

COURSE: PRINCIPLES OF ACCOUNTING, SECOND YEAR

FOURTH LECTURE

RECORDING TRANSACTIONS USING ACCOUNTING ORGANIZATION TOOLS;

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Professor



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Consultation: Tuesday, 12:15 - 13:15 , held in room 308

web: [www. ekonomija. ac.me](http://www.ekonomija.ac.me)



T Account Form

- Shaped like the letter T
- One side for increases (+) to the account
- The other side for decreases (-) to the account
- Normal Balance
 - The increased (plus) side of any T account.

Cash			
	+	-	
(a)	70,000	(b)	33,000
(f)	2,520	(d)	2,000
(q)	850	(g)	700
(r)	4,220	(i)	360
	<u>77,590</u>	(l)	1,800
		(m)	160
		(n)	200
		(o)	2,130
		(p)	620
		(s)	<u>2,500</u>
Footings			43,470
Balance	34,120		

Compare Account Column to T Account

Cash Account Column		
Transaction	(a)	70,000
Transaction	(b)	<u>-33,000</u>
Balance		37,000
Transaction	(d)	<u>-2,000</u>
Balance		35,000
Transaction	(f)	<u>+2,520</u>
Balance		37,520
Transaction	(g)	<u>-700</u>
Balance		36,820
Transaction	(i)	<u>-360</u>
Balance		36,460
Transaction	(l)	<u>-1,800</u>
Balance		34,660
Transaction	(m)	<u>-160</u>
Balance		34,500
Transaction	(n)	<u>-200</u>
Balance		34,300
Transaction	(o)	<u>-2,130</u>
Balance		32,170
Transaction	(p)	<u>-620</u>
Balance		31,550
Transaction	(q)	<u>+850</u>
Balance		32,400
Transaction	(r)	<u>+4,220</u>
Balance		36,620
Transaction	(s)	<u>-2,500</u>
		<u>34,120</u>

Cash			
	+	-	
(a)	70,000	(b)	33,000
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(q)	850	(g)	700
(r)	4,220	(i)	360
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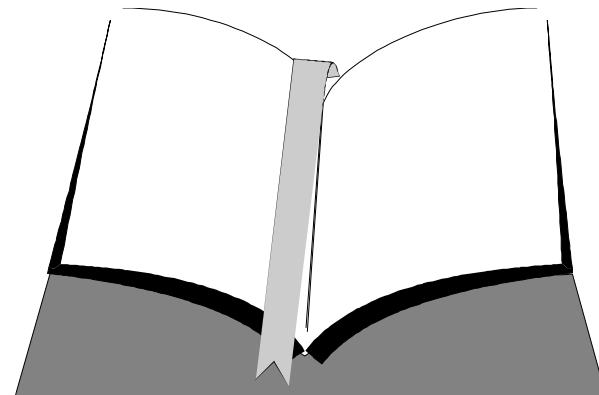
STEPS IN THE RECORDING PROCESS

The basic steps in the recording process are:

1. Analyze each transaction in terms of its effect on the accounts.
2. **Enter the transaction information in a journal (book of original entry).**
3. Transfer the journal information to the appropriate accounts in the ledger (book of accounts).

THE JOURNAL

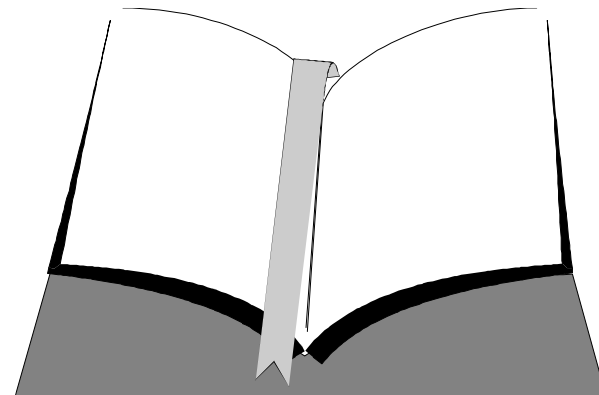
- Transactions are initially recorded in chronological order in a **journal** before being transferred to the accounts.
- Every company has a **general journal** which contains:
 1. spaces for dates,
 2. account titles and explanations,
 3. two amount columns (debit/credit).



THE JOURNAL

The **journal** makes several significant contributions to the recording process:

1. It discloses in one place the complete effect of a transaction.
2. It provides a chronological record of transactions.
3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be readily compared.



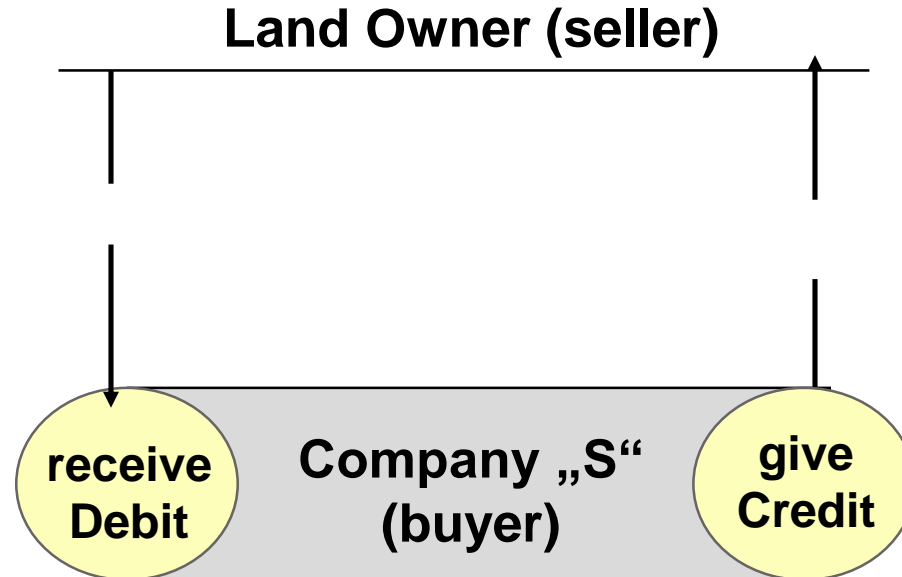
JOURNALIZING

- Entering transaction data in the journal is known as **journalizing**.
- Separate journal entries are made for each transaction.
- A complete entry consists of:
 1. the date of the transaction,
 2. the accounts and amounts to be debited and credited, and
 3. a brief explanation of the transaction.

TECHNIQUE OF JOURNALIZING

Entry B.

September, 1.,
Company „S“ buys
land for 20,000€.



General Journal

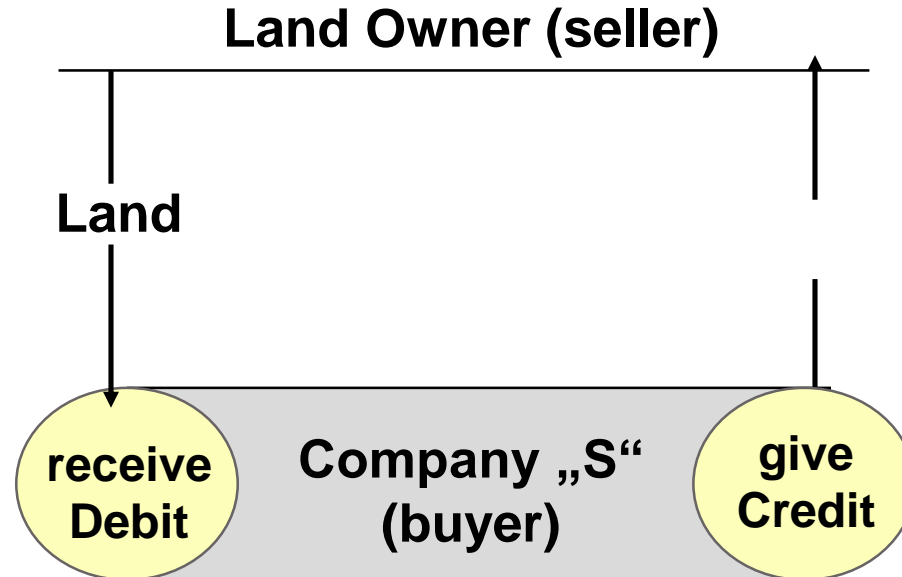
Date	Description	Debit	Credit
01/09			

The date of the transaction is entered in the date column.

TECHNIQUE OF JOURNALIZING

Entry B.

September, 1.,
Company „S“ buys
land for 20,000€.



General Journal

Date	Description	Debit	Credit
01/09	Land	20,000	

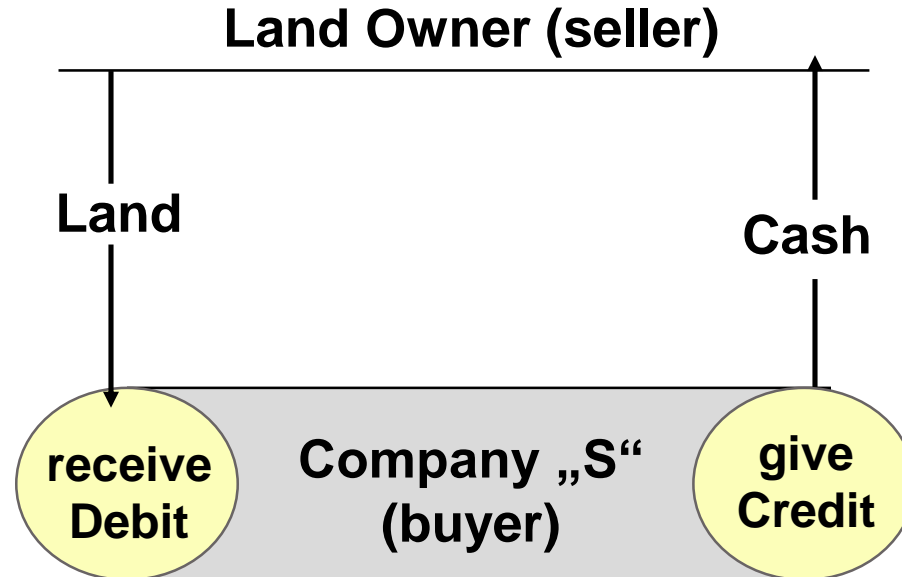
The **debit** account title is entered at the extreme left margin of the Description column.

The amounts for the **debits** are recorded in the Debit column

TECHNIQUE OF JOURNALIZING

Entry B.

September, 1.,
Company „S“ buys
land for 20,000€.



General Journal

Date	Description	Debit	Credit
01/09	Land	20,000	
	Cash		20,000

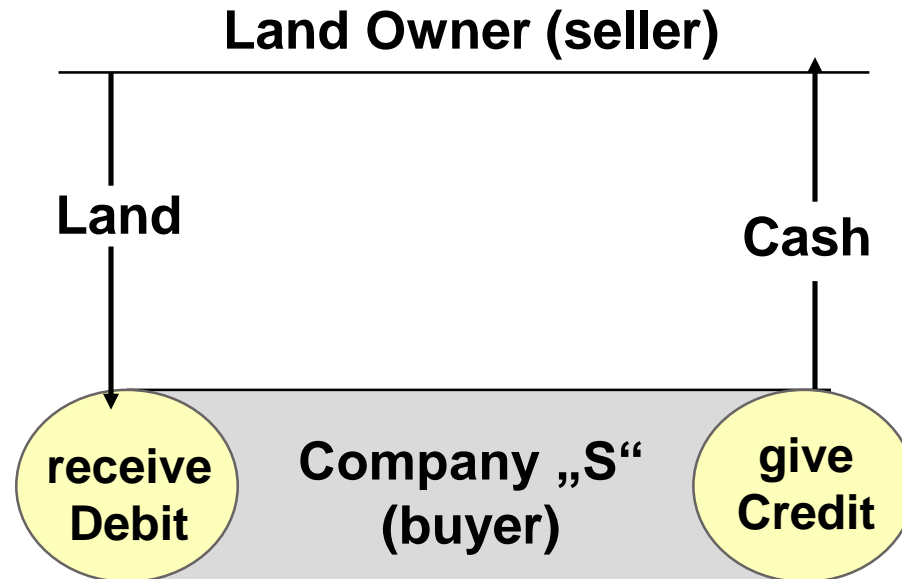
The **debit** account title is entered at the extreme left margin of the Account Titles and Explanation column. The **credit** account title is indented on the next line.

The amounts for the **credits** are recorded in the Credit column.

TECHNIQUE OF JOURNALIZING

Entry B.

September, 1.,
Company „S“ buys
land for 20,000€.



General Journal

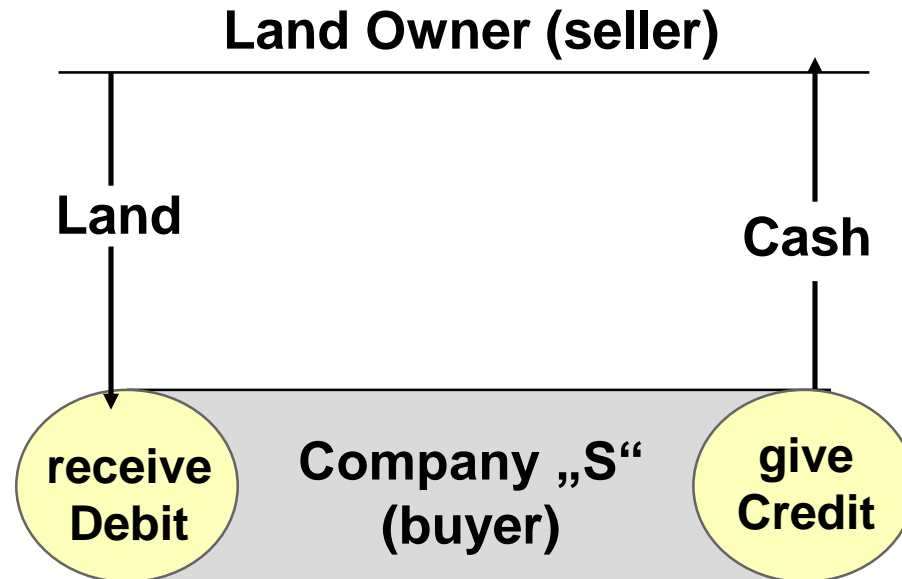
Date	Description	Debit	Credit
01/09	Land	20,000	
	Cash		20,000

The amounts for the **credits** are recorded in the Credit column.

TECHNIQUE OF JOURNALIZING

Entry B.

September, 1.,
Company „S“ buys
land for 20,000€.



General Journal

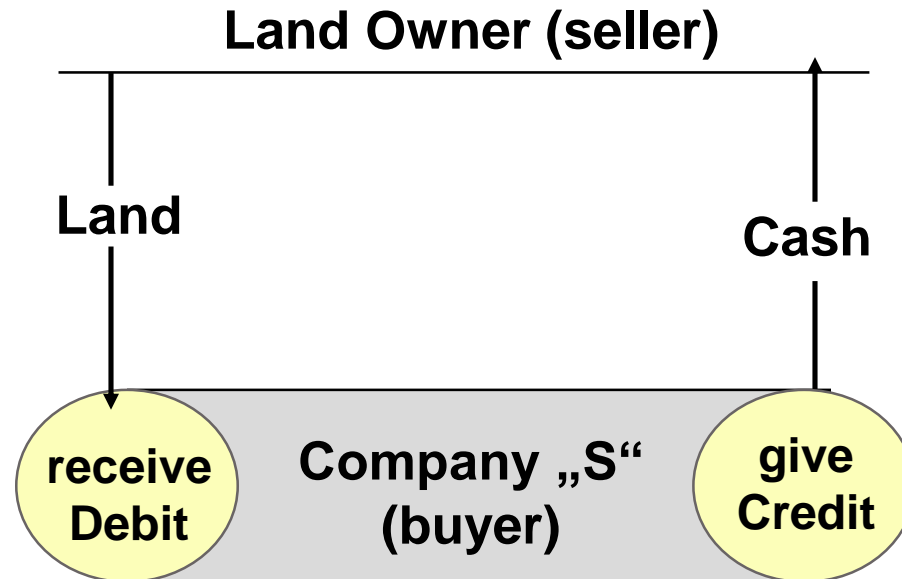
Date	Description	Debit	Credit
01/09	Land	20,000	
	Cash		20,000
	(buying land for cash)		

A brief explanation of the transaction is given.

TECHNIQUE OF JOURNALIZING

Entry B.

September, 1.,
Company „S“ buys
land for 20,000€.



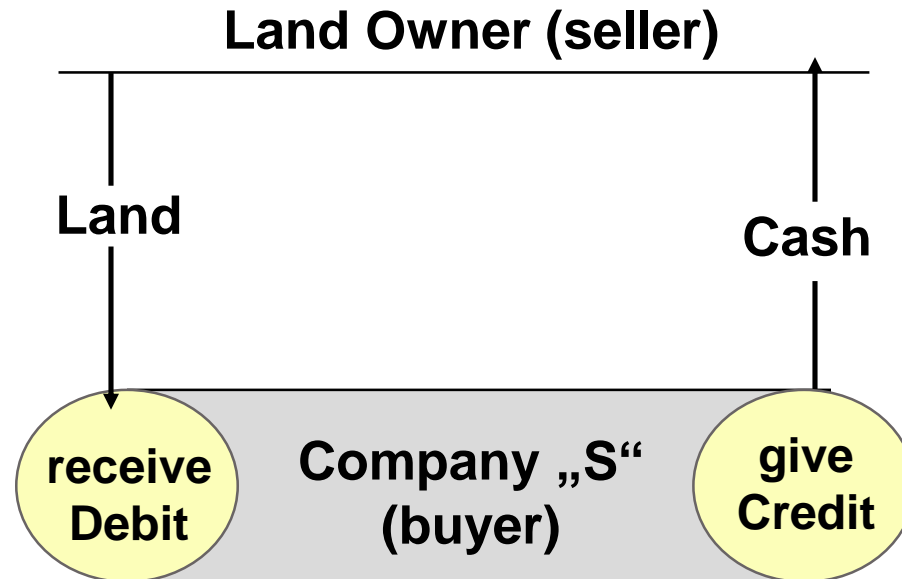
General Journal

Date	Description	Debit	Credit
01/09	Land	20,000	
	Cash		20,000
	(buying land for cash)		

TECHNIQUE OF JOURNALIZING

Entry B.

September, 1.,
Company „S“ buys
land for 20,000€.



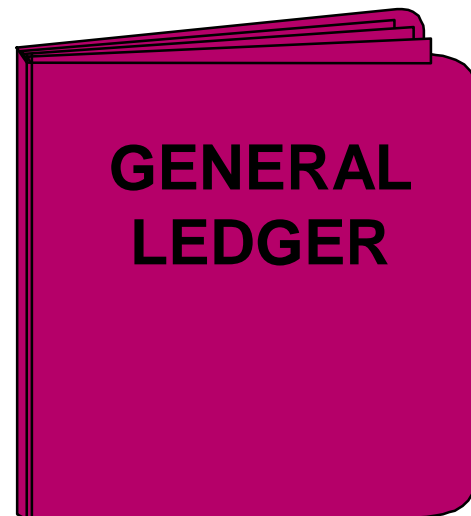
General Journal

A space is left between journal entries. The blank space separates individual journal entries and makes the entire journal easier to read.

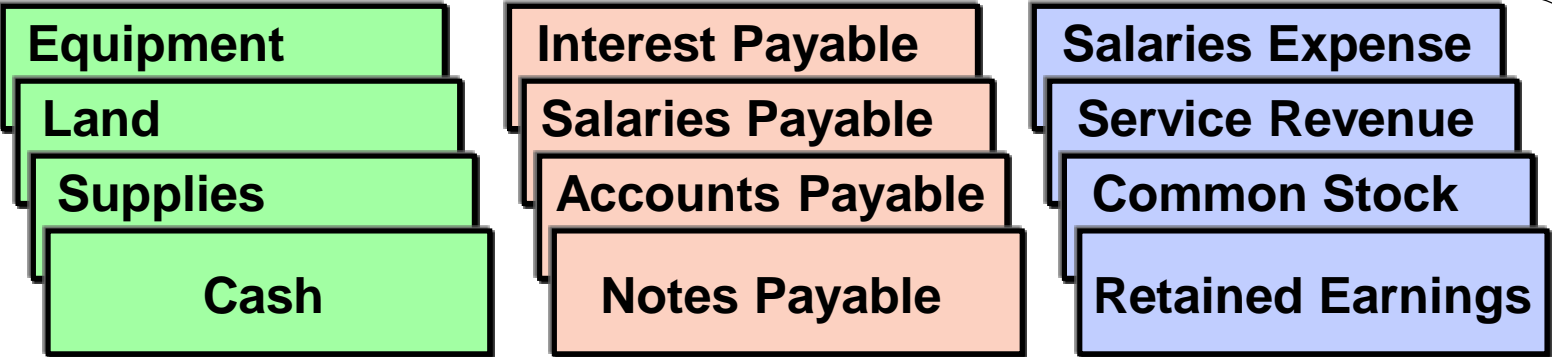
Date	Description	Debit	Credit
01/09	Land	20,000	
	Cash (buying land for cash)		20,000

THE LEDGER

- The entire group of accounts maintained by a company is referred to as the **ledger**.
- A **general ledger** contains all the assets, liabilities, and stockholder's equity accounts.
- The **general ledger** is a record containing all accounts used by the company.



THE GENERAL LEDGER



Dr	Fixed Assets	Cr

Dr	Current Assets	Cr

Dr	Owners' equity	Cr

Dr	Suppliers	Cr

Dr	Revenue	Cr

Dr	Expenses	Cr

INVESTMENT OF CASH BY STOCKHOLDERS

Transaction

October 1, stockholders invest by 10,000€ cash.

Basic Analysis

The asset Cash is increased **10,000€**, and equity is increased **10,000€**.

Debit -Credit Analysis

Debits increase assets: debit Cash **10,000€**.
Credits increase equity: credit Equity **10,000€**.

INVESTMENT OF CASH BY EQUITY

Journal Entry

No.	Date	Description	Ref..	Debit	Credit
1)	Oct. 1.	Cash	1.	10.000	
		Equity	2.		10.000
		- Business bank statement-			

The ledger

Dr.	1. Cash	Cr.
1) 10.000		

Dr.	2. Equity	Cr.
	10.000 (1	

PURCHASE OF OFFICE EQUIPMENT

Transaction

On October 2, 5,000€ of office equipment was purchased from a supplier (invoice No. 1).

Basic Analysis

The office equipment asset increased by €5,000, and the liability to the supplier increased by €5,000.

Debit -Credit Analysis

Debits increase assets: debit Office Equipment 5,000€. Credits increase liabilities: credit Supplier 5,000€.

INVESTMENT OF CASH BY EQUITY

Journal Entry

No.	Date	Description	Ref..	Debit	Credit
2)	Oct. 2.	Office Equipment	3.	5.000	
		Suplier	4.		5.000
		- Invoice No.1 -			

The ledger

Dr. Office Equipment Cr.
2) 5.000

Dr. Supplier Cr.
5.000 (2)

RECEIPT OF CASH FOR FUTURE SERVICE

Transaction

October 10., we sold goods to customers worth 2,000€ per invoice. No. 3. Payment is expected in the next 15 days

Basic Analysis

Selling goods to customers leads to business income and receivables from customers. A customer account is an account belonging to current assets.

Debit -Credit Analysis

Debits increase assets: debit Customers **2.000€**.
Credits increase revenue: credit Revenues **2.000€**.

INVESTMENT OF CASH BY EQUITY

Journal Entry

No.	Date	Description	Ref..	Debit	Credit
3)	Oct. 10.	Customer	5.	2.000	
		Revenue	6.		2.000
		- Invoice No.1 -			

The ledger

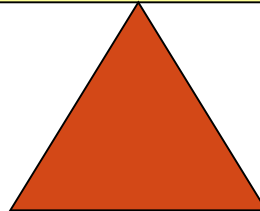
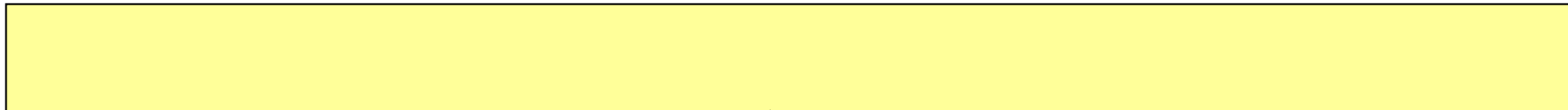
Dr.	Customer	Cr.
3) 2.000		

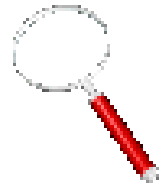
Dr.	Revenue	Cr.
	2.000 (3)	

TRIAL BALANCE

5

5





An Overview...

General
Journal

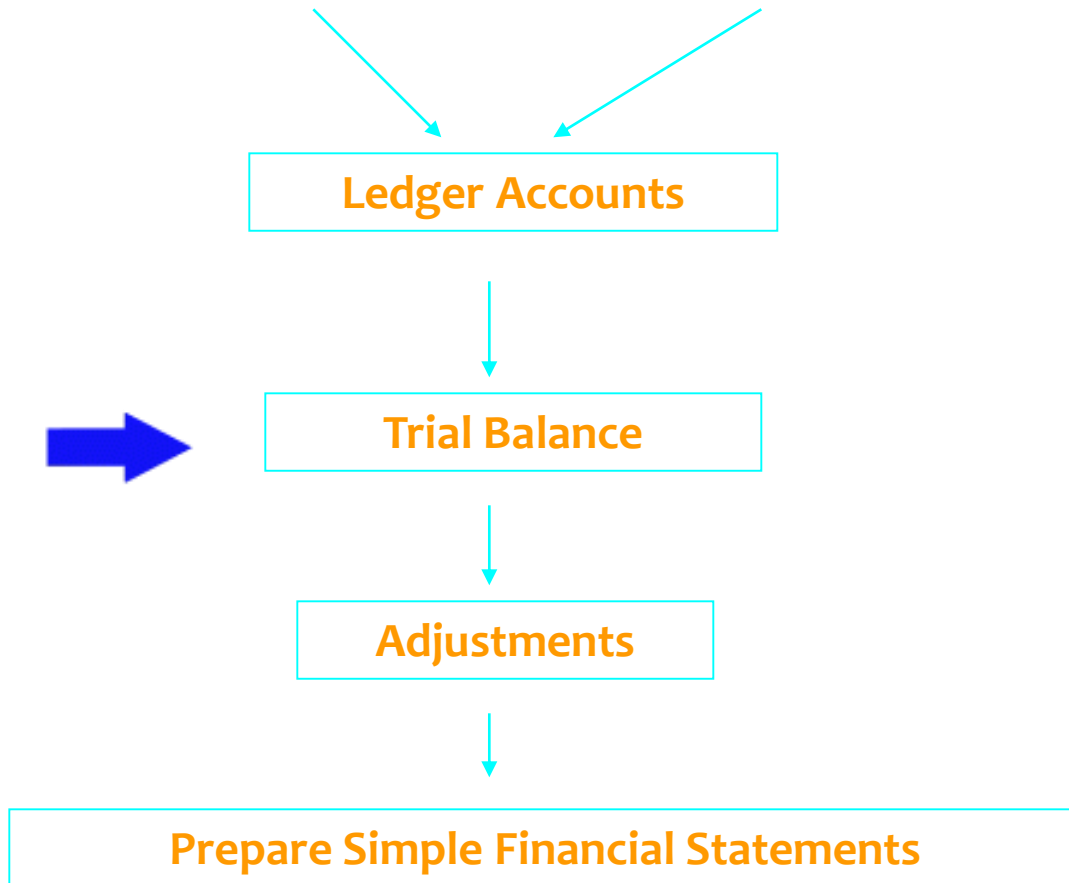
Special
Journals

Ledger Accounts

➡ Trial Balance

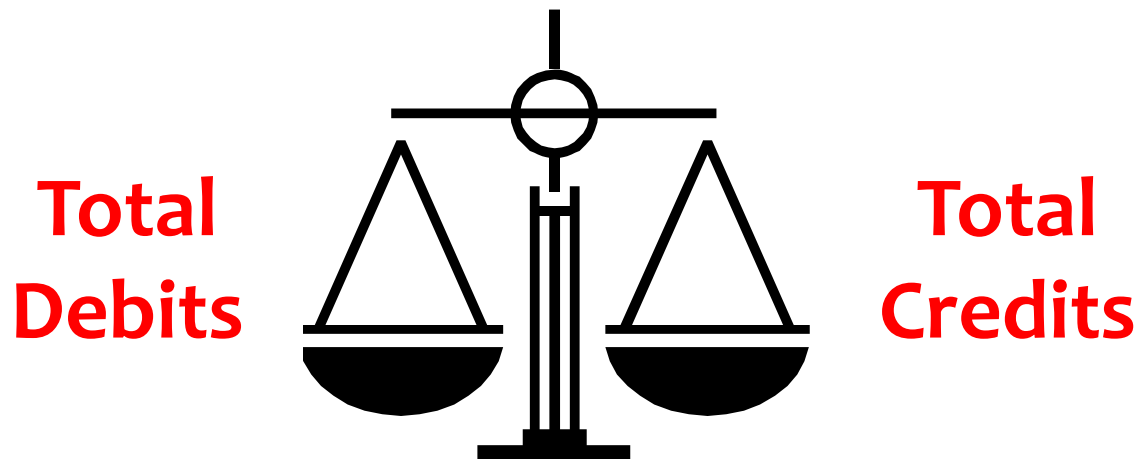
Adjustments

Prepare Simple Financial Statements



What is a Trial Balance?

- ✓ It is a statement of all the balances from the ledger and journal on a particular date.
- ✓ Total debits **should be equal** to total credits.
- ✓ The steps for preparing a trial balance are:
 - List the account titles and their balances.
 - Total the debit and credit columns.
 - Prove the equality of the two columns.



A trial balance looks like this...

Trial Balance as at 31 Dec 2000					
Db.	Cash	Cr.		Debit	Credit
				\$	\$
1) 2.000	2.000 (4)		Capital		10,500
2) 1.000	6.300 (5)		Cash	700	
3) 6.000	700		Bank	7,650	
			Purchases	3,900	
			Supplier		150
			Revenue		5,680
			Debtors	2,930	
			Returns Inwards	450	
			Drawings	100	
			Wages	600	
				16,330	16,330

Db.	Supplier	Cr.
3) 6.750		1.500 (1)
150		5.400 (2)

LIMITATIONS OF A TRIAL BALANCE

- A trial balance does not prove that all transactions have been recorded or that the ledger is correct.
- **Errors that can affect the Trial Balance**
 - Errors of calculation
 - Errors of omission of one entry
 - Posting to the wrong side of an account
 - Errors in amount
- **Errors not revealed by the Trial Balance:**
 - Errors of omission
 - Errors of commission
 - Errors of principle
 - Complete reversal of entries
 - Compensating errors
 - Errors of original entry

Thank you for your attention!

- Questions?