

- P -

- 10.- PURPOSE - propósito o fin
 11.- PLANT ASSETS - activos de fábrica
 12.- PROPERTY PLANT - propiedades del negocio

- S -

- 13.- SOMETIMES - algunas veces

- T -

- 14.- TAKEN - tomado
 15.- TWICE - dos veces, al doble, duplicadamente

- U -

- 16.- USEFUL - útil

- W -

- 17.- WITHIN - dentro, adentro, dentro de

CHAPTER III

CLASSIFYING TRANSACTIONS

After each transaction would be cumbersome and costly to prepare a new equation. An efficient way is to ^{laborious & costly} classify the transactions according to the items on the balance sheet and income statement. The increases and decreases are then recorded according to type of item by means of a summary called an account.

The "t" Account

This account is known as the "t" account because it resembles the letter "t". This account has three parts (1) the name of the account and the account number (2) The debit side (left side), and (3) the credit side (right side). The abbreviations for debit and credit are Dr. and Cr., respectively.

The Double - Entry System

When an amount is entered on the left side of an account, it is a debit and the account is said to be debited. When an amount is entered on the right side, it is a credit and the account is said to be credited.

Increases and Decreases

Asset and expense increases are recorded as debits, liability, capital and income increases are recorded as credits. -
 Asset and expense decreases are recorded as credits, liabi-

lity, capital, and income decreases are recorded as debits.

Example A:

Transaction 1.- Mr. Kelly opened his practice investing - - \$ 5,000 in cash. The two accounts affected are cash and capital. Remember that an increase in an asset (cash) is debited, and an increase in capital is credited.

CASH		CAPITAL	
DR.	CR.	DR.	CR.
+	-	+	-
\$ 5,000			\$ 5,000

Transaction 2.- Bought supplies for cash \$ 300. Here we are substituting one asset (cash) for another asset (supplies). We debit supplies because we are receiving more supplies. We credit cash, because we are paying out cash.

CASH		CAPITAL	
DR.	CR.	DR.	CR.
+	-	+	-
\$ 5,000	\$ 300	\$ 300	

Transaction 3.- Bought equipment from Cindy Furniture Company on account \$ 2,500. We are receiving an asset (equipment) - and therefore debit equipment to show the increase. We are not paying cash, but creating a new liability, thereby increasing the liability account (accounts payable).

EQUIPMENT		ACCOUNTS PAYABLE	
DR.	CR.	DR.	CR.
+	-	-	+
\$ 2,500			\$ 2,500

Transaction 4.- Received \$ 2,000 in fees earned during the - month. In this case we are increasing the asset account cash, as we have received \$ 2,000 therefore, we debit it. We are increasing the capital, yet we do not credit capital. It is better temporarily to separate the income from the owner's - equity (capital) and create a new account, Fees Income.

CASH		ACCOUNTS PAYABLE	
DR.	CR.	DR.	CR.
+	-	-	+
\$ 5,000	\$ 300		\$ 2,000
\$ 2,000			

Transaction 5.- Paid office rent for January \$ 500 we must - decrease the asset account cash, because we are paying out money. Therefore we credit it. It is preferable to keep expenses separated from the owner's equity.

Therefore, we open a new account for the expenses involved. Rent Expenses. The \$ 500 is entered on the left side, as expenses decrease owner's equity.

CASH		RENT EXPENSES	
DR.	CR.	DR.	CR.
+	-	+	
\$ 5,000	\$ 300	\$ 500	
\$ 2,000	\$ 500		

Order of arrangement of accounts in the ledger. All accounts of one kind are grouped together in the ledger. It is customary to have separate groups for assets, liabilities, proprietorship, income, and expenses. Each of these groups is called a division of the ledger. It is also a valuable source of information for managerial purposes, giving, for example the amount of sales for the period of the cash balance at the end of the period. Depending on what method of data processing is used.

^{cabdozo}
The chart of accounts. A list of accounts that shows the arrangement of the accounts in the ledger is called a Chart of Accounts. This method sometimes called the code of accounts, is a listing of the accounts by title and numerical designation. In some companies the chart of accounts may run to hundreds of items.

Numbering accounts in the ledger. Note that each account number has two digits. The first digit indicates the division of the ledger; the second digit indicates the number of the account within that division. For example, the office machines account is numbered 14. The first digit, 1, indicates that the office machines account is an asset account. The second digit, 4, indicates that the office machines account is in the asset division.

The number of each asset account starts with the figure 1; the number of each liability account, with the figure 2; the number of each capital account with the figure 3; the number of each income account, with the figure 4; and the number of each expense account, with the figure 5. Within each division the accounts are numbered consecutively.

The Trial Balance. The owner of the business, is interested in learning at regular intervals whether his transactions have resulted in a profit or a loss. All of the needed information is in the ledger. Since the ledger is summarized in the trial balance, it is possible to calculate the amount of

the profit or the amount of the loss directly from the trial balance. The modern method of analyzing the trial balance is to use a single sheet of paper with six or more amount columns and to distribute the balances among these amount columns. The number of columns used depends on the kind and the size of the enterprises.

The trial balance is written in the columns at the left of the Work sheet.

The work sheet. The work sheet is an accounting working paper and is not a part of the permanent accounting record. It may therefore be prepared with a pencil. The chief purpose of the work sheet is to provide a sorting process that makes it possible to calculate the profit or loss with the minimum amount of work. The work sheet also provides a convenient method of summarizing the bookkeeping records and providing the accuracy of all calculations.

SUMMARY

- 1.- Increases in all liability accounts are credited.
- 2.- Increases in all capital accounts are credited.
- 3.- Increases in all income accounts are debited.
- 4.- Increases in all expense accounts are debited.
5. The schedule showing the balance of each account at the

end of the period is known as the _____.

- 6.- The accounts comprise a record called a _____.
- 7.- The left side of the account is known as the _____, while the right side is the _____.
- 8.- Increases in all assets accounts are _____.

ANSWERS:

- 1.- credited
- 2.- credited
- 3.- credited
- 4.- debited
- 5.- trial balance
- 6.- ledger
- 7.- debit side, credit side
- 8.- debited

VOCABULARY V

- A -

- 1.- ARRANGEMENT - arreglo
2.- ACCURACY - exactitud, precisión

- B -

- 3.- BETTER - mejor

- C -

- 4.- CONSECUTIVELY - consecutivamente
5.- CALCULATIONS - cálculo
6.- CUSTOMARY - costumbre
7.- CODE OF ACCOUNTS - clave de cuentas
8.- CHART OF ACCOUNTS - catálogo de cuentas
9.- CHIEF PURPOSE - objetivo primordial

- D -

- 10.- DEPENDING - dependiendo
11.- DESIGNATION - señalamiento, designación
12.- DIGIT - dígito, cifra

- E -

- 13.- EQUITY - capital, propiedad neta, equidad
14.- ENTERED - asentado
15.- ENTERPRISES - empresas

- K -

- 16.- KEEP - guardar
17.- KIND - clase, tipo

- L -

- 18.- LETTER - letra, carta
19.- LEDGER - libro mayor

- N -

- 20.- NUMBER - número

- O -

- 21.- OFFICE MACHINES - máquinas de oficina

- R -

- 22.- RESEMBLES - se parece
23.- RECORDED - registrado
24.- REMEMBER - recordar
25.- RECEIVING - recibiendo
26.- RUN - incluir

- S -

- 27.- SINCE - ya que, desde
28.- SCHEDULE - programa, tabla
29.- SOURCE - creador, origen, fuente

- 30.- SIZE - tamaño, medida
 31.- SORTING PROCESS - proceso de selección
 32.- STARTS - empieza

- T -

- 33.- TRIAL BALANCE - balanza de comprobación
 34.- TEMPORARILY - temporal, temporalmente

- V -

- 35.- VALUABLE - valioso

- W -

- 36.- WORK SHEET - hoja de trabajo

CHAPTER IV

RECORDING TRANSACTIONS

In the preceding pages we showed the effects of transactions by making entries in "t" accounts. However these entries do not provide the necessary data for a particular transaction - nor do they provide a chronological record of transactions. The missing information is furnished by the journal.

The journal.

The journal, is the book of original entry for accounting data. Subsequently the data is posted to the ledger the book of secondary entry. The various transactions are evidenced by purchase invoices, sales tickets etc! These transactions are entered in chronological order in the journal. The process is called journalizing.

In a business may be used a number of different journals, the sales journal, the cash receipts journal, or the cash payment journal may be grouped into (A) general journals or (b) specialized journals to illustrate journalizing, we use the general journal below.

Journalizing

- (a) DATE. The year, month, and day of the first entry in the date column. Do not repeat the year and month until a new month occurs or a new page is needed.