# Introduction to Business Accounting

# Chapter 5 - Entering Information - Posting Entries

# WORKBOOK

Slide 1

## Posting Entries

Posting is a four step process.

1. Post to the debit account – date, journal page number and amount.
2. Enter debit account number in the journal reference column
3. Post to the credit account – date, journal page number and amount
4. Enter credit account number in the journal reference column.

Slide 2

## Posting Entries

Transaction A: XYZ paid $20,000 cash for building purchase on March 15.

This is the same transaction we used above to learn how to enter a Journal entry.  Now we will POST the entry to the Account(s).

Recall that his is how the Journal appeared at the end of Step 4 when Journalized.  Notice the Post. Ref. column is empty.  Once posting is completed, we will insert a posting reference.

**XYZ Journal – Page 5**

| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| March | 15 | Buildings<br>Cash<br>Purchased storage garage.. | | 20,000 | <br>20,000 |

Slide 3

## Posting Entries

- First, the transaction date is entered in the Date column of the proper Account.
- The account to be debited in the journal entry is Buildings, so we will complete that account posting first.

| XYZ Journal – Page 5 | | | | | |
|---|---|---|---|---|---|
| Date | | Description | Post. Ref. | Debit | Credit |
| March | 15 | Buildings<br>Cash<br>Purchased storage garage.. | | 20,000 | <br>20,000 |

| XYZ Buildings Account - 18 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
| | | | | | | Debit | Credit |
| March | 15 | | | | | | |

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Slide 4

## Posting Entries

Next, the amount is entered in the Debit column of the proper account and calculate the proper balance. There was no previous balance in the Buildings account so the new balance is a $20,000 debit.

**XYZ Journal – Page 5**

| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| March | 15 | Buildings<br>Cash<br>Purchased storage garage.. | | 20,000 | 20,000 |

**XYZ Buildings Account - 18**

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|---|---|---|---|---|---|---|---|
| | | | | | | Debit | Credit |
| March | 15 | | | 20,000 | | 20,000 | |

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Slide 5

## Entering Information – Posting Entries

Next, the Journal page number is entered in the account's posting reference column.

| XYZ Journal – Page 5 | | | | | |
|---|---|---|---|---|---|
| Date | | Description | Post. Ref. | Debit | Credit |
| March | 15 | Buildings<br>Cash<br>Purchased storage garage.. | | 20,000 | 20,000 |

| XYZ Buildings Account - 18 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
| | | | | | | Debit | Credit |
| March | 15 | | 5 | 20,000 | | 20,000 | |

Slide 6

## Entering Information – Posting Entries

Lastly, the account number (in this case 18) is entered in the journal's posting reference column. Note that this is the last step of journalizing thus creating a cross-reference between the journal entry and the ledger accounts.

| XYZ Journal – Page 5 | | | | | |
|---|---|---|---|---|---|
| Date | | Description | Post. Ref. | Debit | Credit |
| March | 15 | Buildings<br>Cash<br>Purchased storage garage. | 18 | 20,000 | <br>20,000 |

| XYZ Buildings Account - 18 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
| | | | | | | Debit | Credit |
| March | 15 | | 5 | 20,000 | | 20,000 | |

Slide 7

## Posting Entries

We continue to enter all credits of the journal entries in to proper account(s).

First, the transaction date is entered in the date column of the cash account.

| XYZ Journal – Page 5 | | | | | |
|---|---|---|---|---|---|
| Date | | Description | Post. Ref. | Debit | Credit |
| March | 15 | Buildings<br>Cash<br>Purchased storage garage. | 18 | 20,000 | 20,000 |

| XYZ Cash Account - 10 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
| | | | | | | Debit | Credit |
| | | Balance From Prior Entries | | | | 59,800 | |
| March | 15 | | | | | | |

Slide 8

## Posting Entries

The amount is entered in the Credit column and the proper balance is calculated and noted. The previous balance in cash was a debit of $59,800. after posting a credit of $20,000, the new balance is $39,800.

**XYZ Journal – Page 5**

| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| March | 15 | Buildings<br>Cash<br>Purchased storage garage. | 18 | 20,000 | <br>20,000 |

**XYZ Cash Account - 10**

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|---|---|---|---|---|---|---|---|
| | | | | | | Debit | Credit |
| | | Balance From Prior Entries | | | | 59,800 | |
| March | 15 | | | | 20,000 | 39,800 | |

Slide 9

## Posting Entries

Next, the journal page number is entered in the account's posting reference column.

| XYZ Journal – Page 5 | | | | | |
|---|---|---|---|---|---|
| Date | | Description | Post. Ref. | Debit | Credit |
| March | 15 | Buildings<br>Cash<br>Purchased storage garage. | 18 | 20,000 | <br>20,000 |

| XYZ Cash Account - 10 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
| | | | | | | Debit | Credit |
| | | Balance From Prior Entries | | | | 59,800 | |
| March | 15 | | 5 | | 20,000 | 39,800 | |

Slide 10

## Posting Entries

Lastly, the account number (10 for cash) is entered in the journals posting reference column to complete the cross-reference.

| XYZ Journal – Page 5 | | | | | |
|---|---|---|---|---|---|
| Date | | Description | Post. Ref. | Debit | Credit |
| March | 15 | Buildings<br>Cash<br>Purchased storage garage.. | 18<br>10 | 20,000 | <br>20,000 |

| XYZ Cash Account - 10 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
| | | | | | | Debit | Credit |
| | | Balance From Prior Entries | | | | 59,800 | |
| March | 15 | | 5 | | 20,000 | 39,800 | |

Slide 11

## Posting Entries

- We have just competed the posting of one journal entry.

- This process is repeated for every entry in the journal. If you are using an accounting program, posting takes place automatically. However, in a manual system, you should post journals to accounts regularly to allow the preparation of accurate monthly reports at the end of the month.

- Next we will Post some of the Journal Entries we made earlier.

Slide 12

## Posting Entries

Transaction B: On March 17, XYZ received payment for services performed in the amount of $10,000.

This is how the Journal will appear at the end of Step 4 when Journalizing.

**XYZ Journal – Page 6**

| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| March | 17 | Cash<br>Fees Earned<br>Received fees from client. | | 10,000 | <br>10,000 |

Slide 13

## Posting Entries

The first account listed in the Journal entry is Cash. We enter the date, amount of $10,000 debit, new debit balance of $49,800, and cross-reference posting references in the journal and ledger account.

| XYZ Journal – Page 6 | | | | | |
|---|---|---|---|---|---|
| Date | | Description | Post. Ref. | Debit | Credit |
| March | 17 | Cash<br>Fees Earned<br>Received fees from client. | 10 | 10,000 | 10,000 |

| XYZ Cash Account - 10 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
| | | | | | | Debit | Credit |
| | | Balance From Prior Entries | | | | 59,800 | |
| March | 15 | | 5 | | 20,000 | 39,800 | |
| March | 17 | | 6 | 10,000 | | 49,800 | |

Slide 14

## Posting Entries

The next account listed in the journal entry is Fees Earned, so we will complete that account posting next.

| XYZ Journal – Page 6 | | | | | |
|---|---|---|---|---|---|
| Date | | Description | Post. Ref. | Debit | Credit |
| March | 17 | Cash<br>Fees Earned<br>Received fees from client. | 10<br>30 | 10,000 | <br>10,000 |

| XYZ Fees Earned Account - 30 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
| | | | | | | Debit | Credit |
| March | 17 | | 6 | | 10,000 | | 10,000 |

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Slide 15

## The Trial Balance

At the end of each accounting period (typically monthly, quarterly and yearly), the debit and credit columns of each account ledger should be totaled and the final balances recorded if not done during the posting process.

The totals of each account are incorporated into the first report of the closing process, the Trial Balance.

The purpose of the Trial Balance is to prove that the debits and credits equal and to uncover errors from the journalizing and posting process.

A Trial Balance is quite simply a list of all accounts within the business and their current debit or credit balances.

Slide 16

# The Unadjusted Trial Balance

This example Trial Balance report is what we call an Unadjusted Trial Balance because there are adjusting entries we do at the end of every accounting period.

| XYZ Company<br>Unadjusted Trial Balance<br>Period Ending: March 31, 2015 | | |
|---|---|---|
| Account | Debit Balances | Credit Balances |
| 10 Cash | 48,500 | |
| 14 Office Supplies | 700 | |
| 18 Buildings | 20,000 | |
| 40 Accounts Payable | | 500 |
| 70 Fees Earned | | 10,000 |
| 44 Unearned Rent | | 30,000 |
| 82 Rent Expense | 1,000 | |
| 86 Utilities Expense | 300 | |
| 62 Retained Earnings | | 30,000 |
| | 70,500 | 70,500 |

Slide 17

## Entering Information – Errors

Like any process that is manual, there are many errors that can occur when recording and posting. If you are using an automated system, errors will be reduced but not eliminated altogether.

How do you know there is an error?

1. Your Trial Balance doesn't balance.
2. You have a ledger account that does not have a normal balance
3. Based on experience, a balance does not seem correct.

There are two types of errors, those that are on the Trial Balance and those that are not.

Slide 18

## Entering Information – Errors

Errors Within the Trial Balance – there are two common errors made during journalizing and posting that affect the trial balance.

- Transposition – this occurs when the order of the digits is changed by mistake, such as writing 123 as 213 or 132.

- Slide – this occurs when the entire number's value (by decimal point) is moved one or more spaces by mistake, such as writing 123.00 as 12.30 or 1,230.00.

Slide 19

## Entering Information – Errors

- Errors that are not typically found by producing a Trial Balance:
- Types of errors include:
  - An entry was never journalized or posted. (Completeness of transactions)
  - A correct entry was journalized but never posted.
  - A journal entry was posted twice.
  - Incorrect accounts are used in posting.
  - Offsetting errors are made.
- *Correcting Journal Entry* – Bookkeepers and Accountants must always leave a clear trail and evidence of all transactions. If an entry is in error, we don't erase the entry, we prepare an adjusting journal entry to correct it.
- The following is an entry in the Journal to correct an error that has been discovered that was already journalized and/or posted.

Slide 20

## Entering Information – Correcting Entry

Transaction: On March 4, Office Supplies were purchased for $200 with cash. This was journalized to Accounts Payable instead of Cash.

Original Journal Entry: (before posting)

| XYZ Journal – Page 3 | | | | | |
|---|---|---|---|---|---|
| Date | | Description | Post. Ref. | Debit | Credit |
| March | 4 | Office Supplies<br>Accounts Payable<br>Ordered office supplies on account. | | 200 | 200 |

Correcting Journal Entry

| XYZ Journal – Page 3 | | | | | |
|---|---|---|---|---|---|
| Date | | Description | Post. Ref. | Debit | Credit |
| March | 8 | Accounts Payable<br>Cash<br>To correct erroneous credit to Accounts Payable on March 4.. | | 200 | 200 |

Slide 21

## Finding Errors Using Horizontal Analysis

Horizontal Analysis is the process of comparing the amount in each account on a current trial balance or financial statement with the same account on a prior period trial balance or financial statement.

The EARLIER report or is the base which is used for assessing the accuracy of the current period report..

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Slide 22

## Finding Errors Using Horizontal Analysis

For example, you wish to know the amount of change in Fees Earned from Last Month to This Month. You prepare a Horizontal Analysis Report using the information from the Income Statement for each month.

XYZ Company
Horizontal Analysis Report
For Periods: February 28, 2015 and March 31, 2015

| | | | Increase (Decrease) | |
|---|---|---|---|---|
| | March 2015 | February 2015 | Amount | Percent |
| Fees Earned | 10,000 | 15,000 | (5,000) | (33.3%) |
| Operating Expenses: | | | | |
| Rent Expense | 1,100 | 800 | 200 | 25.0% |
| Utilities Expense | 300 | 400 | (100) | (25.0%) |
| Total Operating Expenses | 1,300 | 1,200 | 100 | 8.3% |
| Net Income | 8,700 | 13,800 | (5,100) | (36.9%) |

Slide 23

## Finding Errors Using Horizontal Analysis

First, drop in the balances from the February 2015 and March 2015 Income Statement for each month.

| XYZ Company<br>Horizontal Analysis Report<br>For Periods: February 28, 2015 and March 31, 2015 | | | | |
|---|---|---|---|---|
| | | | Increase (Decrease) | |
| | March 2015 | February 2015 | Amount | Percent |
| Fees Earned | 10,000 | 15,000 | | |
| Operating Expenses: | | | | |
| Rent Expense | 1,100 | 800 | | |
| Utilities Expense | 300 | 400 | | |
| Total Operating Expenses | 1,300 | 1,200 | | |
| Net Income | 8,700 | 13,800 | | |

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Slide 24

## Finding Errors Using Horizontal Analysis

Next we calculate the Increase (Decrease) for each line and put the result in the Amount column. Subtract the prior month from the current month. In this case: March 2015 – February 2015 = Amount

| XYZ Company<br>Horizontal Analysis Report<br>For Periods: February 28, 2015 and March 31, 2015 | | | | |
|---|---|---|---|---|
| | | | Increase (Decrease) | |
| | March 2015 | February 2015 | Amount | Percent |
| Fees Earned | 10,000 | 15,000 | (5,000) | |
| Operating Expenses: | | | | |
| Rent Expense | 1,100 | 800 | 200 | |
| Utilities Expense | 300 | 400 | (100) | |
| Total Operating Expenses | 1,300 | 1,200 | 100 | |
| Net Income | 8,700 | 13,800 | (5,100) | |

Slide 25

## Finding Errors Using Horizontal Analysis

Next we calculate the Percent. Divide the Increase or Decrease by the February 2015 Value = Percent

| XYZ Company<br>Horizontal Analysis Report<br>For Periods: February 28, 2015 and March 31, 2015 | | | | |
|---|---|---|---|---|
| | | | Increase (Decrease) | |
| | March 2015 | February 2015 | Amount | Percent |
| Fees Earned | 10,000 | 15,000 | (5,000) | (33.3%) |
| Operating Expenses: | | | | |
| Rent Expense | 1,100 | 800 | 200 | 25.0% |
| Utilities Expense | 300 | 400 | (100) | (25.0%) |
| Total Operating Expenses | 1,300 | 1,200 | 100 | 8.3% |
| Net Income | 8,700 | 13,800 | (5,100) | (36.9%) |

**Thus, we see a 33.3% decrease in Fees Earned**

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Slide 26

## Finding Errors Using Horizontal Analysis

Assessing the variances:

If the 33% decrease seems reasonable based on what you know about the business that month, you likely have all the transactions recorded without error.

For example, if winter is historically busier and you are now moving into the spring season, this change may be reasonable.  However, if it is normally the reverse, you may have an erroneous or missing transaction.

NOTE:  You may need to consult another employee or supervisor to assess the reasonableness of the fluctuation.

# Questions and Answers

## Review Questions:

1. True or False: Journalizing transactions takes place after posting ledger accounts.
   A. True
   B. False

2. True or False: A Trial Balance is a list of selected accounts within the business and their current debit or credit balances.
   A. True
   B. False

3. True or False: Producing a Trial Balance will help you find a missing transaction.
   A. True
   B. False

4. When posting journal entries, we typically:
   A. Post credits before debits
   B. Add a posting reference based on the name of the person posting the entry
   C. Provide a summary description of the transaction
   D. All of the above

5. True or False: Horizontal Analysis is used to find errors and justify the fluctuation in account balances between periods.
   A. True
   B. False

## Answer Key:

1. B
   False. Journalizing transactions takes place before posting ledger accounts.

2. B
   False. A Trial Balance is a list of all accounts within the business and their current debit or credit balances.

3. A
   True. Producing a Trial Balance will help you find a missing transaction.

4. C
   We typically post debits before credits and use the account number for the posting reference, in addition to providing a summary description of the transaction.

5. A
   True. Horizontal Analysis is used to find errors and justify the fluctuation in account balances between periods.