3.3 Recording Process

Objectives
- Introduce the basic steps of the recording process
- Introduce the process of creating journal entries
- Introduce the process of posting journal entries to "T" accounts

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Basic Steps

The Basic steps in the recording process are as follows:
- Analyze each transaction
- Enter the transaction information in a journal
- Transfer journal information to the appropriate accounts in the ledger

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Journal

Definition - Journals are accounting records in which ANALYZED transactions are initially recorded in chronological order
- 3 significant contributions to the recording process
  - Discloses in one place the complete effect of a transaction
  - Provides chronological record of transactions
  - Helps to prevent and locate errors because debit and credit amounts for each entry can be readily compared

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**Journals**

**Basic Format**

<table>
<thead>
<tr>
<th>Date</th>
<th>Debit portion</th>
<th>Credit portion</th>
<th>Explanation or note</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$XXXX</td>
<td>$XXXX</td>
<td></td>
</tr>
</tbody>
</table>

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**Journal entries problem**

Journalize the following transactions:

1. June 1 - Issues common stock to investors in exchange for $2,500 cash
2. June 2 – buys equipment on account for $900
3. June 3 – Pays $500 to landlord for June rent
4. June 12 – Bills J. Kronsnoble $700 for welding work done

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**Journal entry problem solution**

<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1</td>
<td>Cash</td>
<td>$2,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Common Stock</td>
<td></td>
<td>$2,500</td>
</tr>
<tr>
<td>June 2</td>
<td>Equipment</td>
<td>$ 900</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accounts Payable</td>
<td></td>
<td>$ 900</td>
</tr>
<tr>
<td>June 3</td>
<td>Rent Expense</td>
<td>$ 500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>$ 500</td>
</tr>
<tr>
<td>June 12</td>
<td>Accounts Receivable</td>
<td>$ 700</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Revenue</td>
<td></td>
<td>$ 700</td>
</tr>
</tbody>
</table>

Note: issued shares of stock for cash, purchased equipment on credit, sent rent check to landlord, billed client for work completed.

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Ledgers

- Definition – all accounts maintained by a business entity
- Companies can have different ledgers but all companies have a general ledger which contains all asset, liability and stockholders’ equity accounts

Chart of Accounts

- Basically a list of a company’s accounts used in their accounting system
- Includes the number and type of each account
- Different from one company to the next depending on the company’s size, complexity and type of business
- Customized list for each company

Posting

- Definition – Procedure to transfer journal entry information to the ledger.
- The net effect of posting is the accumulation of ANALYZED transactions that have been JOURNALIZED into individual accounts
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Posting Problem

Go back to problem 3 and let's POST those JE's to the proper accounts.

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Posting Solution

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Accounts Receivable</th>
<th>Equipment</th>
<th>Accounts Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,500</td>
<td>$500</td>
<td>$700</td>
<td>$700</td>
<td>$500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Common Stock</th>
<th>Revenue</th>
<th>Rent Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,500</td>
<td></td>
<td>$700</td>
<td>$500</td>
</tr>
</tbody>
</table>

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Illustrated Process

Basic Steps of the recording process
1. Transaction occurs
2. Basic analysis
3. Equation analysis
4. Debit – Credit analysis
5. Journal entry
6. Posting
Problem – complete recording process

Selected transactions for Tastefully Yours interior decorator corporation in its first month of business – show all steps

- Issued stock to investors for $10,000 in cash on October 1st
- Purchased a used car for $8000 cash for use in business on October 3rd
- Purchased supplies on account for $500 on October 10th
- Billed customers $2,600 for services performed on October 18th
- Paid $200 cash for advertising start of the business October 19th

Complete recording process solution

See completerecordproc.doc for solution