

## Chapter 4 – Recording transactions

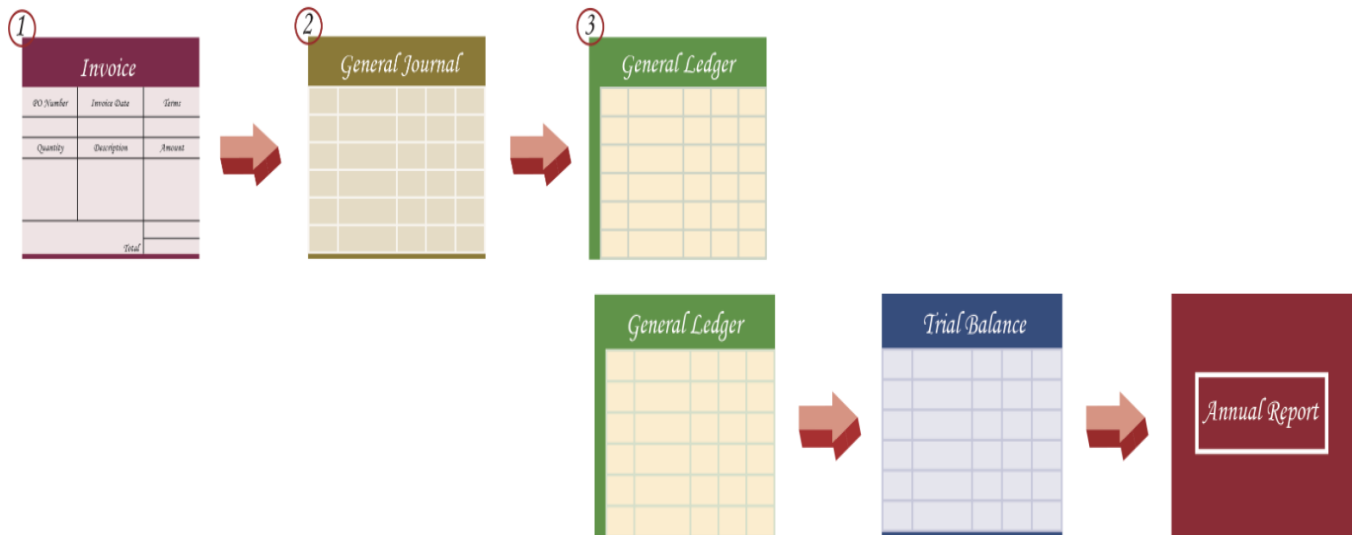
### *In this chapter you will to learn about:*

**General ledger** – a record of the accounts comprising financial statements, and their balances

**Journal** - a chronological listing of the transactions and events of an organization, in debit/credit format

**Journalizing** - the process of recording transactions and events into the journal

**Posting**- the process of transferring journal entry effects into the respective general ledger accounts



### **EXERCISE 1: Journal entries**

Mo Lambert formed a corporation to provide concrete construction work. His jobs typically involve building parking lots, drives, and foundations. Mo provided the following information about transactions occurring during the first month of operation:

- 1) Jan. 2, 20X5 - Mo Lambert invested \$10,000 cash in the capital stock of the newly formed corporation.
- 2) Jan. 4, 20X5 - Purchased equipment on account for \$7,500.
- 3) Jan. 12, 20X5 - Received \$15,000 from customers for services rendered.
- 4) Jan. 15, 20X5 - Received a bill for construction supplies used in the amount of \$2,000.
- 5) Jan. 18, 20X5 - Provided \$3,200 of services on account.
- 6) Jan. 20, 20X5 - Paid employees \$2,300 for wages earned.
- 7) Jan. 22, 20X5 - Collected 60% of the amount due for the work provided on January 18.
- 8) Jan. 23, 20X5 - Paid 40% of the amount due on the equipment purchased on January 4.
- 9) Jan. 25, 20X5 - Purchased (and immediately used) construction supplies for cash in the amount of \$600.
- 10) Jan. 31, 20X5 - The company paid Mo Lambert a \$1,500 dividend

**The task:** Evaluate the transactions and prepare journal entries for this activity. Then, transfer journal entries into the respective general ledger accounts.

**EXERCISE 2: Multiple choice questions:**

1. Of the following account types, which would be increased by a debit?
  - a) Liabilities and expenses
  - b) Assets and equity
  - c) Assets and expenses
  - d) Equity and revenues
  
2. The following comments all relate to the recording process. Which of these statements is correct?
  - a) The general ledger is a chronological record of transactions
  - b) The general ledger is posted from transactions recorded in the general journal
  - c) The trial balance provides the primary source document for recording transactions into the general journal
  - d) Transposition is the transfer of information from the general journal to the general ledger
  
3. The following comments each relate to the recording of journal entries. Which statement is true?
  - a) For any given journal entry, debits must exceed credits
  - b) It is customary to record credits on the left and debits on the right
  - c) The chart of accounts reveals the amount to debit and credit to the affected accounts
  - d) Journalization is the process of converting transactions and events into debit/credit format
  
4. Failure to record the receipt of a utility bill for services already received will result in:
  - a) An overstatement of assets
  - b) An overstatement of liabilities
  - c) An overstatement of equity
  - d) An understatement of assets
  
5. The proper journal entry to record Ransom Company's billing of clients for \$500 of services rendered is:
  - a) Cash    500  
    Accounts Receivable    500
  - b) Accounts Receivable    500  
    Service Expense    500
  - c) Accounts Receivable    500  
    Service Revenue    500
  - d) Cash    500  
    Service Revenue    500
  
6. The trial balance:
  - a) Is a formal financial statement
  - b) Is used to prove that there are no errors in the journal or ledger
  - c) Provides a listing of every account in the chart of accounts
  - d) Provides a listing of the balance of each account in active use

### EXERCISE 3: *Trial balance*

Morgan Corporation opened the year 20X6, with the following trial balance information:

MORGAN CORPORATION Trial Balance January 1, 20X6		
	Debits	Credits
Cash	\$ 25,000	
Accounts receivable	75,000	
Land	150,000	
Accounts payable		\$ 60,000
Loan payable		30,000
Capital stock		50,000
Retained earnings		110,000
Dividends		
Revenues		
Salaries expense		
Rent expense		
Supplies expense		
Interest expense		
	<u>\$250,000</u>	<u>\$250,000</u>

- 1) Jan. 2 - Collected \$10,000 on an open account receivable.
- 2) Jan. 3 - Purchased additional tract of land for \$20,000 cash.
- 3) Jan. 5 - Provided services on account to a customer for \$15,000.
- 4) Jan. 7 - Borrowed \$12,000 on a term loan payable.
- 5) Jan. 11 - Paid salaries of \$3,000.
- 6) Jan. 12 - Provided services to customers for cash, \$11,000.
- 7) Jan. 15 - Purchased (and used) office supplies on account, \$2,000.
- 8) Jan. 17 - The company paid shareholders a \$2,500 dividend.
- 9) Jan. 20 - Paid rent of \$1,700.
- 10) Jan. 23 - Paid salaries of \$4,000.
- 11) Jan. 24 - Paid \$16,000 on the open accounts payable.
- 12) Jan. 29 - Collected \$50,000 on accounts receivable.
- 13) Jan. 31 - Repaid loans of \$22,000.
- 14) Jan. 31 - Paid interest on loans of \$600.

#### **The tasks:**

- a) Create the general ledger accounts, and enter the initial balances at the start of the month.
- b) Prepare journal entries for January's transactions.
- c) Post January's transactions to the appropriate general ledger accounts.
- d) Prepare a trial balance as of January 31.
- e) Prepare an income statement and statement of retained earnings for January, and a balance sheet as of the end of January.

### EXERCISE 4: *Fill in the blanks*