

CHAPTER 7

Posting Journal Entries to General Ledger Accounts

BEFORE You READ

Predict

1. What does the chapter title tell you?
2. What do you already know about this subject from personal experience?
3. What have you learned about this in the earlier chapters?
4. What gaps exist in your knowledge of this subject?

What You'll Learn

1. Describe the steps in the posting process.
2. Post general journal entries.
3. Prepare a trial balance.
4. Locate and correct trial balance errors.
5. Record correcting entries in the general journal.
6. Define the accounting terms introduced in this chapter.

Why It's Important

- Up-to-date account balances provide information for reports used by people both inside and outside the business.



Exploring the *Real World* of Business

ACCOUNTS AND THE GENERAL LEDGER

Los Angeles Angels of Anaheim

In the big-money world of professional sports, it is hard to imagine the new owner of a major team actually *lowering* the prices of tickets, food, and souvenirs. That is exactly what Arturo “Arte” Moreno did when he bought baseball’s **Los Angeles Angels of Anaheim** in 2003.

Moreno was a big hit with fans for his lower-price strategy. In his first year, the **Angels** attracted 750,000 more paying customers than in the previous season, when they won the World Series.

Moreno has been called “the people’s owner” because he likes to meet fans and enjoys seeing families having a good time. “For baseball to exist as I’ve known it, the kids have to come to the park,” he told *USA Today*.

What Do You Think?

What are some general ledger accounts that might be used by the Angels?



Working in the *Real World*

APPLYING YOUR ACCOUNTING KNOWLEDGE

In the last chapter, you learned how to record financial transactions in a journal. These journal entries show individual daily activities but do not show the total of all transactions. In this chapter you will learn that posting the journal entries is a means of organizing all transactions affecting the accounts of a business.

Personal Connection

What types of accounts would you imagine are used for accounting in your workplace?

Online Connection

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Working in the Real World** and select **Chapter 7**.



SECTION I

The General Ledger

**BEFORE
YOU**

READ

Main Idea

The general ledger is a permanent record organized by account number.

Read to Learn...

- how to set up the general ledger. (p. 164)
- how managers use journals and ledgers. (p. 166)

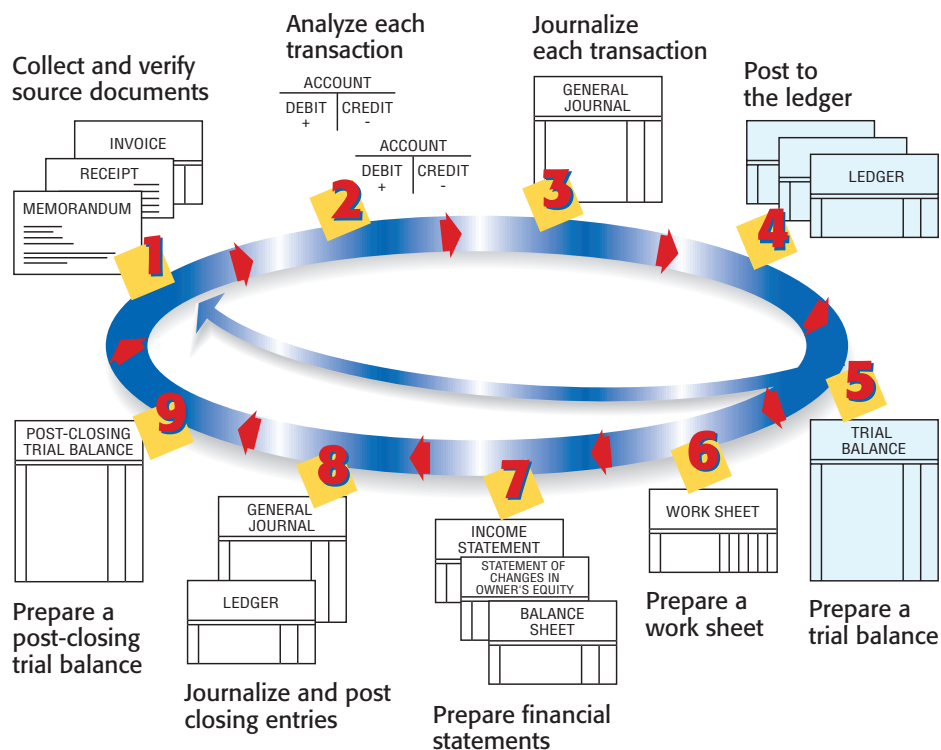
Key Terms

posting
general ledger
ledger account forms

In Chapter 6 you learned to analyze business transactions and enter those transactions in a general journal.

In this chapter you will learn to post journal entries to the general ledger and to prepare a trial balance (Steps 4 and 5 in the accounting cycle illustrated in Figure 7-1). **Posting** is the process of transferring information from the journal to individual general ledger accounts.

The Jeep dealer in your area records all business transactions in the journal and posts them to the general ledger. An up-to-date ledger allows the dealer's accountant to give management information such as sales of vehicles, service income, and salary and commission expense.



Setting Up the General Ledger

What Is a General Ledger?

Recall that the accounts used by a business are kept on separate pages or cards in a book or file called a ledger. In a computerized accounting system, the electronic files containing the accounts are still referred to as the ledger, or the ledger accounts. In either system the ledger is often called a general ledger. The **general ledger** is a permanent record organized by account number.

Posting journal entries to the ledger accounts creates a record of the impact of business transactions on each account used by a business. After journal entries have been posted, a business owner or manager can easily find the current balance of a specific account. If, for example, Maria Sanchez wants to know how much money Roadrunner Delivery Service has in its bank account, she can look at the balance of the **Cash in Bank** account.

The Four-Column Ledger Account Form

In a manual accounting system, information about specific accounts is recorded in **ledger account forms**. There are several common ledger account forms. These forms and other accounting stationery are usually described by the number of their amount columns. The number of columns refers only to those columns in which *dollar amounts* are recorded.

Roadrunner uses the four-column ledger account form shown in **Figure 7–2**. The four-column ledger account form has spaces to enter the account name, the account number, the date, a description of the entry, and the posting reference. It also has four columns in which to record dollar amounts: Debit, Credit, Debit Balance, and Credit Balance.

ACCOUNT _____					ACCOUNT NO. _____				
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT	CREDIT			

Debit and credit amounts are posted from journal entries to the first two amount columns. The new account balance is entered in one of the last two amount columns. The type of account (expense, revenue, asset, etc.) determines which balance column to use. For example, accounts with a normal debit balance—such as asset or expense accounts—use the Debit Balance column. Accounts with a normal credit balance—such as liability or revenue accounts—use the Credit Balance column.

Figure 7–2 Four-Column Ledger Account Form

Accounts in the Ledger

Before journal entries can be posted, a general ledger account is opened for each account listed on the chart of accounts.

Opening a General Ledger Account. Two steps are required:

1. Write the account name at the top of the ledger account form.
2. Write the account number on the ledger account form.

These two steps are performed each time a ledger page is needed for a new account. The accounts opened for the first three asset accounts on Roadrunner's chart of accounts (page 79) are shown in **Figure 7–3** on page 166.

The procedure in a computerized accounting system is similar. An account is opened by entering its name and number from the chart of accounts. Computerized accounting systems vary, but all require entering information such as the account numbers and names into the computer files.

CULTURAL 

Diversity
Business Etiquette

Americans shake hands with a firm grip to show confidence. In some cultures, however, a firm handshake can be considered a sign of aggression. In many countries the grip is limp and it can last up to 10 seconds. If you meet someone from a different culture, let him or her set the precedent.

AFTER
You READ

Reinforce the Main Idea

Use a chart like this one to compare and contrast a journal and a ledger. Add answer lines as needed.

Journal	Ledger
How are they alike?	
How are they different?	



Do the Math

The general ledger for Reese Delivery Service contains the following account balances:

Cash in Bank	\$ 8,000
Supplies	\$ 200
Delivery Equipment	?
Ed Reese, Capital	\$16,200
Delivery Income	?

Using the following clues, determine the balances of the **Delivery Equipment** account and the **Delivery Income** account:

- Total debits equal \$24,200.
- The balance of the **Delivery Income** account is one-half the balance of the **Delivery Equipment** account.



Problem 7-1 Opening Ledger Accounts

Instructions Use the step-by-step processes presented in this chapter for starting new ledger pages for the following accounts. Use the accounting stationery provided in your working papers. January 1 of the current year is the date.

Account Name	Account Number	Balance
Cash in Bank	101	\$10,000
Accounts Receivable— Mark Cohen	104	2,000
Accounts Payable— Jenco Industries	203	1,000
Tom Torrie, Capital	301	35,000
Admissions Revenue	401	- 0 -



SECTION 2

The Posting Process

**BEFORE
YOU**

READ

Main Idea

Posting is the process of transferring information from the journal to individual accounts in the ledger.

Read to Learn...

- how to post transactions to the general ledger. (p. 168)
- how to compute account balances. (p. 174)

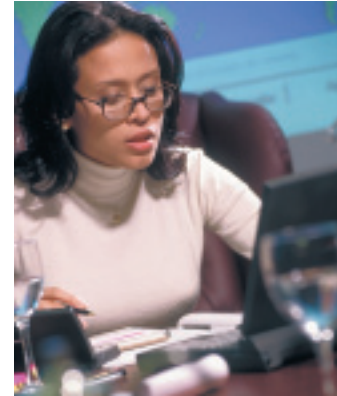
**As
You**

READ

Instant Recall

Journal The journal is sometimes called the *book of original entry*.

In the last section, you learned how to open accounts in the general ledger. In this section you will learn how to post general journal entries to the ledger. Recall that posting is the process of transferring information from the general journal to individual general ledger accounts. To provide current information to management, the accountant for the Jeep dealer in your area probably posts journal entries to the general ledger every day.



The Fourth Step in the Accounting Cycle: Posting

How Do You Post Transactions?

In Chapter 6 you learned that the general journal is a sort of business diary containing all of the transactions of a business. It is not easy to see the effect of changes in an account by looking at journal entries. To provide a clear picture of how a business transaction changes an account's balance, the information in a journal entry is posted to the general ledger. The purpose of posting, therefore, is to show the impact of business transactions on the individual accounts. The ledger is sometimes called the *book of final entry*.

The size of the business, the number of transactions, and whether the accounting system is manual or computerized all affect how often posting occurs. Ideally, businesses post daily to keep their accounts up-to-date. Regardless of how often posting is performed, the process remains the same.

As in journalizing a transaction, posting to a ledger account is completed from left to right. Let's look at a journal entry for Roadrunner that is ready to be posted to the ledger.

Posting to the Roadrunner General Ledger

Roadrunner's first transaction affects two accounts: **Cash in Bank** and **Maria Sanchez, Capital**. The information in the journal entry is transferred item by item from the journal to each of the accounts affected. As you read about each step in the posting process, refer to **Figure 7-5**.

Locate the account to be debited in the ledger; in this example, **Cash in Bank** is to be debited.

GENERAL JOURNAL										PAGE <u>1</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT					
1	20--								1	
2	Oct. 1	Cash in Bank	101	25 000 00					2	
3		Maria Sanchez, Capital	301		25 000 00				3	
4		Memorandum 1							4	
5									5	

1 Enter date of the journal entry

2 Description column is usually blank

3 Enter journal letter and page number in Post. Ref. column

4 Enter the debit amount

5 Compute the new account balance

6 Enter the account number in the general journal Post. Ref. column

ACCOUNT <u>Cash in Bank</u>										ACCOUNT NO. <u>101</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE				
						DEBIT		CREDIT		
	20--									
	Oct. 1		G1	25 000 00		25 000 00				

7 Repeat steps 1–6 for the credit part of journal entry

ACCOUNT <u>Maria Sanchez, Capital</u>										ACCOUNT NO. <u>301</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE				
						DEBIT		CREDIT		
	20--									
	Oct. 1		G1		25 000 00			25 000 00		

Figure 7–5 Posting from the General Journal to Ledger Accounts

1. Enter the date of the journal entry in the Date column of the account debited. Use the date of the journal entry, not the date on which the posting is done. Write the year and month in the left side of the Date column. It is not necessary to write the year and month for other postings to the same account on the same page unless the month or year changes. The day, however, is always entered.
2. The Description column on the ledger account is usually left blank. Some businesses use this space to write in the source document number.
3. In the ledger account Posting Reference (Post. Ref.) column, identify where the journal entry is recorded. Enter a letter for the specific journal and the journal page number. In this example the letter “G” represents the general journal and the “1” indicates page 1 of the general journal.
4. Enter the debit amount in the Debit column of the ledger account.
5. Compute and record the new account balance in the appropriate balance column. Every amount posted will either increase or decrease the balance of that account.

Key Point

Posting to General Ledger Accounts For every journal entry, you will post to at least two ledger accounts.

6. Return to the journal and, in the Posting Reference column, enter the account number of the ledger account to which you just posted the debit part of the journal entry. Be sure it is entered on the same line as the debit entry. In this example enter 101 in the Posting Reference column on the line for **Cash in Bank**.

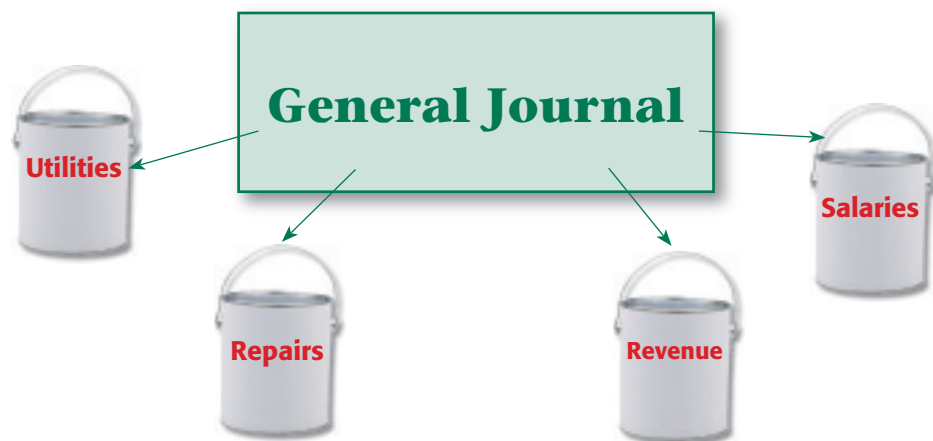
This step in the posting process is very important. The notation in the Posting Reference column of the journal indicates that the journal entry has been posted. The posting reference also shows the account to which the entry was posted. If the posting process is interrupted, perhaps by a telephone call, the posting reference signals the point at which posting stopped. *Never* write an account number in the Posting Reference column until *after* you have posted.

7. Repeat steps 1–6 for the credit part of the journal entry.
- Locate the account to be credited. In this example **Maria Sanchez, Capital**, is to be credited.
 - Enter the date.
 - Enter the posting reference on the ledger account form. In this example, G1 represents the first page of the general journal.
 - Enter the credit amount.
 - Compute the new account balance.
 - Enter the account number in the Posting Reference column of the general journal. In the example enter 301 to show that the credit was posted to **Maria Sanchez, Capital**.

The journal entries made in Chapter 6 for Roadrunner's transactions are shown in **Figure 7–6**.

The Importance of Posting

Posting organizes business transaction details into the proper accounts. As discussed earlier, transactions that are itemized in the general journal are helpful, but do not summarize similar transactions into the same location. Posting summarizes all business transactions so managers can see the cumulative effects on accounts like **Utilities Expense** or **Salaries Expense**.



GENERAL JOURNAL										PAGE	1
	DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT			
1	20--										1
2	Oct. 1	Cash in Bank	101	25	0	0	00				2
3		Maria Sanchez, Capital	301					25	0	0	00
4		Memorandum 1									4
5	2	Office Equipment	120	4	0	0	00				5
6		Maria Sanchez, Capital	301					4	0	0	00
7		Memorandum 2									7
8	4	Computer Equipment	115	3	0	0	00				8
9		Cash in Bank	101					3	0	0	00
10		Check 101									10
11	9	Delivery Equipment	125	12	0	0	00				11
12		Accounts Payable—North Shore Auto	205					12	0	0	00
13		Invoice 200									13
14	11	Accounts Receivable—Green Co.	110	2	0	0	00				14
15		Office Equipment	120					2	0	0	00
16		Memorandum 3									16
17	12	Accounts Payable—North Shore Auto	205	3	5	0	00				17
18		Cash in Bank	101					3	5	0	00
19		Check 102									19
20	14	Cash in Bank	101	2	0	0	00				20
21		Accounts Receivable—Green Co.	110					2	0	0	00
22		Receipt 1									22
23	15	Cash in Bank	101	1	2	0	00				23
24		Delivery Revenue	401					1	2	0	00
25		Receipt 2									25
26	16	Rent Expense	510	7	0	0	00				26
27		Cash in Bank	101					7	0	0	00
28		Check 103									28
29	18	Advertising Expense	501		7	5	00				29
30		Accounts Payable—Beacon Advertising	201					7	5	0	00
31		Invoice 129									31
32	20	Accounts Receivable—City News	105	1	4	5	00				32
33		Delivery Revenue	401					1	4	5	00
34		Sales Invoice 1									34
35	28	Utilities Expense	515	1	2	5	00				35
36		Cash in Bank	101					1	2	5	00
37		Check 104									37
38	29	Maintenance Expense	505	6	0	0	00				38
39		Cash in Bank	101					6	0	0	00
40		Check 105									40
41	31	Maria Sanchez, Withdrawals	302	5	0	0	00				41
42		Cash in Bank	101					5	0	0	00
43		Check 106									43
44											44

Figure 7–6 General Journal Entries for October Business Transactions

The postings made to the general ledger accounts from these entries are shown in **Figure 7–7** on pages 172–173. Study these illustrations to check your understanding of the posting process.

ACCOUNT *Cash in Bank* ACCOUNT NO. *101*

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				BALANCE								
											DEBIT				CREDIT				
20--																			
Oct. 1		G1	25	0	0	0					25	0	0	0					
4		G1					3	0	0	0	22	0	0	0					
12		G1					3	5	0	0	21	6	5	0					
14		G1		2	0	0					21	8	5	0					
15		G1	1	2	0	0					23	0	5	0					
16		G1					7	0	0	0	22	3	5	0					
28		G1					1	2	5	0	22	2	2	5					
29		G1					6	0	0	0	21	6	2	5					
31		G1					5	0	0	0	21	1	2	5					

ACCOUNT *Accounts Receivable—City News* ACCOUNT NO. *105*

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				BALANCE								
											DEBIT				CREDIT				
20--																			
Oct. 20		G1	1	4	5	0					1	4	5	0					

ACCOUNT *Accounts Receivable—Green Company* ACCOUNT NO. *110*

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				BALANCE								
											DEBIT				CREDIT				
20--																			
Oct. 11		G1		2	0	0					2	0	0						
14		G1					2	0	0	0									

ACCOUNT *Computer Equipment* ACCOUNT NO. *115*

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				BALANCE								
											DEBIT				CREDIT				
20--																			
Oct. 4		G1		3	0	0	0				3	0	0	0					

ACCOUNT *Office Equipment* ACCOUNT NO. *120*

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				BALANCE								
											DEBIT				CREDIT				
20--																			
Oct. 2		G1		4	0	0	0				4	0	0	0					
11		G1					2	0	0	0	2	0	0	0					

ACCOUNT *Delivery Equipment* ACCOUNT NO. *125*

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				BALANCE								
											DEBIT				CREDIT				
20--																			
Oct. 9		G1	12	0	0	0					12	0	0	0					

ACCOUNT *Accounts Payable—Beacon Advertising* ACCOUNT NO. *201*

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				BALANCE								
											DEBIT				CREDIT				
20--																			
Oct. 18		G1					7	5	0	0					7	5	0	0	

Figure 7-7 Postings to General Ledger Accounts for the Month of October

ACCOUNT *Accounts Payable—North Shore Auto* ACCOUNT NO. *205*

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 9		G1		12 000 00		12 000 00
12		G1	3 500 00			11 650 00

ACCOUNT *Maria Sanchez, Capital* ACCOUNT NO. *301*

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 1		G1		25 000 00		25 000 00
2		G1		4 000 00		25 400 00

ACCOUNT *Maria Sanchez, Withdrawals* ACCOUNT NO. *302*

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 31		G1	5 000 00		5 000 00	

ACCOUNT *Income Summary* ACCOUNT NO. *303*

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 31		G1	5 000 00		5 000 00	

ACCOUNT *Delivery Revenue* ACCOUNT NO. *401*

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 15		G1		1 200 00		1 200 00
20		G1		1 450 00		2 650 00

ACCOUNT *Advertising Expense* ACCOUNT NO. *501*

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 18		G1	7 500		7 500	

ACCOUNT *Maintenance Expense* ACCOUNT NO. *505*

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 29		G1	6 000 00		6 000 00	

ACCOUNT *Rent Expense* ACCOUNT NO. *510*

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 16		G1	7 000 00		7 000 00	

ACCOUNT *Utilities Expense* ACCOUNT NO. *515*

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 28		G1	1 250 00		1 250 00	

Figure 7–7 Postings to General Ledger Accounts for the Month of October (continued)

Figure 7-7 Postings to General Ledger Accounts for the Month of October (continued)

General Ledger Account Balances

How Do You Compute Account Balances?

On a four-column ledger account form, each time you post to an account, you also compute and show the new account balance.

Computing a New Account Balance

A rule of thumb for finding a new balance is that debits are added to debits, credits are added to credits, but debits and credits are subtracted. After you post to an account, compute the new account balance as follows:

When the existing account balance is a debit, and

- the amount posted is a debit, ADD the amounts.
- the amount posted is a credit, SUBTRACT the amounts.

When the existing account balance is a credit, and

- the amount posted is a debit, SUBTRACT the amounts.
- the amount posted is a credit, ADD the amounts.

A ledger account usually has space for several postings. Often, blank lines remain after the month's journal entries are posted. To save space the journal entries for more than one month are entered on the same ledger page. The new month and day are entered in the Date column, as in **Figure 7-8**.

ACCOUNT <i>Cash in Bank</i>										ACCOUNT NO. <i>101</i>									
DATE		DESCRIPTION	POST. REF.	DEBIT			CREDIT			BALANCE									
										DEBIT			CREDIT						
20--																			
Oct.	1		G1	25	0	0	0	00		25	0	0	0	00					
	31		G2					5	0	0	00	24	5	0	0	00			
Nov.	1		G2					1	2	5	00	24	3	7	5	00			

Figure 7-8 A Ledger Account with Several Postings

Showing a Zero Balance in a Ledger Account

To show a zero balance after you post a transaction, draw a line across the center of the column—where the normal balance would appear. On October 11 Roadrunner sold a phone for \$200 on account to Green Company and received full payment on October 14. When the October 14 journal entry is posted, **Accounts Receivable—Green Company** has a zero balance. The line across the Debit Balance column in **Figure 7-9** means that the account has a zero balance. The line is drawn in the Debit column because the normal balance for this account is a debit.

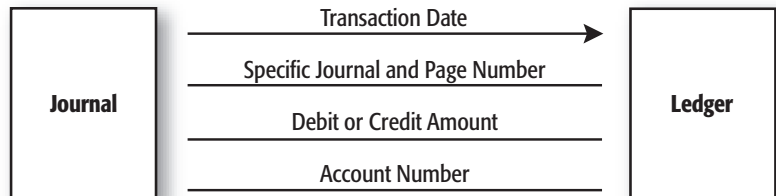
ACCOUNT <i>Accounts Receivable—Green Company</i>										ACCOUNT NO. <i>110</i>				
DATE		DESCRIPTION	POST. REF.	DEBIT			CREDIT			BALANCE				
										DEBIT		CREDIT		
20--														
Oct.	11		G1	2	0	0	00			2	0	0	00	
	14		G1					2	0	0	00	<hr/>		

Figure 7-9 Showing a Ledger Account with a Zero Balance

AFTER
You READ

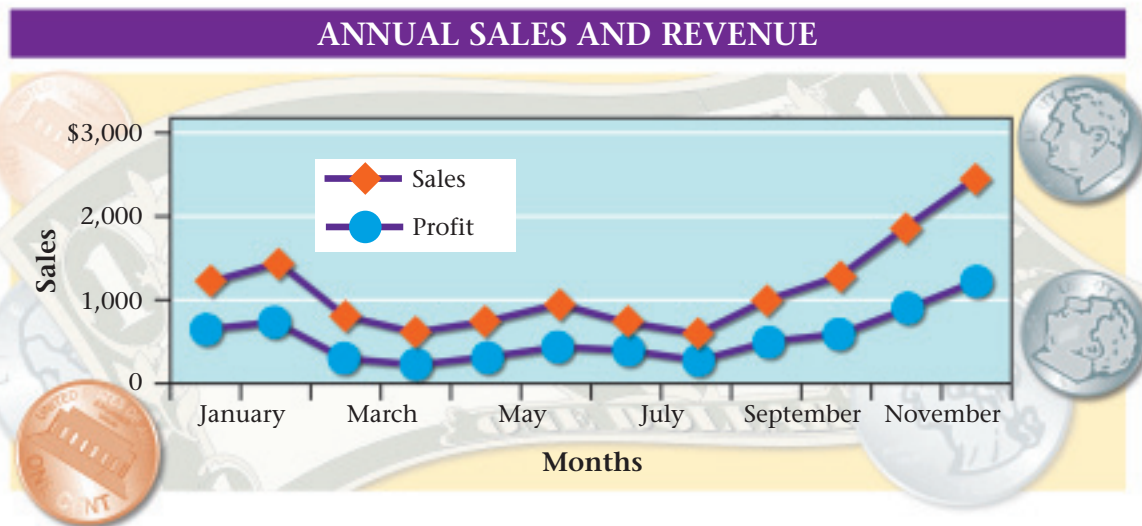
Reinforce the Main Idea

Create a diagram like this one to show how information is transferred between the journal and the ledger. For each line, draw an arrowhead to show the direction of the information transfer. The first line is provided as an example.



Do the Math

As an employee of Always Fresh Bakery, you have been asked to analyze the impact that different sales levels have on the ultimate profit or loss of the business. After posting is completed, you prepare the following line graph to illustrate the sales figures for Always Fresh Bakery. Review the line graph and write a one-paragraph analysis of the impact of sales on the bakery's profit.


Problem 7-2 Posting from the General Journal to the Ledger

Instructions David Serlo made the following cash investment in his business. Use the six-step process to post the entry to the ledger accounts in your working papers.

GENERAL JOURNAL						PAGE	1
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1	20--						1
2	May 1	Cash in Bank		10 000 00			2
3		David Serlo, Capital			10 000 00		3
4		Memorandum 101					4

Accounting Careers in Focus

COUNTY AUDITOR

*Internal Audit Department,
Maricopa County, Arizona
Ross Tate*

Q: What does the internal audit department do?

A: We audit and report on the county's operational and financial activities.

Q: What are your day-to-day responsibilities?

A: I serve as the county government's "eyes and ears" by forming teams to audit all county departments, and investigate financial inconsistencies and possible theft. I meet with managers of different audit teams, assign tasks, and make sure the work gets done.

Q: What are some of the factors that have been key to your success?

A: Continuing education has been key. Through continuing education, you stay on top of developments in your field. It is also recommended to maintain a CPA license and other certifications that can advance your career. Professional journals and industry associations are also great sources of information.

Q: What do you like most about your job?

A: It's rewarding because the government serves the people of the county in many important ways. I can help make a big difference by working in public service. The variety of tasks also makes my job interesting.

Q: What advice do you have for accounting students just beginning their careers?

A: Put in the extra time and effort whether it's asked for or not. This will help you to get ahead quickly and greatly improve the quality of your work.

Tips from . . .



Robert Half International Inc.

Learning is a continuous process—even after you have graduated from school. Build your skills on the job by volunteering for projects beyond your immediate area of responsibility. You can also take courses and join industry associations to remain at the top of your field.

CAREER FACTS

- ▶ **Nature of the Work:** Supervise internal audits and communicate the results to management; always stay aware of new laws and rules.
- ▶ **Training or Education Needed:** A bachelor's degree in accounting or finance; a CPA or certified internal auditor (CIA) title.
- ▶ **Aptitudes, Abilities, and Skills:** Advanced knowledge of generally accepted accounting principles; critical thinking, communication, and technology skills.
- ▶ **Salary Range:** \$35,000 to \$120,000 depending on experience, level of responsibility, industry, and location.
- ▶ **Career Path:** Start by working as an entry-level internal auditor, and then gradually assume more responsibility as you gain knowledge and experience.

Thinking Critically

In what ways could you demonstrate to an employer that you are a valuable employee?



SECTION 3

Preparing a Trial Balance

In the last section, you learned how to post to the ledger. In this section you will learn how to prepare a trial balance. Accountants use a trial balance to prove that the accounting system is in balance. Preparing a trial balance is the fifth step in the accounting cycle. Every time the accountant for the Jeep dealer in your area posts to the ledger, he or she prepares a trial balance. The trial balance provides assurance that the journal entries are posted properly.

The Fifth Step in the Accounting Cycle: The Trial Balance

What Is the Purpose of a Trial Balance?

After the journal entries have been posted to the accounts in the general ledger, the total of all of the debit balances should equal the total of all of the credit balances. Adding all the debit balances, then adding all the credit balances, and finally comparing the two totals to see whether they are equal is called **proving the ledger**.

A formal way to prove the ledger is to prepare a **trial balance**. A trial balance is a list of all the account names and their current balances. All of the debit balances are added. All of the credit balances are added. The totals are compared. If the totals are the same, the trial balance is in balance. If the totals are not equal, an error was made in journalizing, posting, or preparing the trial balance. You must find the error and correct it before continuing with the next step in the accounting cycle.

The equality of debits and credits does not, however, guarantee that the accounting records do not have errors. An amount might be posted to the wrong account. For example, suppose a credit sale for \$500 was posted to the **Cash in Bank** account instead of **Accounts Receivable**. The trial balance remains in balance, but the company's cash is overstated by \$500. What if a transaction did not get posted? Two accounts have wrong balances, but the total debits still equal the total credits.

The trial balance for Roadrunner Delivery Service for the month of October is shown in **Figure 7–10** on page 178. The trial balance was prepared on two-column accounting stationery. The account numbers are listed in the far left column. The account names are listed in the next column. All of the debit balances are entered in the first amount column, and all of the credit balances are entered in the second amount column. Trial balances do not have to be prepared on accounting stationery, however. They can be handwritten on plain paper, typed, or prepared on a computer.

**BEFORE
YOU**

READ

Main Idea

The trial balance is a proof that total debits equal total credits in the ledger.

Read to Learn...

- how to prepare a trial balance. (p. 177)
- how to find and correct errors in the trial balance. (p. 178)

Key Terms

proving the ledger
trial balance
transposition error
slide error
correcting entry

Roadrunner Delivery Service									
Trial Balance									
October 31, 20--									
101	Cash in Bank	21	1	2	5	00			
105	Accounts Receivable—City News	1	4	5	0	00			
110	Accounts Receivable—Green Company								
115	Computer Equipment	3	0	0	0	00			
120	Office Equipment		2	0	0	00			
125	Delivery Equipment	12	0	0	0	00			
201	Accounts Payable—Beacon Advertising							7	5 00
205	Accounts Payable—North Shore Auto						11	6	5 00
301	Maria Sanchez, Capital						25	4	0 00
302	Maria Sanchez, Withdrawals		5	0	0	00			
303	Income Summary								
401	Delivery Revenue						2	6	5 00
501	Advertising Expense			7	5	00			
505	Maintenance Expense		6	0	0	00			
510	Rent Expense		7	0	0	00			
515	Utilities Expense		1	2	5	00			
	Totals	39	7	7	5	00	39	7	7 5 00

Figure 7-10 Trial Balance

Finding and Correcting Errors

What Do You Do if You Are Out of Balance?

Anyone who works in accounting understands the saying, “To err is human . . .” If the debits do not equal the credits, you need to find the errors and correct them.

Finding Errors

Most trial balance errors can be located easily and quickly. When total debits do not equal total credits, follow these steps:

1. Add the debit and credit columns again. You may have added one or both of the columns incorrectly.
2. Find the difference between the debit and credit columns. If this amount is 10, 100, 1,000, and so on, you probably made an addition error. Suppose, for example, you have total debits of \$35,245 and total credits of \$35,345. The difference is \$100, which indicates an addition error is likely. Add the columns again to find the error.
3. Check if the amount you are out of balance is evenly divisible by 9. For example, suppose the difference between the debits and credits is \$27. That amount is evenly divisible by 9 ($27 \div 9 = 3$). If the difference is evenly divisible by 9, you may have a transposition error or a slide error. A **transposition error** occurs when two digits within an amount are accidentally reversed, or transposed. For example, the amount \$325 may have been written as \$352.

A **slide error** occurs when a decimal point is moved by mistake. If you write \$1,800 as either \$180 or \$18,000, you made a slide error.

To find a transposition error or a slide error, check the trial balance amounts against the general ledger account balances to make sure you copied the balances correctly.

As You READ

It's Not What It Seems

Slide When you think of the word *slide*, you might think of playground equipment. In accounting a *slide error* is a number with the decimal point in the wrong place.

4. Make sure that you included all general ledger accounts in the trial balance. Look in the general ledger for an account balance equal to the amount you are out of balance. For example, if the difference between total debits and credits is \$725, look in the general ledger for an account with a balance of \$725.
5. One of the account balances could have been recorded in the wrong column. That is, a debit was entered in the credit column or a credit was entered in the debit column. To find out if this happened, divide the out-of-balance amount by 2 and check whether the result matches the balance of an account. For example, suppose that the difference between the two columns is \$300; \$300 divided by 2 is \$150. Look in the debit and credit columns for an account balance of \$150. Then check to see if the \$150 is entered in the wrong column.
6. If you still have not found the error, recompute the balance in each ledger account. You may have an addition or subtraction error on a ledger account form.
7. Finally, check the general ledger accounts to verify that the correct amounts are posted from the journal entries. Also, check to make sure that debit amounts are posted to the debit column and credit amounts are posted to the credit column.



Correcting Entries

When mistakes are made in accounting, one rule applies: *Never erase an error*. The method for correcting an error depends on when and where the error is found. There are three types of errors:

- Error in a journal entry that has not been posted.
- Error in posting to the ledger when the journal entry is correct.
- Error in a journal entry that has been posted.

In Chapter 6 you learned how to handle the first situation. When an error in a journal entry is discovered before posting, you draw a single line through the incorrect item in the journal and write the correction directly above it.

If the journal entry is correct but is posted incorrectly to the ledger, you draw a single line through the incorrect item in the ledger and write the correction directly above it.

When an error in a journal entry is discovered *after* posting, make a **correcting entry** to fix the error.

On November 15 the accountant for Roadrunner found an error in a journal entry made on November 2. A \$100 check to pay the electricity bill was journalized and posted to the **Maintenance Expense** account by mistake. The original journal entry is shown in the following T accounts.

Maintenance Expense		Cash in Bank	
Debit	Credit	Debit	Credit
+	–	+	–
100			100

The following T accounts show how the transaction *should* have been recorded.

Utilities Expense		Cash in Bank	
Debit + 100	Credit —	Debit +	Credit — 100

As you can see, the \$100 credit to **Cash in Bank** is correct. The error is in the debit part of the November 2 transaction. **Maintenance Expense** is incorrectly debited for \$100. To correct the error, **Maintenance Expense** is credited for \$100 and **Utilities Expense** is debited for \$100.

The accountant wrote Memorandum 70 to notify the accounting clerk of the mistake. The correcting entry, recorded in the general journal, is shown in **Figure 7–11**.

GENERAL JOURNAL						PAGE	3
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1	20--					1	
2	Nov. 15	Utilities Expense		1 0 0 00		2	
3		Maintenance Expense			1 0 0 00	3	
4		Memorandum 70				4	
5						5	

Figure 7–11 Correcting Entry

Posting a correcting entry is similar to any other posting. In the Description column of the ledger accounts, however, the words *Correcting Entry* are written. **Figure 7–12** shows how the correcting entry is posted to the **Maintenance Expense** and **Utilities Expense** accounts.

ACCOUNT Maintenance Expense				ACCOUNT NO. 505			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Oct. 29		G1			6 0 0 00		
Nov. 2		G2	1 0 0 00		7 0 0 00		
15	Correcting Entry	G3		1 0 0 00	6 0 0 00		

ACCOUNT Utilities Expense				ACCOUNT NO. 515			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Oct. 28		G1	1 2 5 00		1 2 5 00		
Nov. 15	Correcting Entry	G3	1 0 0 00		2 2 5 00		

Figure 7–12 Posting of Correcting Entry

AFTER
You READ

Reinforce the Main Idea

Create a chart like this one to show how to correct errors in three situations.

Where Error Was Found	When Error Was Found	How to Correct the Error
Journal	Before Posting	
Ledger	After Posting	
Journal	After Posting	



Do the Math

- Compare the numbers in Column 1 to those in Column 2. Find any transposition, slide, or omission errors. Identify the type of error for each line.
- Using a calculator or adding machine, total Column 1. Correct any errors in Column 2, and then total Column 2. Do the totals of Columns 1 and 2 match?

Column 1	Column 2
\$18.00	\$180.00
\$15,000	\$1,500
\$222.52	\$222.25
\$187,235,499.05	\$187,235,499.50
\$47,988	\$47,988
\$578,334.99	\$5,778,334.99



Problem 7-3 Analyzing a Source Document

Instructions Analyze the transaction that is described in Memorandum 47, and then record and post the required correcting entry in your working papers.

FUNTIME
AMUSEMENT ARCADE

MEMORANDUM 47

TO: Accounting Clerk
FROM: Dan Vonderhaar
DATE: May 20, 20--
SUBJECT: Correction of error

On May 10, we purchased an office copier for \$1,500. I noticed in the general journal that the entry was recorded and posted to the Computer Equipment account. Please record the necessary entry to correct this error.



Problem 7-4 Recording and Posting a Correcting Entry

Instructions On July 7 Video Connection's accounting supervisor discovered that a July 3 transaction had been recorded incorrectly. The transaction, involving the purchase of advertising in the local newspaper with a \$300 check, was incorrectly journalized and posted to the **Rent Expense** account. In your working papers, record and post the correcting entry using Memorandum 13 as the source document.

VIDEO
Connection

MEMORANDUM 13

TO: Accounting Clerk
FROM: Accounting Manager
DATE: July 7, 20--
SUBJECT: Correction of error

On July 3, we paid \$300 for advertising in the *Daily News Record* that was incorrectly journalized and posted to the Rent Expense account. Please record the necessary entry to correct this error.

Key Concepts

1. *Posting*, which is the fourth step in the accounting cycle, is the process of transferring information from a journal to specific ledger accounts. The *general ledger* is a permanent record organized by account number. In a manual accounting system, information about specific accounts is recorded in *ledger account forms*. In a computerized accounting system, information about accounts is kept in a group of electronic files.

The purpose of posting is to show the impact of business transactions on the individual accounts. The steps for posting from the general journal to the general ledger are described in the following illustration.

2. Post general journal entries by following these steps:

GENERAL JOURNAL						PAGE <u>1</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	Oct. 1	Cash in Bank	101	25 000 00		2
3		Maria Sanchez, Capital	301		25 000 00	3
4		Memorandum 1				4
5						5

1 Enter date of the journal entry

2 Description column is usually blank

3 Enter journal letter and page number in Post. Ref. column

4 Enter the debit amount

5 Compute the new account balance

6 Enter the account number in the general journal Post. Ref. column

ACCOUNT <u>Cash in Bank</u>						ACCOUNT NO. <u>101</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
						DEBIT CREDIT
	20--					
	Oct. 1		G1	25 000 00		25 000 00

7 Repeat steps 1–6 for the credit part of journal entry

ACCOUNT <u>Maria Sanchez, Capital</u>						ACCOUNT NO. <u>301</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
						DEBIT CREDIT
	20--					
	Oct. 1		G1		25 000 00	25 000 00

3. After posting has been completed, a trial balance is prepared to prove the ledger. This is the fifth step in the accounting cycle. *Proving the ledger* is making sure that total debits equal total credits.
4. If total debits and total credits are not equal, you must locate and correct the errors. The following trial balance errors are the most common:
 - addition and subtraction errors
 - transpositions
 - slides
 - omissions
 - incorrect debiting or crediting
5. The method for correcting an error depends on when and where the error is found:
 - If the journal entry is wrong and has not yet been posted, draw a line through the incorrect item and write the correct information directly above it.
 - If the journal entry is correct but the error occurred in posting, draw a line through the incorrect item in the ledger and write the correct information directly above it.
 - If the journal entry is wrong and has already been posted, make a *correcting entry*. The correcting entry is posted to the general ledger. It is similar to any other posting except that it includes the words *Correcting Entry* in the Description column.

Key Terms

correcting entry	(p. 179)
general ledger	(p. 164)
ledger account forms	(p. 165)
posting	(p. 164)
proving the ledger	(p. 177)
slide error	(p. 178)
transposition error	(p. 178)
trial balance	(p. 177)

Check Your Understanding

1. **Steps in the Posting Process**
 - a. What six steps are required to open a general ledger account?
 - b. List the steps in the posting process.
2. **Posting General Journal Entries**
 - a. What information is entered in the Posting Reference (Post. Ref.) column of the ledger account? Give an example.
 - b. What information is entered in the Posting Reference (Post. Ref.) column of the general journal entry? Give an example.
3. **Trial Balance**
 - a. What information does a trial balance contain?
 - b. What is the purpose of a trial balance?
4. **Trial Balance Errors**
 - a. What steps do you perform to locate trial balance errors?
 - b. Distinguish between a slide error and a transposition error and give an example of each.
5. **Correcting Entries**
 - a. What is the basic rule concerning mistakes in accounting?
 - b. How do you correct an error in a journal entry that has already been posted?

Apply Key Terms

As a junior accounting clerk for Action Sports Outfitters, you are being evaluated for a raise. Your boss wants to see how well you understand basic accounting terminology. He asks you to write a sentence for each of the following terms, showing how you would use each term in connection with Action Sports Outfitters.

correcting entry
general ledger
ledger account forms
posting

proving the ledger
slide error
transposition error
trial balance



Posting to the General Ledger

Making the Transition from a Manual to a Computerized System

Task	Manual Methods	Computerized Methods
Posting to the General Ledger	<ul style="list-style-type: none"> Transfer the details of each journal entry to individual ledger accounts. Calculate the new account balance for each ledger account. 	<ul style="list-style-type: none"> After each journal entry is entered, amounts are posted automatically into the general ledger. New account balances are calculated for you.



Peachtree® Q & A

Peachtree Question	Answer
How do I post general journal transactions?	<ul style="list-style-type: none"> After entering a journal entry, click Save.
What if I find an error in my journal entry after it has been posted?	<p>Changes to journal entries can be made before or after the entry has been posted.</p> <ol style="list-style-type: none"> From the General Journal Entry window, drop down the Edit menu. Select Edit Record. Select the entry you want to change. Make the correction. Click Save, and then click Close.



QuickBooks Q & A

QuickBooks Question	Answer
How do I post general journal transactions?	<ul style="list-style-type: none"> After entering a journal entry, click Save & Close.
What if I find an error in my journal entry after it has been posted?	<p>Changes to journal entries can be made before or after the entry has been posted.</p> <ol style="list-style-type: none"> In the Make General Journal Entries window, click the Previous or Next buttons until you locate the entry to be changed. Make the correction. Click Save & Close.

For detailed instructions, see your Glencoe Accounting Chapter Study Guides and Working Papers.

CHAPTER 7

Problems

Complete problems using:

Manual Glencoe
Working Papers

OR

Peachtree Complete
Accounting Software

OR

QuickBooks
Templates

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 7-5

1. Select the problem set for Wilderness Rentals (Prob. 7-5).
2. Rename the company and set the system date.
3. Print a General Ledger report.
4. Complete the Analyze activity.
5. End the session.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 7-5

1. Restore the Problem 7-5.QBB file.
2. Print a General Ledger report.
3. Complete the Analyze activity.
4. Back up your work.

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 7-6

1. Select the problem set for Hot Suds Car Wash (Prob. 7-6).
2. Rename the company and set the system date.
3. Print a General Ledger Trial Balance report.
4. Complete the Analyze activity.
5. End the session.

Problem 7-5 Posting General Journal Transactions

The accounts used by Wilderness Rentals have been opened and are included in the working papers accompanying this textbook. The general journal transactions for March of the current year are also included.

Instructions Post the transactions recorded on page 1 of the general journal to the accounts in the general ledger.

Analyze Identify the account with the highest debit balance.

Problem 7-6 Preparing a Trial Balance

The ledger accounts for Hot Suds Car Wash are shown in your working papers.

Instructions Prepare a trial balance as of March 31 of the current year.

Analyze Identify the account with the highest credit balance.

Problem 7-7 Journalizing and Posting Business Transactions

A partial chart of accounts for Kits & Pups Grooming follows.

General Ledger

101 Cash in Bank	301 Abe Shultz, Capital
105 Accts. Rec.—J. Alvarez	305 Abe Shultz, Withdrawals
120 Grooming Supplies	401 Boarding Revenue
130 Office Furniture	405 Grooming Revenue
140 Grooming Equipment	525 Salaries Expense
205 Accts. Pay.—Dogs & Cats Inc.	

Instructions

1. In your working papers, open an account in the general ledger for each of these accounts.
2. Record the March transactions on page 1 of the general journal.
3. Post each journal entry to the appropriate ledger account.
4. Prove the ledger by preparing a trial balance.

Date	Transactions
Mar 1	Abe Shultz invested \$5,000 in the business, Memorandum 51.
3	Abe Shultz transferred a desk and chairs valued at \$1,200 to the business, Memorandum 52.

CONTINUE

Problems

CHAPTER 7

Date	Transactions
Mar. 5	Issued Check 551 for \$300 for grooming supplies.
7	Bought grooming equipment on account for \$1,800 from Dogs & Cats Inc., Invoice DC201.
9	Groomed Juan Alvarez's show dogs on account, \$400, Sales Invoice 350.
12	Paid Dogs & Cats Inc. \$900 on account, Check 552.
15	Issued Check 553 for \$500 to pay the office secretary's salary.
18	Abe Shultz withdrew \$1,000 cash from the business, Check 554.
20	Deposited \$1,400 received from clients for boarding their pets, Receipts 477–480.
24	Wrote Check 555 for \$900 to Dogs & Cats Inc. to apply on account.
26	Received a check for \$400 from Juan Alvarez on account, Receipt 481.

Analyze Identify the temporary accounts.

Problem 7–8 Journalizing and Posting Business Transactions

The chart of accounts for Outback Guide Service follows.

General Ledger

101 Cash in Bank	301 Juanita Ortega, Capital
115 Accts. Rec.—Podaski Systems Inc.	302 Juanita Ortega, Withdrawals
140 Computer Equipment	401 Guide Service Revenue
145 Hiking Equipment	501 Advertising Expense
150 Rafting Equipment	
205 Accts. Pay.—Peak Equipment Inc.	
207 Accts. Pay.—Premier Processors	

Instructions

1. In your working papers, open an account in the general ledger for each account in the chart of accounts.
2. Record the following transactions on page 1 of the general journal.
3. Post each journal entry to the appropriate accounts in the ledger.
4. Prove the ledger by preparing a trial balance.

Date	Transactions
Mar. 1	Invested \$20,000 in cash and transferred rafting equipment valued at \$5,000 to the business, Memorandum 35.
3	Purchased \$600 in hiking equipment on account from Peak Equipment Inc., Invoice 101.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 7–6

1. Restore the Problem 7-6.QBB file.
2. Print a Trial Balance report.
3. Complete the Analyze activity.
4. Back up your work.

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 7–7

1. Select the problem set for Kits & Pups Grooming (Prob. 7–7).
2. Rename the company and set the system date.
3. Enter all of the general journal transactions.
4. Print a General Journal report.
5. Proof your work.
6. Print a General Ledger report and a General Ledger Trial Balance report.
7. Complete the Analyze activity.
8. End the session.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 7–7

1. Restore the Problem 7-7.QBB file.
2. Enter all of the general journal transactions.
3. Print a Journal report.
4. Proof your work.
5. Print a General Ledger report and a Trial Balance report.
6. Complete the Analyze activity.
7. Back up your work.

CONTINUE

CHAPTER 7

Problems

SOURCE DOCUMENT PROBLEM

Problem 7-8

Use the source documents in your working papers to complete this problem.

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 7-8

1. Select the problem set for Outback Guide Service (Prob. 7-8).
2. Rename the company and set the system date.
3. Enter all of the general journal transactions.
4. Print a General Journal report.
5. Proof your work.
6. Print a General Ledger report and a General Ledger Trial Balance report.
7. Complete the Analyze activity.
8. End the session.

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 7-9

1. Select the problem set for Showbiz Video (Prob. 7-9).
2. Rename the company and set the system date.
3. Correct the general journal entries based on the auditor's report.
4. Print a General Journal report and a General Ledger report.
5. Proof your work.
6. Complete the Analyze activity.
7. End the session.

Date	Transactions
Mar. 5	Bought a \$2,800 computer from Premier Processors and agreed to pay for it within 60 days, Invoice 616.
7	Deposited \$700 cash received from clients, Receipts 310-315.
9	Paid \$400 to the <i>Daily Courier</i> for an ad, Check 652.
12	Sent a bill for \$900 to Podaski Systems Inc. for conducting a group rafting trip for them, Sales Invoice 352.
15	Juanita Ortega wrote a check for \$800 for personal use, Check 653.
18	Paid Premier Processors \$1,400 to apply on account, Check 654.
22	Received \$900 from Podaski Systems Inc. in full payment for the amount owed, Receipt 316.
27	Bought a \$500 television ad with LIVE TV, Check 655.
28	Paid Peak Equipment Inc. \$600 by writing Check 656.

Analyze

Calculate the total change in accounts payable.



Problem 7-9 Recording and Posting Correcting Entries

An auditor reviewed the accounting records of Showbiz Video. The auditor wrote a list of transactions, outlined below, describing the errors discovered in the March records. The general journal for March and a portion of the general ledger are included in your working papers.

Instructions

1. Record correcting entries on general journal page 22. Use *March 31* as the date and *Memorandum 50* as the source document for all correcting entries.
2. Some errors will not require correcting entries but will require a general ledger correction. Make the appropriate general ledger corrections.
3. Post all correcting entries to the general ledger accounts.

Date	Transactions
Mar. 3	The \$125 purchase was for office supplies.
7	A \$200 payment to a creditor, Broad Street Office Supply, was not posted to the account.
13	Greg Failla withdrew \$1,200 from the business for personal use.
17	Cash totaling \$2,000 was received for video rentals.
19	A \$75 receipt from Shannon Flannery was posted as \$57.
27	Greg Failla invested an additional \$3,000 in the business.
29	The revenue of \$1,000 was for video rentals.

Analyze

Compute the amount that Greg Failla, Capital was overstated or understated before the correcting entries were posted.

Practice your test-taking skills! The questions on this page are reprinted with permission from national organizations:

- Future Business Leaders of America
- Business Professionals of America

Use a separate sheet of paper to record your answers.



Future Business Leaders of America

MULTIPLE CHOICE

1. An account balance is
 - a. the total of the credit side of the account.
 - b. the total of the debit side of the account.
 - c. the difference between the increases and decreases recorded in the account.
 - d. $\text{Assets} = \text{Liabilities} + \text{Owner's equity}$.
 - e. unchanged by posting debits and credits to the account.
2. An error in posting may cause
 - a. income to be overstated or understated on the income statement.
 - b. a business to pay too much to a vendor.
 - c. cash on hand to be less than the balance in the cash account.
 - d. all of the above.
3. When preparing a trial balance, which of the following would not be considered a procedure?
 - a. Check to see if both columns equal.
 - b. Double rule both columns.
 - c. Write the general ledger account names in the work sheet account name column.
 - d. All of these are correct procedures.
 - e. None of these answers.



Business Professionals of America

MULTIPLE CHOICE

4. When posting to the general ledger accounts, the information in the Post. Ref. Column of each ledger account refers to
 - a. the transaction's source document.
 - b. the account number.
 - c. the journal and page number.
 - d. the date.
5. The process of transferring information from the journal to the individual general ledger accounts is called
 - a. journalizing
 - b. carrying forward
 - c. transferring
 - d. posting

Need More Help?

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Winning Competitive Events** and select **Chapter 7**.

- Practice Questions and Test-Taking Tips
- Concept Capsules and Terminology



CRITICAL Thinking

The General Ledger and the Trial Balance

1. What is the purpose of each amount column in the four-column ledger account form?
2. Describe how correcting an error discovered after a transaction is posted is different from correcting an error before it is posted.
3. In your trial balance, the debits equal \$18,000 and the credits equal \$18,810. What are the most likely reasons for the difference?
4. Read the answer to “How do I post general journal transactions?” for Peachtree or QuickBooks on page 185. Identify the step(s) of the accounting cycle described in the answer.
5. Assume that you started a service business by depositing cash into a business checking account, purchasing various assets, and incurring a number of expenses. You have commitments from customers and you will start earning revenue next week. Develop a system for keeping accounting records.
6. What if your trial balance were out of balance by a small amount, for example by \$8.39? Is it worthwhile to find the reason for differences? Why or why not?

CASE STUDY

Service Business: Accounting Services

Joel Rivlin studied accounting in college and then worked as an accountant for a local real estate company. After becoming a CPA, Joel decided to start his own company, Joel Rivlin, CPA.

Robert's Excavating Services came to Joel with a problem. The company's trial balance shows total debits of \$76,240 and total credits of \$75,090. The owner knows that clients paid for services worth at least \$2,500 during the month, but the **Service Revenue** account balance is only \$800. The owner also wrote a check for \$550 for advertising, but the **Advertising Expense** account shows a zero balance.

INSTRUCTIONS

1. Describe what Joel should do to find the problems.
2. Suggest probable causes for the trial balance being out of balance.

a matter of ETHICS

Meeting a Deadline

Imagine that you are an accounting clerk for Ace Hardware. The store manager has asked you to prepare the trial balance. The totals on the trial balance are not equal and you cannot find the error. You realize that the trial balance is due at the end of the day. You are frustrated and consider changing one of the account balances just to get the trial balance to balance.

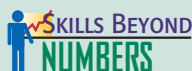
ETHICAL DECISION MAKING

1. What are the ethical issues?
2. What are the alternatives?
3. Who are the affected parties?
4. How do the alternatives affect the parties?
5. What would you do?



Teaching the Posting Process

You have been asked to teach new accounting clerks how to post business transactions. Create a written step-by-step guide to give to clerks on their first day on the job. Create an imaginary business transaction to illustrate the process.



Interpreting and Communicating Information

Every worker must learn how to interpret information and communicate effectively with co-workers, customers, and superiors.

ON THE JOB

As an accounting clerk for New Wave Inc., a surfboard manufacturer, one of your duties is to audit the accounting records and make the necessary corrections. Former employees did not always maintain the records accurately. The owner, Ron Lee, has asked you to provide written explanations for each error discovered in your audit.

INSTRUCTIONS

1. During an audit you discover a transposition error. An invoice for \$510.00 payable to Marketing Pros was recorded and posted as \$150.00. How do you correct this error?
2. Using word processing software, write a memo to Mr. Lee explaining how you corrected the error.



English: The Link Language

If business people from Sweden and Japan were conducting business, they would probably communicate in English—a language that both are likely to speak and understand. In international business, English is known as the link language. Although English is the third-most spoken native language in the world, it is the most widely learned second language. Approximately 375 million people speak English as a second language. The next time you turn on your computer, consider that more than 80 percent of the information stored in the world's computers is in English.

INSTRUCTIONS Justify why you think English is or is not a good choice for an international business “link” language.



Your Personal Balances

Knowing how to find accounting errors can help you in your personal life. Personal records that should be checked for accuracy include statements for bank accounts and credit cards; catalog invoices; and bills for medical services, insurance, and utilities. Verify all invoices before paying them.

PERSONAL FINANCE ACTIVITY Assume that you just received a statement from your credit card company. How would you go about checking its accuracy? List the items you would verify.

PERSONAL FINANCE ONLINE Log on to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Making It Personal** and select **Chapter 7**.

