

THE **A** **B** **C**s OF Accounting

Lesson 5: Working with the General Ledger

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Lesson Objectives

- After studying this lesson, you will be able to:
 - ▲ Post to the general ledger
 - ▲ Make corrections to the general ledger
 - ▲ Use the different journals
 - ▲ Calculate depreciation
 - ▲ Prepare the trial balance
 - ▲ Define the terms discussed in the lesson

Step 4: Post to the General Ledger

- Where the account sheets are kept
- Also known as the *record of final entry*
- The last place where business transactions are recorded
- Process of entering information here is called *posting*

To Open an account:

- An account must be opened in the General Ledger before any transactions can be posted
- Two steps to opening an account:
 1. Write the account title on the form
 2. Write the account number on the form

Determine the Account Number

- The first digit identifies the classification
- The second and third numbers define the position of the account in the classification

Type of Account	Range of Numbers
Asset	100-199
Liability	200-299
Owner's Equity	300-399
Revenue	400-499
Expenses	500-599

The Posting Process:

- Completed from left to right

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Date	Description	Post. Ref.	Debit	Credit
2009 1 Jan.	1 Cash in Bank	101	7 5 0 0 0 -	
2	2 Dave Diver, Capital	301		7 5 0 0 0 -
3	3 Memorandum 1			

Account <u>CASH IN BANK</u>		Account No. <u>101</u>				
Date	Description	Post. Ref.	Debit	Credit	Balance	
2009 1 Jan.	1	GI	7 5 0 0 0 -		7 5 0 0 0 -	
2						
3						

Account <u>DAVE DIVER, CAPITAL</u>		Account No. <u>301</u>				
Date	Description	Post. Ref.	Debit	Credit	Balance	
2009 1 JAN.	1	GI		7 5 0 0 0 -	7 5 0 0 0 -	
2						
3						

Note: Blue arrows and circles in the original image indicate the flow of data from the General Journal to the T-accounts. Arrows 1-6 show the path of information from the journal entries to the respective T-account entries and balances.



Posting Process

1. Write date of journal entry in date column
2. Description is usually left blank
3. Enter journal letter and page number in Post Ref Column
4. Enter the debit amount
5. Calculate the account balance
6. Enter account number in general journal Post Ref column
7. Repeat process for credit part of entry



Other Journals

- For efficiency and to save time, other journals are used
- These journals only record one type of transaction
- A ledger that contains accounts of a single type:
 - ▲ *Subsidiary ledger*

Other Journals

Journals	Purpose
Cash receipts	To record cash received from all sources
Cash payments	To record all disbursements of cash
General	To record all transactions that are not recorded in another special journal
Purchases	To record purchases of merchandise on credit
Sales	To record sales of merchandise on credit
Ledgers	Content
General	Assets, Liabilities, Owner's Equity, Revenue, and Expense accounts
Accounts Receivable	Accounts for credit customers
Accounts Payable	Accounts for creditors

With 100 credit sales:

■ Without a Sales Journal:

▲ 300 postings

- ◆ 100 to Accounts Receivable
- ◆ 100 to Sales Tax Payable
- ◆ 100 to Sales

■ With a Sales Journal:

▲ 100 sales postings

■ 3 summary postings

- ▲ (Would remain 3 no matter how many sales)

Depreciation

- Income tax deduction that allows a business owner to recover the cost or other basis of certain property
- An annual allowance for wear and tear, deterioration, or obsolescence of property
- There are many different kinds of depreciation
- See your tax person for details on depreciation

Straight Line Depreciation

- $(\text{Cost} - \text{Salvage Value}) / \text{Number of Years}$
- Salvage Value: what you can get for an item after you have used it for a number of years
- John bought a truck, paid \$10,000; good for 5 years
 - ▲ If there is no salvage value, John can depreciate \$2,000 per year as a depreciation expense

Double-Declining Balance

- Takes double the straight-line amount the first year
- Then that same percentage is applied to the amount not yet depreciated in subsequent years

Year	Straight-line	Percent (%)	Double-Declining	Percent (%)
1	\$2,000	20%	\$4,000	40%
2	\$2,000	20%	\$2,400	40%
3	\$2,000	20%	\$1,440	40%
4	\$2,000	20%	\$864	40%
5	\$2,000	20%	\$518.40	40%



Recording Depreciation

- Depreciation is an expense
- When the cost of an asset is transferred to expense, the recorded value of an asset must be reduced
- This cannot be done by decreasing the balance in the asset account (GAAP requires that the original cost of the asset appear in the Asset account until disposal)

Recording Depreciation (cont'd)

- To record the adjustment for depreciation, use a contra-asset account
- This account has a normal balance that is the opposite of the related Asset account
- The asset's carrying value on the balance sheet is the difference between the purchase price and the accumulated depreciation

Recording Depreciation (cont'd)

- Truck: \$10,000 straight-line for 5 years
- After one year: Truck is worth \$8,000
- This is your entry:

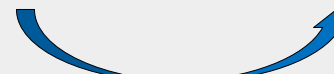
Depreciation Expense	\$2,000	
		Accumulated Depreciation
		\$2,000

- This is a credit balance that offsets the value of the main account

Continuing with the Accounting Cycle

- After journal entries are posted to the general ledger, the total of debit balances should equal the total of credit balances – *Proving the ledger*

AJ Collectibles												
Trial Balance												
January 31, 2009												
Account Name		Debit					Credit					
	Cash	2	4	7	6	0	-					
	Office Equipment	9	5	5	9	-						
	Accounts Payable							6	4	3	4	-
	AJ, Capital							2	5	0	0	0
	Fees Income							3	5	0	0	-
	Rent Expense			6	1	5	-					
	Totals	3	4	9	3	4		3	4	9	3	4



Step 5: Prepare the Trial Balance

- Enter the heading: Company name, title, closing date
- List account names in same order as in chart of accts
- From ledger account forms, enter ending balances in appropriate debit or credit column
- Total the debit column
- Total the credit column
- Compare the total debits with the total credits

Trial Balance Errors

- If the debits and credits are equal, then the financial records are in balance
- If they are not equal, there is an error

Trial Balance Errors (cont'd)

- The columns were added incorrectly
- An account was omitted
- An account balance was recorded in the wrong column
- Half of a transaction was recorded
- An amount was recorded incorrectly

Correcting Trial Balance Errors

- If error is found before posting, draw a line through the incorrect item and write the correction above it (Lesson 4)
- If an error is found after posting, then the correction is made by a *correcting entry*

Summary

- Posting to the general ledger
- Special journals
- Depreciation helps business owners recover their costs for equipment
- The trial balance tests the accuracy of the debits and credits (if they are in balance, we can be happy)

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