

# Account Process

Besar Ibrahim Mohammed

Department of Business Administration

Cihan University-Erbil

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The accounting process is the series of steps followed by the business entity to record the business financial transactions that include steps for collecting, identifying, classifying, summarizing, and recording the business transactions in the books of accounts of the company so that the financial statements of the entity can be prepared. The profits and the business's financial position can be known after regular intervals of time.

# List The Steps In The Accounting Cycle

1. Analyze source documents & record business transactions in a journal
2. Post journal entries to the ledger accounts
3. Prepare a trial balance
4. Gather adjustment data and record adjustments in the work sheet
5. Complete the work sheet
6. Create financial reports from data in work sheet
7. Journalize and post the adjusting entries
8. Journalize and post the closing entries
9. Prepare the post-closing trial balance

**Chapter 3**

**Chapter 4**

**Chapter 5**

# Steps in the Accounting Process

- Journalize business transaction:
  - Use source document to record journal entry in general journal
    - Decide on accounts that are affected
    - Enter Date
    - Don't indent debit
    - Indent credit
    - Write description
    - DR = CR
- Post all journal entries to ledger accounts in general ledger
  - Transfer date
  - Transfer amount
  - Record both cross references
- Transfer all totals to trial balance

# What Is a General Journal?

- The book in which a person enters the original record of a business transaction
  - Commonly referred to as a book of original entry
- Chronological listing of all the business transactions for the company
  - Each listing records the debits and credits associated with that business transaction
- A book or a location on a hard drive where all business transactions are listed
  - Like a diary

# What's in a Journal Entry?

1. Date
2. At least one debit entry
  - Debit account, use exact account title, do not indent titles
3. At least one credit entry
  - Credit account, use exact account title, indent titles
4. An explanation of the transaction:
  - Check number
  - Invoice number
  - Accounts receivable customer name
  - Many other elements...
  - Remember: the accountant must leave a good audit trail so that users of accounting information can understand what occurred with each transaction



**DR=CR**



# Definitions:

- **Ledger Account**
  - Complete listing of business transactions for an individual account
  - Where you look if you want to find the balance of any given account
- **General Ledger**
  - A loose-leaf book or computer file containing all the Ledger Accounts
    - Each account from the chart of accounts has its own ledger account in the general ledger
- **Posting**

The process of transferring figures from the journal to the ledger accounts

# Four-Step Posting Process

1. Transfer transaction date to account's date column
2. Transfer the debit/credit amount and calculate the new balance
3. Write journal page number in posting reference column of ledger as a cross-reference
4. Go back to journal and write account number in posting reference column of journal as a cross-reference

## — Cross-reference

The ledger account number in the Post. Ref. column of the journal and the journal page number in the Post. Ref. column of the ledger account

# Posting Transaction (a): Arch deposited \$70,000 in bank account in name of business

**GENERAL JOURNAL** PAGE 1

| DATE   | DESCRIPTION                                  | POST. REF. | DEBIT       | CREDIT      |
|--------|--|------------|-------------|-------------|
| 20-    |  |            |             |             |
| June 1 | Cash   | 111        | 70 0 0 0 00 |             |
|        | L. P. Arch, Capital                          |            |             | 70 0 0 0 00 |
|        | Original investment by Arch in Arch Copy Co. |            |             |             |

  

**GENERAL LEDGER**

ACCOUNT Cash ACCOUNT NO. 111

| DATE   | ITEM | POST. REF. | DEBIT       | CREDIT | BALANCE     |        |
|--------|------|------------|-------------|--------|-------------|--------|
|        |      |            |             |        | DEBIT       | CREDIT |
| 20-    |      |            |             |        |             |        |
| June 1 | 1    | 1          | 70 0 0 0 00 |        | 70 0 0 0 00 |        |
|        |      |            |             |        |             |        |
|        |      |            |             |        |             |        |
|        |      |            |             |        |             |        |
|        |      |            |             |        |             |        |

① Date of transaction

② Amount of transaction

③ Page number of the journal

④ Ledger account number

# Posting Transaction (a): Arch deposited \$70,000 in bank account in name of business

## GENERAL JOURNAL

PAGE 1

| DATE   | DESCRIPTION                                  | POST. REF. | DEBIT       | CREDIT      |
|--------|--|------------|-------------|-------------|
| 20-    |  |            |             |             |
| June 1 | Cash   | 111        | 70 0 0 0 00 |             |
|        | L. P. Arch, Capital                          | 311        |             | 70 0 0 0 00 |
|        | Original investment by Arch in Arch Copy Co. |            |             |             |

  

## GENERAL LEDGER

ACCOUNT **L. P. Arch, Capital**

ACCOUNT NO. **311**

| DATE   | ITEM | POST. REF. | DEBIT | CREDIT      | BALANCE |             |
|--------|------|------------|-------|-------------|---------|-------------|
|        |      |            |       |             | DEBIT   | CREDIT      |
| 20-    |      |            |       |             |         |             |
| June 1 | 1    | 1          |       | 70 0 0 0 00 |         | 70 0 0 0 00 |
|        |      |            |       |             |         |             |
|        |      |            |       |             |         |             |

  

① Date of transaction

② Amount of transaction

③ Page number of the journal

④ Ledger account number

# Preparing a Trial Balance

- List the ledger account balances in two columns on the trial balance
  - Left column = Debits
  - Right column = Credits
- Trial balance proves DR = CR

Arch Copy Co.  
Trial Balance  
June 30, 20—

| ACCOUNT NAME         | DEBIT |   |   |   | CREDIT |    |   |   |    |
|----------------------|-------|---|---|---|--------|----|---|---|----|
| Cash                 | 34    | 1 | 2 | 0 | 00     |    |   |   |    |
| Accounts Receivable  |       | 2 | 0 | 0 | 00     |    |   |   |    |
| Prepaid Insurance    |       | 3 | 6 | 0 | 00     |    |   |   |    |
| Equipment            | 49    | 7 | 2 | 0 | 00     |    |   |   |    |
| Accounts Payable     |       |   |   |   |        | 6  | 7 | 0 | 00 |
| L. P. Arch, Capital  |       |   |   |   |        | 76 | 2 | 0 | 00 |
| L. P. Arch, Drawing  | 2     | 5 | 0 | 0 | 00     |    |   |   |    |
| Income from Services |       |   |   |   |        | 7  | 7 | 9 | 00 |
| Wages Expense        | 2     | 1 | 3 | 0 | 00     |    |   |   |    |
| Rent Expense         |       | 7 | 0 | 0 | 00     |    |   |   |    |
| Supplies Expense     |       | 6 | 0 | 0 | 00     |    |   |   |    |
| Advertising Expense  |       | 2 | 0 | 0 | 00     |    |   |   |    |
| Utilities Expense    |       | 1 | 6 | 0 | 00     |    |   |   |    |
|                      | 90    | 6 | 9 | 0 | 00     | 90 | 6 | 9 | 00 |