The T Account

Pacioli, the Father of Double Entry Accounting Does it Again!

Pacioli, an Italian monk, did not invent double entry accounting, but he did take the means of recordkeeping of the day (some 500 years ago) and published its rules in an arithmetic book. Incidentally, one of the first books on Gutenberg's press. You say, "So what?" Well, other professions have heroes and now you do too. These also make great bonus questions.

On p. 33 you will see that all of the Cash transactions from Ch. 1 have been repeated and placed in a T account for the Cash account. In the checklist I asked you to compare this T to p. 77 in Ch. 3 and see if you can see where the T comes from in a formal ledger account form.

You will notice the little green figures under the Cash account--two subtotals called Footings and a balance (the difference between the big side and the little side goes continued on page 2

on the big side. A NORMAL BALANCE

EVERY ACCOUNT HAS A NORMAL BALANCE

The normal balance of an account is on the plus side!!!!!! A question sure as heck on a test.

After you have studied and begun to memorize the T-s on p. 34-36, you will see that everything on the left side of the FUNDAMENTAL EQUATION (not expanded) shows Plus and Dr. on the left (All assets). Everything on the right of the FUNDAMENTAL EQUATION shows Plus or Cr. on the right. It allows things to stay in balance.

As for the Revenue, its signs look like Capital because increases to revenue also increase Capital--we're just temporarily (for the accounting period) keeping track of revenue outside the capital account.

As for the Expenses, they are the opposite of capital and like the drawing--both take away from capital--we're just temporarily (for the accounting period) keeping track of expenses outside the capital account. When we get to chapter 5, we'll do some things that will put it all back together. But don't worry about that now.

REMEMBER: DEBIT IS ALWAYS LEFT, CREDIT IS ALWAYS RIGHT, AND ONLY THE SIGNS CHANGE!
RECORDING BUSINESS TRANSACTIONS IN T ACCOUNTS

Read and follow the analyzing steps as you track the same transactions for Cruz Auto Detail through pp. 37-44 where you will find the summary.

Let me point out some things as I would if I stood before you in a class:

Notice that step 4 and 5 are new in the analysis.

There must be at least one debit amount and one debit amount.

They can both be on the same side as long as the equation is in balance.

Transactions that have more than two amounts are called COMPOUND ENTRIES.

Look out when buying prepaid insurance and supplies, they are assets (since we have not used them--a cost at that time) at this time.

Notice in Trans. B that the numbers are both on the left side of the equation--we have exchanged one asset (Cash) for another asset (Equipment). You did that when you bought your groceries and your textbook.

Notice in Trans. I that Cruz only received the bill, did not pay it. Under accrual basis accounting, book it as an expense and a liability called A/P.

Them look at Trans. M where we pay that bill we received in I--DO NOT REDUCE THE EXPENSE--can't do that, we caused it to happen, the advertising ran. Now we need to reduce what we owe (A/P) and reduce cash.

THE TRICKY TRIAL BALANCE

First, let me say--THE NUMBERS FOR THE TRIAL BALANCE ALWAYS COME FROM THE T-ACCOUNTS (Called the General Ledger in Ch. 3). Please repeat that to yourself.

p. 45--Please, please notice the format of this pencil (adding machine tape sometimes) document. It is a pencil working paper NOT A FINANCIAL STATEMENT--therefore, no dollar signs. Even so, since neatness is next to accuracy, do use a straight edge for lines and use your text samples as models. I will get your completed work from you at some point.

MAJOR FINANCIAL STATEMENTS

In this order:

Income Statement (shows results of operations for a period of time)

Statement of Owner’s Equity (shows activity in capital account for a period of time--what he/she started with plus net profit or minus net loss and minus drawings equal either an increase or decrease in capital, and finally an ending capital for the period--kind of the same process as your checkbook--but capital is not cash, so only compare the process of beginning plus or minus changes = ending).

Balance Sheet (shows the condition of a business at a point in time).

Please track Cruz’s Trial Balance amounts to the income statement, then the Net Income to the Statement of Owner’s Equity, and the ending capital to the Balance Sheet. They are dependent upon each other in that order.
ERRORS EXPOSED BY THE TRIAL BALANCE

Please read through these--you will begin to see the kind of errors that you make, if any. Some of us just make random errors, which is harder.

Some Survival Suggestions:

1. That after you have spent a reasonable amount of time trying to get it correct, put it down and walk away. Frequently, the error will jump out at you after your brain has had a change of activity.

2. If there is someone around who can add and subtract (don't have to know accounting), ask them to readd or track numbers from say the trial balance to the income statement and so on. Of course, you run the risk of hearing the inevitable--"What, you couldn't see this--I saw it right away." Put away your baseball bat, you're back on track again.

3. I would write the equation, T's, Dr and Cr, with + and - (like you did on the checklist on a card and keep it nearby.

4. Talk to yourself a lot--sometimes you will actually hear your error yourself.

5. And keep asking questions, either of the ListServe or me. Other students are very talented at answering and it benefits everyone plus they often say it in a way that I didn't that makes sense to you. That way, I can get some new items for my bag of tricks too.

6. Have a good weekend. I'll be here at home and will be on twice a day probably. There are 63 e-mails stacked up right now. Can you imagine what they would be like if I didn't check most weekends.

7. Congratulations on surviving the first week. My friend at Olympic College who is teaching a 200 accounting class to 40 opened with Welcome To Survival Accounting and stated that they couldn't vote her out. May I say the same. And you will do better than survive. One of the students at Highline this week said to an instructor "Sure glad there is only one first week in a quarter." Talk to you later.