

ACCT 101 - Chapter 2

- I. Debits vs. Credits
 - A. Debit = Left
 1. Assets, Dividends and Expenses increase with Debits
 - B. Credit = Right
 1. Liabilities, Capital, Retained Earnings and Revenue increase with Credits.
- II. Journal – Book of Original Entry

A chronological record of all transactions

 - A. Analyze the transaction. Ask yourself:
 1. What accounts are affected?
 2. By how much?
 3. Did each account increase or decrease?
 - B. Record the transaction in the journal
 1. Date
 2. Record the account(s) and amounts to be debited first
 3. Record the account(s) and amounts to be credited
 4. Write a brief description of the transaction
 - C. Debits MUST ALWAYS equal credits
 - D. Do not total the journal
 - E. Normal Balance

The normal balance of each account is on the side that makes it increase.
- III. Ledger – a complete record of the transactions recorded in an individual account.
 - A. Each account has its own ledger
 - B. Posting is the process of transferring the information from the journal to the ledger.
 - C. Has a running total of each account
- IV. Trial Balance – a proof of the equality of debits and credits
 - A. NOT a financial statement
 - B. All accounts are included on the Trial Balance listed in the order of: Assets, Liabilities, Equity, Revenue, Expense
 - C. Account balances come from the ledgers.
- V. Errors
 - A. Not all errors are discovered by the Trial Balance
 - B. Errors NOT discovered by the Trial Balance – see page 70
 - C. Errors that ARE discovered by the Trial Balance – see page 70
 - D. Materiality Concept
 - E. Transposition
 - F. Slide