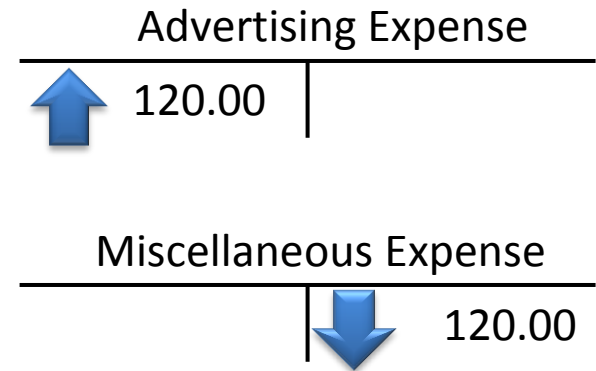
Advertising Expense

⬆ 120.00

Miscellaneous Expense

⬇ 120.00

1 Date

2 Debit

3 Credit

4 Source Document

	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL DEBIT	GENERAL CREDIT	SALES CREDIT	CASH DEBIT	CASH CREDIT	
14	17	Advertising Expense	M15		1 2 0 00					14
15		Miscellaneous Expense				1 2 0 00				15
16										16

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Correcting an Error in Posting to the Wrong Account

1. **Draw a line through the entire incorrect entry.**
2. **Record the posting in the correct account.**
   Recalculate the account balance.

Correcting an Incorrect Amount

1. Draw a line through the incorrect amount.

2. Write the correct amount just above the incorrect amount in the same space.

3. Recalculate the account balance.

Correcting an Amount Posted to the Wrong Column

LO8

4. Draw a line through the incorrect item in the account.

5. Record the posting in the correct amount column.

6. Recalculate the account balance.

Lesson 4-4 Audit Your Understanding

1. What is a correcting entry?

ANSWER

A journal entry made to correct an error in the ledger

Lesson 4-4 Audit Your Understanding

2. When is a correcting entry necessary?

ANSWER

When a transaction has been improperly journalized and posted to the ledger

Lesson 4-4 Audit Your Understanding

3. What are the three steps for correcting an incorrect amount posted to an account?

ANSWER

1. Draw a line through the incorrect amount.
2. Write the correct amount just above the correction in the same space.
3. Recalculate the account balance.

Lesson 4-4 Audit Your Understanding

4. What are the three steps for correcting an amount posted to an incorrect column?

ANSWER

1. Draw a line through the incorrect item in the account.
2. Record the posting in the correct amount column.
3. Recalculate the account balance.