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FINANCIAL ACCOUNTING

3e

IFRS EDITION

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PREVIEW OF CHAPTER 2

THE RECORDING PROCESS

The Account	Steps in the Recording Process	The Trial Balance
<ul style="list-style-type: none">• Debits and credits• Equity relationships• Summary of debit/credit rules	<ul style="list-style-type: none">• Journal• Ledger• Posting• The recording process illustrated• Summary illustration of journalizing and posting	<ul style="list-style-type: none">• Limitations of a trial balance• Locating errors• Currency signs and underlining

Financial Accounting
IFRS 3rd Edition
Weygandt • Kimmel • Kieso

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Explain what an account is and how it helps in the recording process.
2. Define debits and credits and explain their use in recording business transactions.
3. Identify the basic steps in the recording process.
4. Explain what a journal is and how it helps in the recording process.
5. Explain what a ledger is and how it helps in the recording process.
6. Explain what posting is and how it helps in the recording process.
7. Prepare a trial balance and explain its purposes.

The Account

Learning Objective 1

Explain what an account is and how it helps in the recording process.

- ◆ Record of increases and decreases in a specific asset, liability, stockholders' equity, revenue, or expense item.
- ◆ Debit = "Left"
- ◆ Credit = "Right"

An account can be illustrated in a T-account form.



Account Name	
Debit / Dr.	Credit / Cr.

Debits and Credits

DEBIT AND CREDIT PROCEDURES

Double-entry system

- ◆ Each transaction must affect two or more accounts to keep the basic accounting equation in balance.
- ◆ Recording done by debiting at least one account and crediting at least one other account.
- ◆ DEBITS must equal CREDITS.

Learning Objective 2

Define debits and credits and explain their use in recording business transactions.

Debits and Credits

If the sum of Debit entries are **greater than** the sum of Credit entries, the account will have a debit balance.



Account Name		
	Debit / Dr.	Credit / Cr.
Transaction #1	\$10,000	\$3,000
Transaction #3	8,000	
Balance	\$15,000	

Debits and Credits

If the sum of Credit entries are **greater than** the sum of Debit entries, the account will have a credit balance.



Account Name		
Debit / Dr.	Credit / Cr.	
Transaction #1	\$10,000	Transaction #2
	\$3,000	Transaction #3
	8,000	
Balance	\$1,000	

Debits and Credits

Assets	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Chapter 3-23

- ◆ **Assets** - Debits should exceed credits.
- ◆ **Liabilities** - Credits should exceed debits.
- ◆ **Normal balance** is on the increase side.

Liabilities	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-24

Debits and Credits

Equity	
Debit / Dr.	Credit / Cr.
↓	↑
	Normal Balance

Chapter 3-25

- ◆ Issuance of share capital and revenues increase equity (credit).
- ◆ Dividends and expenses decrease equity (debit).

Share Capital-Ordinary		
Debit / Dr.	Credit / Cr.	
↓	↑	
	Normal Balance	

Chapter 3-25



Retained Earnings	
Debit / Dr.	Credit / Cr.
↓	↑
	Normal Balance

Chapter 3-25



Dividends	
Debit / Dr.	Credit / Cr.
↑	↓
Normal Balance	

Chapter 3-23

Debits and Credits

Revenues	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-26

Expenses	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Chapter 3-27



- ◆ The purpose of earning **revenues** is to benefit the shareholders.
- ◆ The effect of debits and credits on revenue accounts is the **same as** their effect on equity.
- ◆ **Expenses** have the opposite effect: expenses decrease equity.

Debits and Credits



Normal
Balance
Debit

Normal
Balance
Credit

Liabilities



Debit / Dr.	Credit / Cr.
	
	Normal Balance

Assets

Debit / Dr.	Credit / Cr.
	
Normal Balance	



Chapter
3-23

Equity

Debit / Dr.	Credit / Cr.
	
	Normal Balance



Chapter
3-25

Expenses

Debit / Dr.	Credit / Cr.
	
Normal Balance	

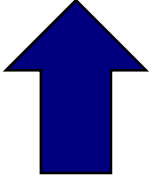
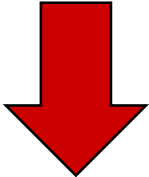
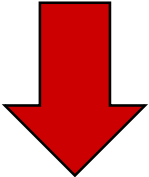
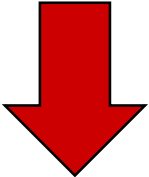
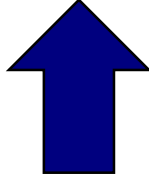
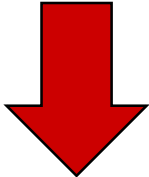
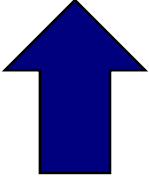

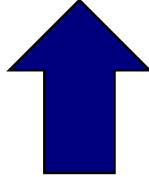
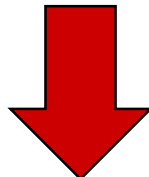
Chapter
3-27

Revenues

Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter
3-26

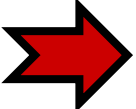
Summary of Debit/Credit Rules

	Statement of Financial Position			Income Statement	
	<u>Asset</u>	=	<u>Liability</u> + <u>Equity</u>	<u>Revenue</u>	- <u>Expense</u>
Debit			 		
Credit			 		

Summary of Debit/Credit Rules

Question

Debits:

- a. increase both assets and liabilities.
- b. decrease both assets and liabilities.
-  c. increase assets and decrease liabilities.
- d. decrease assets and increase liabilities.

Summary of Debit/Credit Rules

Question

Accounts that normally have debit balances are:

- a. assets, expenses, and revenues.
- b. assets, expenses, and equity.
- c. assets, liabilities, and dividends.
- d. assets, dividends, and expenses.



INVESTOR INSIGHT Keeping Score

The **Brothers Elephants** (TWN) baseball team probably has these major revenue and expense accounts:

<u>Revenues</u>	<u>Expenses</u>
Admissions (ticket sales)	Players' salaries
Concessions	Administrative salaries
Television and radio	Travel
Advertising	Stadium maintenance

Do you think that the **Manchester United** (GBR) football (soccer) club would be likely to have the same major revenue and expense accounts as Brother Elephants?

Equity Relationships

Statement of Financial Position

Assets

Liabilities

Equity

Share capital—ordinary

Retained earnings

Investments by shareholders

Net income retained in the business

Income Statement

Revenues

Less: Expenses

Net income or net loss

Retained Earnings Statement

Beginning retained earnings

Add: Net income

Less: Dividends

Ending retained earnings

Illustration 2-11
Equity relationships

Summary of Debit/Credit Rules

Relationship among the assets, liabilities, and equity of a business:

Illustration 2-12
Summary of debit/credit rules

**Basic
Equation**

Assets = Liabilities + Equity

**Expanded
Equation**

**Debit/Credit
Effects**

Assets	=	Liabilities	+	Share Capital	+	Retained Earnings	-	Dividends	+	Revenues	-	Expenses
Dr. Cr.		Dr. Cr.		Dr. Cr.		Dr. Cr.		Dr. Cr.		Dr. Cr.		Dr. Cr.
+ -		- +		- +		- +		+ -		- +		+ -

The equation must be in balance after every transaction.
Total **Debits** must equal total **Credits**.



DO IT!

Kate Browne, president of Hair It Is Company SA, has just rented space in a shopping mall in which she will open and operate a beauty salon. A friend has advised Kate to set up a double-entry set of accounting records in which to record all of her business transactions.

Identify the balance sheet accounts that Hair It Is Company will likely use to record the transactions needed to establish and open the business. Also, indicate whether the normal balance of each account is a debit or a credit.

Assets	Liabilities	Equity
Cash (debit)	Notes Payable (credit)	Share Capital—Ordinary (credit)
Supplies (debit)	Accounts Payable (credit)	
Equipment (debit)		

The Account

Business documents, such as a sales receipt, a check, or a bill, provide evidence of the transaction.

Learning Objective 3
Identify the basic steps in the recording process.

The Recording Process



Analyze each transaction



Enter transaction in a journal



Transfer journal information to ledger accounts

Illustration 2-13
The recording process

Steps in the Recording Process

The Journal

- ◆ Book of original entry.
- ◆ Transactions recorded in chronological order.
- ◆ Contributions to the recording process:
 1. Discloses the **complete effects of a transaction**.
 2. Provides a **chronological record** of transactions.
 3. Helps to **prevent or locate errors** because the debit and credit amounts can be easily compared.

Learning Objective 4

Explain what a journal is and how it helps in the recording process.

The Journal

JOURNALIZING - Entering transaction data in the journal.

Illustration: On September 1, shareholders invested €15,000 cash in the corporation in exchange for ordinary shares, and Softbyte purchased computer equipment for €7,000 cash.

Illustration 2-14

GENERAL JOURNAL				
Date	Account Title	Ref.	Debit	Credit
Sept. 1	Cash		15,000	
	Share Capital—Ordinary			15,000
	Equipment		7,000	
	Cash			7,000

The Journal

SIMPLE AND COMPOUND ENTRIES

Illustration: On July 1, Tsai Company purchases a delivery truck costing NT\$420,000. It pays NT\$240,000 cash now and agrees to pay the remaining NT\$180,000 on account.

Illustration 2-15
Compound journal entry

GENERAL JOURNAL				
Date	Account Title	Ref.	Debit	Credit
July 1	Equipment		420,000	
	Cash			240,000
	Accounts Payable			180,000



DO IT!

As president and sole shareholder, Kate Browne engaged in the following activities in establishing her salon, Hair It Is Company SA.

1. Opened a bank account in the name of Hair It Is Company SA and deposited €20,000 of her own money in this account in exchange for ordinary shares.
2. Purchased equipment on account (to be paid in 30 days) for a total cost of €4,800.
3. Interviewed three applicants for the position of beautician.

Prepare the entries to record the transactions.



DO IT!

Prepare the entries to record the transactions.

1. Opened a bank account and deposited €20,000.

Cash	20,000	
Share Capital—Ordinary		20,000

2. Purchased equipment on account (to be paid in 30 days) for a total cost of €4,800.

Equipment	4,800	
Accounts Payable		4,800

3. Interviewed three applicants for the position of beautician.

No entry

Steps in the Recording Process

The Ledger

- ◆ **General Ledger** contains all the asset, liability, and equity accounts.

Learning Objective 5
Explain what a ledger is and how it helps in the recording process.

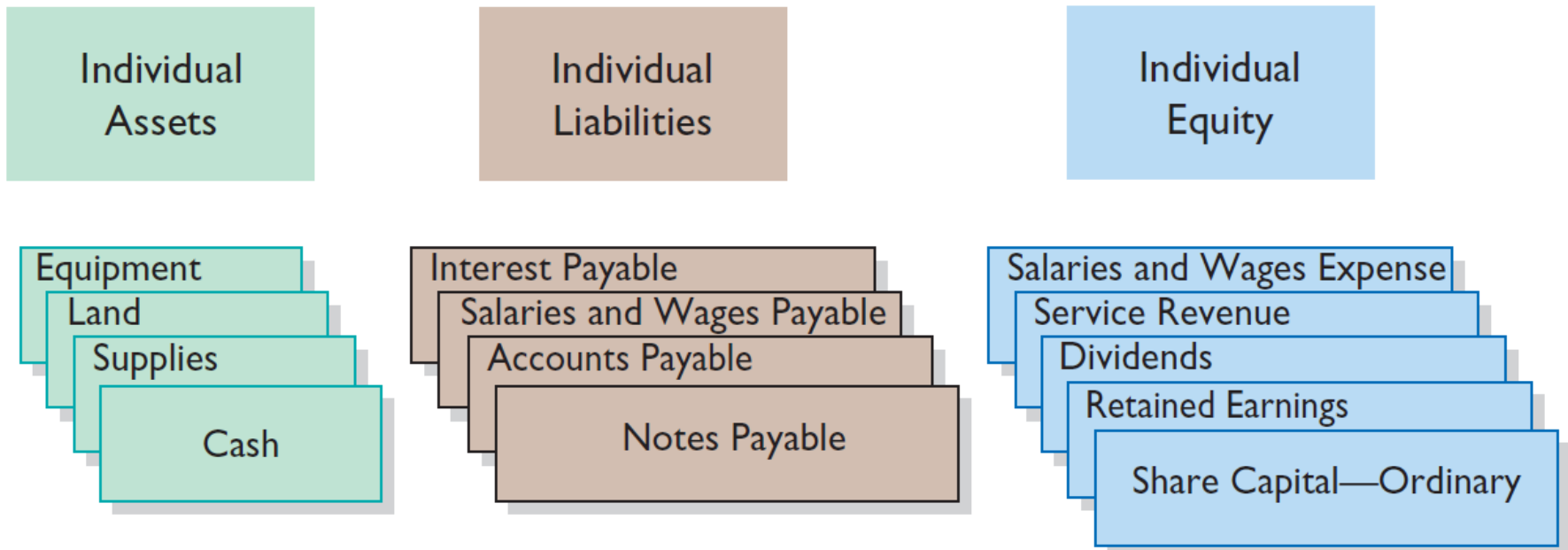


Illustration 2-16
The general ledger

ACCOUNTING ACROSS THE ORGANIZATION

What Would Sam Do?

Wal-Mart Stores, Inc. (USA)

In his autobiography, Sam Walton described the double-entry accounting system he used when **Wal-Mart Stores**, Inc. (USA) was just getting started: “We kept a little pigeonhole on the wall for the cash receipts and paperwork of each [Wal-Mart] store. I had a blue binder ledger book for each store. When we added a store, we added a pigeonhole. We did this at least up to twenty stores. Then once a month, the bookkeeper and I would enter the merchandise, enter the sales, enter the cash, and balance it.” Today, the company operates more than 7,000 stores worldwide under various names. That’s a lot of “pigeonholes.”

Source: Sam Walton, *Made in America* (New York: Doubleday, 1992), p. 53.

The Ledger

STANDARD FORM OF ACCOUNT

Illustration 2-17
Three-column form
of account

CASH					NO. 101
Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 1			25,000		25,000
2				8,000	17,000
3			4,200		21,200
9			7,500		28,700
17				11,700	17,000
20				250	16,750
30				7,300	9,450

Posting

Learning Objective 6

Explain what posting is and how it helps in the recording process.

Transferring journal entries to the ledger accounts.

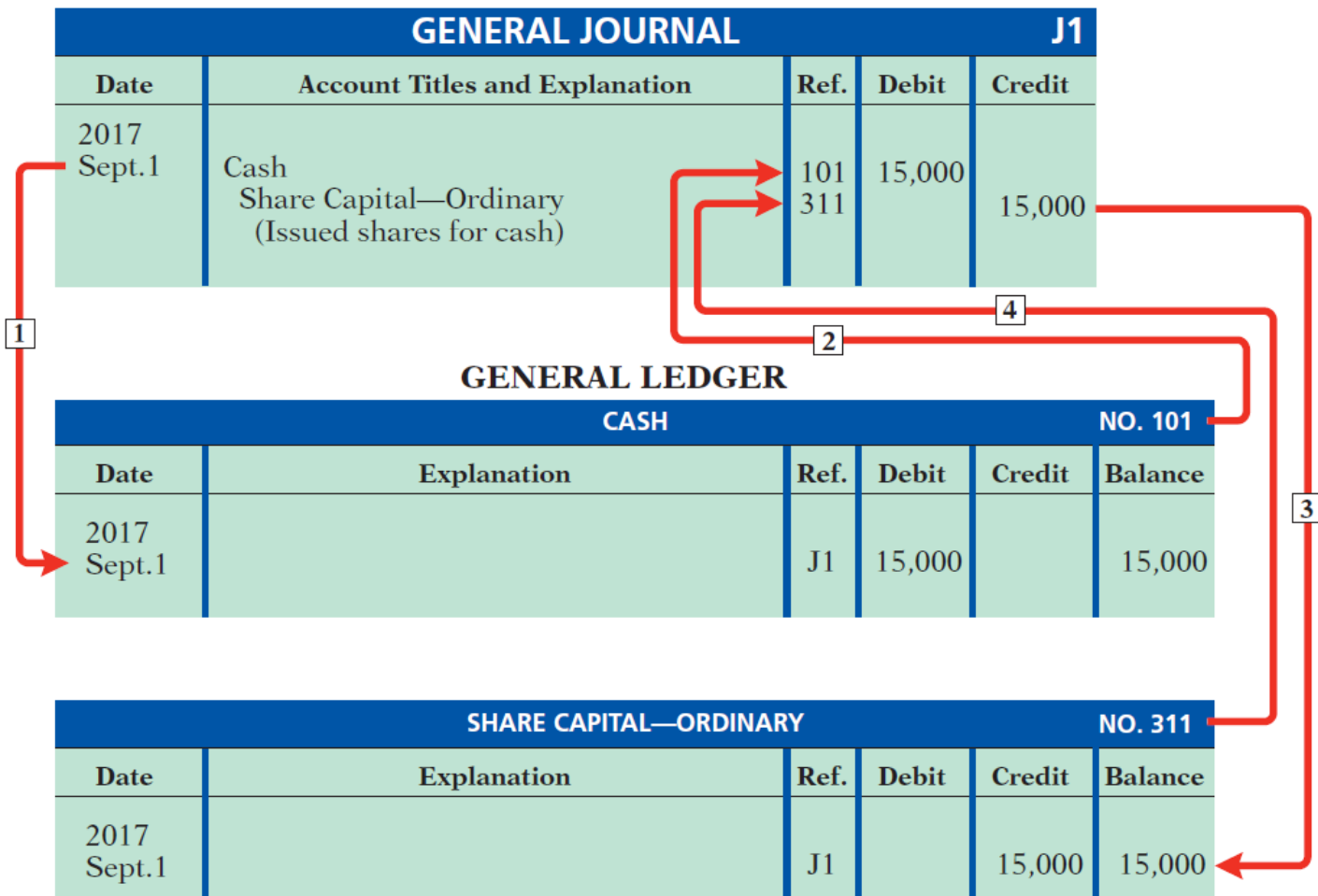
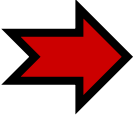


Illustration 2-18
Posting a journal entry

Posting

Question

Posting:

- a. normally occurs before journalizing.
- b. transfers ledger transaction data to the journal.
- c. is an optional step in the recording process.
-  d. transfers journal entries to ledger accounts.

YAZICI ADVERTISING A.Ş.

Chart of Accounts

Assets

- 101 Cash**
- 112 Accounts Receivable
- 126 Supplies**
- 130 Prepaid Insurance**
- 157 Equipment**
- 158 Accumulated Depreciation—
Equipment

Liabilities

- 200 Notes Payable**
- 201 Accounts Payable**
- 209 Unearned Service Revenue**
- 212 Salaries and Wages Payable
- 230 Interest Payable

Equity

- 311 Share Capital—Ordinary**
- 320 Retained Earnings
- 332 Dividends**
- 350 Income Summary

Revenues

- 400 Service Revenue**

Expenses

- 631 Supplies Expense
- 711 Depreciation Expense
- 722 Insurance Expense
- 726 Salaries and Wages Expense**
- 729 Rent Expense**
- 732 Utilities Expense**
- 905 Interest Expense

Illustration 2-19

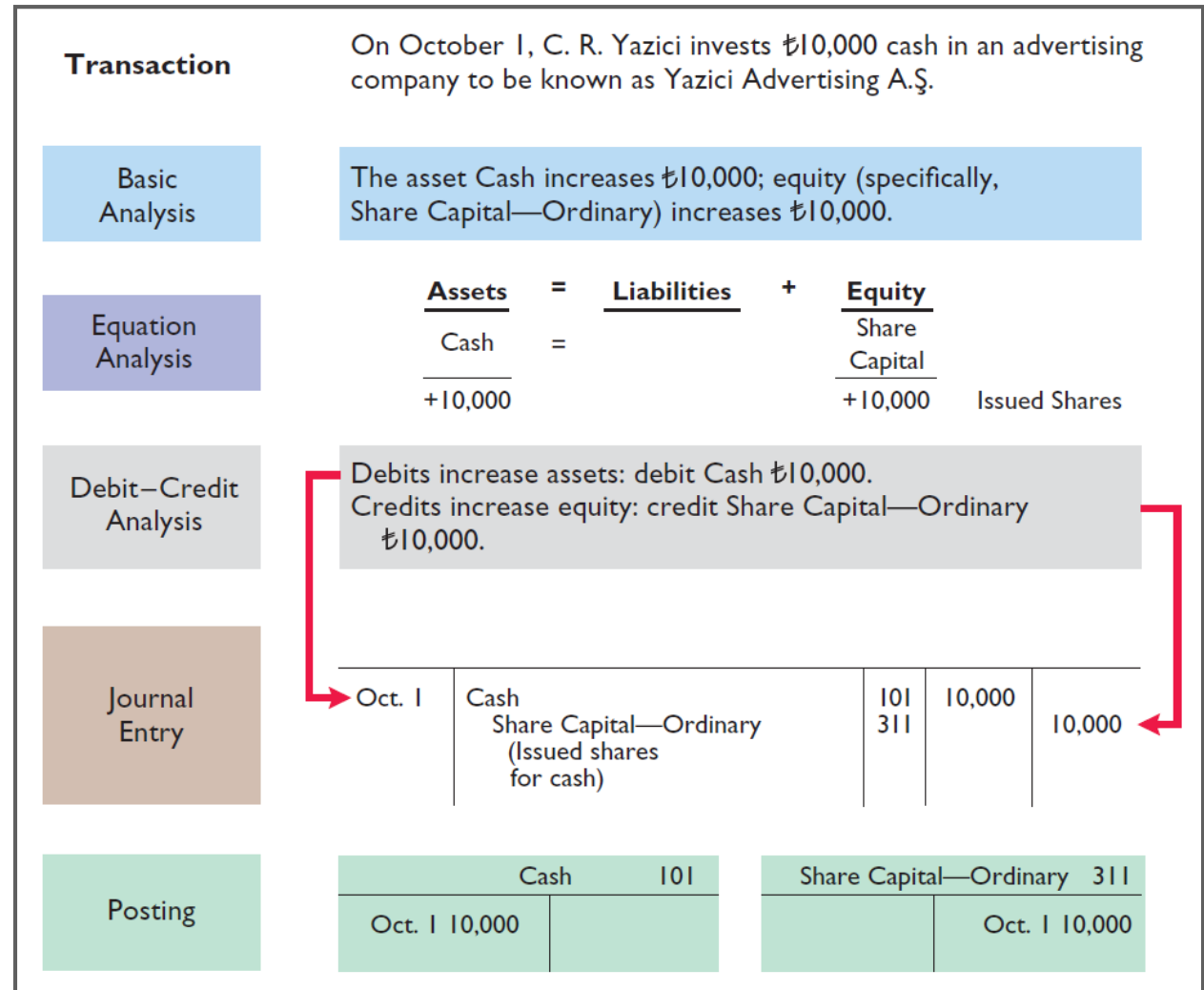
Chart of accounts for Yazici Advertising A.Ş. .

The Recording Process Illustrated

Follow these steps:

1. Determine what type of account is involved.
2. Determine what items increased or decreased and by how much.
3. Translate the increases and decreases into debits and credits.

Illustration 2-20
Investment of cash
by shareholders



Transaction

On October 1, Yazici Advertising purchases office equipment costing ₺5,000 by signing a 3-month, 12%, ₺5,000 note payable.

Basic Analysis

The asset Equipment increases ₺5,000; the liability Notes Payable increases ₺5,000.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
Equipment	=	Notes Payable		
+5,000		+5,000		

Debit–Credit Analysis

Debits increase assets: debit Equipment ₺5,000.
Credits increase liabilities: credit Notes Payable ₺5,000.

Journal Entry

Oct. 1	Equipment	157	5,000	
	Notes Payable	200		5,000
	(Issued 3-month, 12% note for office equipment)			

Posting

Equipment		157	Notes Payable		200
Oct. 1	5,000			Oct. 1	5,000

Illustration 2-21

Purchase of office equipment

Transaction

On October 2, Yazici Advertising receives a ₺1,200 cash advance from R. Knox, a client, for advertising services that are expected to be completed by December 31.

Basic Analysis

The asset Cash increases ₺1,200; the liability Unearned Service Revenue increases ₺1,200 because the service has not been performed yet. That is, when Yazici receives an advance payment, it should record an unearned revenue (a liability) in order to recognize the obligation that exists. Note also that although many liabilities have the word “payable” in their title, unearned revenue is considered a liability because the liability is satisfied by providing a product or performing a service.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
Cash	=	Unearned Service Revenue		
+1,200		+1,200		

Debit–Credit Analysis

Debits increase assets: debit Cash ₺1,200.
Credits increase liabilities: credit Unearned Service Revenue ₺1,200.

Journal Entry

Oct. 2	Cash	101	1,200	
	Unearned Service Revenue (Received cash from R. Knox for future service)	209		1,200

Posting

	Cash	101
Oct. 1	10,000	
2	1,200	

	Unearned Service Revenue	209
		Oct. 2 1,200

Illustration 2-22
Receipt of cash
for future service

Transaction

On October 3, Yazici Advertising pays office rent for October in cash, ₺900.

Basic Analysis

Rent Expense increases ₺900 because the payment pertains only to the current month; the asset Cash decreases ₺900.

Equation Analysis

$$\begin{array}{r} \text{Assets} \\ \hline \text{Cash} \\ -900 \end{array} = \begin{array}{r} \text{Liabilities} \\ \hline \end{array} + \begin{array}{r} \text{Equity} \\ \hline \text{Expenses} \\ -900 \end{array} \quad \begin{array}{l} \\ \\ \text{Rent Expense} \end{array}$$

Debit–Credit Analysis

Debits increase expenses: debit Rent Expense ₺900.
Credits decrease assets: credit Cash ₺900.

Journal Entry

Oct. 3	Rent Expense	729	900	
	Cash	101		900
	(Paid October rent)			

Posting

Cash		101	Rent Expense		729
Oct. 1	10,000		Oct. 3	900	
2	1,200				

Transaction

On October 4, Yazici Advertising pays ₺600 for a one-year insurance policy that will expire next year on September 30.

Basic Analysis

The asset Prepaid Insurance increases ₺600 because the payment extends to more than the current month; the asset Cash decreases ₺600. Payments of expenses that will benefit more than one accounting period are prepaid expenses or prepayments. When a company makes a payment, it debits an asset account in order to show the service or benefit that will be received in the future.

Illustration 2-24
Payment for insurance

Equation Analysis

<u>Assets</u>		=	<u>Liabilities</u>	+	<u>Equity</u>
Cash	+		Prepaid Insurance		
-600			+600		

Debit–Credit Analysis

Debits increase assets: debit Prepaid Insurance ₺600.
Credits decrease assets: credit Cash ₺600.

Journal Entry

Oct. 4	Prepaid Insurance	130	600	
	Cash	101		600
	(Paid one-year policy; effective date October 1)			

Posting

Cash		101	Prepaid Insurance		130
Oct. 1	10,000		Oct. 4	600	
2	1,200				
		Oct. 3			
		4			
		900			
		600			

Transaction

On October 5, Yazici Advertising purchases an estimated 3-month supply of advertising materials on account from Aero Supply for ₺2,500.

Basic Analysis

The asset Supplies increases ₺2,500; the liability Accounts Payable increases ₺2,500.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
Supplies	=	Accounts Payable		
+2,500		+2,500		

Debit – Credit Analysis

Debits increase assets: debit Supplies ₺2,500.
Credits increase liabilities: credit Accounts Payable ₺2,500.

Journal Entry

Oct. 5	Supplies	126	2,500	
	Accounts Payable	201		2,500
	(Purchased supplies on account from Aero Supply)			

Posting

Supplies		126	Accounts Payable		201
Oct. 5	2,500			Oct. 5	2,500

The Recording Process Illustrated

Event	On October 9, Yazici Advertising hires four employees to begin work on October 15. Each employee is to receive a weekly salary of ₺500 for a 5-day work week, payable every 2 weeks—first payment made on October 26.
Basic Analysis	A business transaction has not occurred. There is only an agreement between the employer and the employees to enter into a business transaction beginning on October 15. Thus, a debit–credit analysis is not needed because there is no accounting entry. (See transaction of October 26 for first entry.)

Illustration 2-26
Hiring of employees

Transaction

On October 20, Yazici Advertising's board of directors declares and pays a ₺500 cash dividend to shareholders.

Basic Analysis

The Dividends account increases ₺500; the asset Cash decreases ₺500.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
Cash	=			Dividends
-500				-500

Debit–Credit Analysis

Debits increase dividends: debit Dividends ₺500.
Credits decrease assets: credit Cash ₺500.

Journal Entry

Oct. 20	Dividends	332	500	
	Cash	101		500
	(Declared and paid a cash dividend)			

Posting

Cash				101	
Oct. 1	10,000	Oct. 3	900		
2	1,200	4	600		
		20	500		

Dividends				332	
Oct. 20	500				

Illustration 2-27

Declaration and payment of dividend

Transaction

On October 26, Yazici Advertising owes employee salaries of ₺4,000 and pays them in cash. (See October 9 event.)

Basic Analysis

Salaries and Wages Expense increases ₺4,000; the asset Cash decreases ₺4,000.

Equation Analysis

$$\begin{array}{r} \text{Assets} \\ \text{Cash} \\ -4,000 \end{array} = \begin{array}{r} \text{Liabilities} \\ \text{Expenses} \\ -4,000 \end{array} + \begin{array}{r} \text{Equity} \\ \text{Salaries and Wages Expense} \end{array}$$

Debit–Credit Analysis

Debits increase expenses: debit Salaries and Wages Expense ₺4,000.
Credits decrease assets: credit Cash ₺4,000.

Journal Entry

Oct. 26	Salaries and Wages Expense	726	4,000	
	Cash	101		4,000
	(Paid salaries to date)			

Posting

Cash		101	Salaries and Wages Expense		726
Oct. 1	10,000	Oct. 3	900	Oct. 26	4,000
2	1,200	4	600		
		20	500		
		26	4,000		

Illustration 2-28
Payment of salaries

Transaction

On October 31, Yazici Advertising receives ₺10,000 in cash from Copa Company for advertising services performed in October.

Basic Analysis

The asset Cash increases ₺10,000; the revenue account Service Revenue increases ₺10,000.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
Cash	=			Revenues
+10,000				+10,000 Service Revenue

Debit–Credit Analysis

Debits increase assets: debit Cash ₺10,000.
Credits increase revenues: credit Service Revenue ₺10,000.

Journal Entry

Oct. 31	Cash	101	10,000	
	Service Revenue	400		10,000
	(Received cash for services performed)			

Posting

Cash		101	Service Revenue		400
Oct. 1	10,000			Oct. 31	10,000
2	1,200				
31	10,000				
		Oct. 3	900		
		4	600		
		20	500		
		26	4,000		



DO IT!

Como Company SpA recorded the following transactions in a general journal during the month of March. Post these entries to the Cash account.

Mar. 4	Cash	2,280	
	Service Revenue		2,280
15	Salaries and Wages Expense	400	
	Cash		400
19	Utilities Expense	92	
	Cash		92

Cash	
3/1	600

GENERAL JOURNAL

PAGE J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2017				
Oct. 1	Cash	101	10,000	
	Share Capital—Ordinary	311		10,000
	(Issued shares for cash)			
1	Equipment	157	5,000	
	Notes Payable	200		5,000
	(Issued 3-month, 12% note for			
	office equipment)			
2	Cash	101	1,200	
	Unearned Service Revenue	209		1,200
	(Received cash from R. Knox			
	for future service)			
3	Rent Expense	729	900	
	Cash	101		900
	(Paid October rent)			
4	Prepaid Insurance	130	600	
	Cash	101		600
	(Paid one-year policy; effective			
	date October 1)			

GENERAL JOURNAL				PAGE J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
5	Supplies Accounts Payable (Purchased supplies on account from Aero Supply)	126 201	2,500	2,500
20	Dividends Cash (Declared and paid a cash dividend)	332 101	500	500
26	Salaries and Wages Expense Cash (Paid salaries to date)	726 101	4,000	4,000
31	Cash Service Revenue (Received cash for services performed)	101 400	10,000	10,000

Illustration 2-30
General journal entries

GENERAL LEDGER

Cash No. 101				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 1		J1	10,000	
2		J1	1,200	
3		J1		900
4		J1		600
20		J1		500
26		J1	4,000	
31		J1	10,000	

Supplies No. 126				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 5		J1	2,500	

Prepaid Insurance No. 130				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 4		J1	600	

Equipment No. 157				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 1		J1	5,000	

Notes Payable No. 200				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 1		J1		5,000

Accounts Payable No. 201				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 5		J1		2,500

Unearned Service Revenue No. 209				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 2		J1		1,200

Share Capital—Ordinary No. 311				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 1		J1		10,000

Dividends No. 332				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 20		J1	500	

Service Revenue No. 400				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 31		J1		10,000

Salaries and Wages Expense No. 726				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 26		J1	4,000	

Rent Expense No. 729				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 3		J1	900	

Illustration 2-31
General ledger

The Trial Balance

Learning Objective 7

Prepare a trial balance and explain its purposes.

A trial balance

- ◆ is a list of accounts and their balances at a given time.
- ◆ proves the mathematical equality of debits and credits after posting.

The steps for preparing a trial balance are:

1. List the account titles and their balances.
2. Total the debit and credit columns.
3. Prove the equality of the two columns.

Trial Balance

Illustration 2-32
A trial balance

YAZICI ADVERTISING A.Ş. Trial Balance October 31, 2017

	<u>Debit</u>	<u>Credit</u>
Cash	₺ 15,200	
Supplies	2,500	
Prepaid Insurance	600	
Equipment	5,000	
Notes Payable		₺ 5,000
Accounts Payable		2,500
Unearned Service Revenue		1,200
Share Capital—Ordinary		10,000
Dividends	500	
Service Revenue		10,000
Salaries and Wages Expense	4,000	
Rent Expense	900	
	<u>₺28,700</u>	<u>₺28,700</u>

Limitations of a Trial Balance

Trial balance may balance even when:

1. A transaction is not journalized.
2. A correct journal entry is not posted.
3. A journal entry is posted twice.
4. Incorrect accounts are used in journalizing or posting.
5. Offsetting errors are made in recording the amount of a transaction.

Ethics Note



An *error* is the result of an unintentional mistake; it is neither ethical nor unethical. An *irregularity* is an intentional misstatement, which is viewed as unethical.

Currency Signs and Underlining

Currency Signs

- ◆ Do not appear in journals or ledgers.
- ◆ Typically used only in the trial balance and the financial statements.
- ◆ Shown only for the first item in the column and for the total of that column.

Underlining

- ◆ A single line is placed under the column of figures to be added or subtracted.
- ◆ Totals are double-underlined.

INVESTOR INSIGHT Why Accuracy Matters

Recently, the German Finance minister, Wolfgang Schauble, said that “statistical and communication problems” were to blame for a €55.5 billion error in the accounts of nationalized property lender **Hypo Real Estate Holding** (DEU). Mr. Schauble referred to the error as “an annoying mistake.” This seems to be a considerable understatement considering that the error represented 2.6% of the German gross domestic product. Since the bank had been previously taken over by the German government, the error had resulted in an overstatement of the federal debt of €55.5 billion.)

How could this error have occurred?



DO IT!

The following accounts come from the ledger of SnowGo Company Ltd. at December 31, 2017 (Japanese yen in thousands).

157	Equipment	¥88,000	311	Share Capital—Ordinary	¥20,000
332	Dividends	8,000	212	Salaries and	
201	Accounts Payable	22,000		Wages Payable	2,000
726	Salaries and		200	Notes Payable	19,000
	Wages Expense	42,000	732	Utilities Expense	3,000
112	Accounts Receivable	4,000	130	Prepaid Insurance	6,000
400	Service Revenue	95,000	101	Cash	7,000

Prepare a trial balance in good form.

SNOWGO COMPANY LTD.
Trial Balance
December 31, 2017
(in thousands)

Debit

Credit

A Look at U.S. GAAP

Learning Objective 8

Compare the procedures for the accounting process under IFRS and U.S. GAAP.

Key Points

- Both the IASB and FASB go beyond the basic definitions provided in this textbook for the key elements of financial statements, that is, assets, liabilities, equity, revenues, and expenses.
- In deciding whether the United States should adopt IFRS, some of the issues the U.S. Securities and Exchange Commission (SEC) said should be considered are:
 - ◆ Whether IFRS is sufficiently developed and consistent in application.
 - ◆ Whether the IASB is sufficiently independent.
 - ◆ Whether IFRS is established for the benefit of investors.
 - ◆ The issues involved in educating investors about IFRS.
 - ◆ The impact of a switch to IFRS on U.S. laws and regulations.
 - ◆ The impact on companies including changes to their accounting systems, contractual arrangements, corporate governance, and litigation.
 - ◆ The issues involved in educating accountants, so they can prepare statements under IFRS.

A Look at U.S. GAAP

Similarities

- A trial balance under GAAP follows the same format as shown in the textbook.
- As shown in the textbook, currency signs are typically used only in the trial balance and the financial statements. The same practice is followed under GAAP, using the U.S. dollar.

Differences

- In the United States, equity is often referred to as either shareholders' equity or stockholders' equity, and Share Capital—Ordinary is referred to as Common Stock. The statement of financial position is often called the balance sheet in the United States.
- Rules for accounting for specific events sometimes differ across countries. For example, IFRS companies rely less on historical cost and more on fair value than U.S. companies. Despite the differences, the double-entry accounting system is the basis of accounting systems worldwide.



A Look at U.S. GAAP


Looking to the Future

The basic recording process shown in this textbook is followed by companies across the globe. It is unlikely to change in the future. The definitional structure of assets, liabilities, equity, revenues, and expenses may change over time as the IASB and FASB evaluate their overall conceptual framework for establishing accounting standards.

A Look at U.S. GAAP

IFRS Self-Test Questions


Which statement is correct regarding GAAP?

- a) GAAP reverses the rules of debits and credits, that is, debits are on the right and credits are on the left.
-  b) GAAP uses the same process for recording transactions as IFRS.
- c) The chart of accounts under GAAP is different because revenues follow assets.
- d) None of the above statements are correct.

A Look at U.S. GAAP

IFRS Self-Test Questions

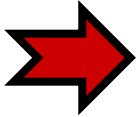
A trial balance:

- 
- a) is the same under GAAP and IFRS.
 - b) proves that transactions are recorded correctly.
 - c) proves that all transactions have been recorded.
 - d) will not balance if a correct journal entry is posted twice.

A Look at U.S. GAAP

IFRS Self-Test Questions

One difference between GAAP and IFRS is that:

- a) IFRS uses accrual-accounting concepts, and GAAP uses primarily the cash basis of accounting.
- b) GAAP uses a different posting process than IFRS.
-  c) IFRS uses more fair value measurements than GAAP.
- d) the limitations of a trial balance are different between GAAP and IFRS.

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