



Notes – Topic 3

Accounting Mechanics

- I. Introduction
 - a. Mechanics involves taking potentially millions of transactions and reducing them to GAAP statements
 - b. The Process: The Accounting Cycle
 - c. The Method: Double-Entry Accounting
 - d. Information Technology can *help*, but humans do still need to be involved.
- II. Contra Accounts
 - a. Always linked to another account
 - b. Used to shift the balance from that account in the opposite direction
 - c. Ex: Accumulated Depreciation
 - d. Ex: Allowance for Doubtful Accounts (more information later)
 - e. The original account balance is preserved, but adjustments can still be made.
- III. T-Accounts
 - a. Simplified Ledger Account
 - b. Captures the essence of the process without too many details.
 - c. Balance is the difference between left and right side.
 - i. Assets have left-side balances (+L, -R)
 - ii. Liabilities and Equity have right-side balances (-L, +R)
 - d. Debits and Credits
 - i. Debit = Left [DR]
 - ii. Credit = Right [CR]
- IV. Accounting Cycle
 - a. Transactions Occur
 - b. Documentation
 - i. Receipts, invoices, etc.
 - ii. "Source Documents"
 - iii. Filed in paper or electronically.
 - c. Journal
 - i. Book of Original Entry
 - ii. Examples
 1. General Journal → All Transactions
 2. Cash Receipts Journal (DR Cash, CR Revenue)
 3. Cash Disbursements Journal (DR Expense, CR Cash)
 4. Sales Journal (DR Accounts Receivable, CR Sales)
 5. Purchase Journal (DR Asset / Expense, CR Accounts Payable)
 - iii. Analyzing, Journalizing, and Posting Transactions
 1. Types of Journal Entries
 - a. Simple: Two accounts affected
 - b. Complex: Many accounts affected.
 2. Always balances. DR == CR.
 - d. Ledger
 - i. Entered in each affected account.
 - ii. "The Books"
 - iii. General Ledger → Accounts related to the major financial statements
 - iv. Subsidiary Ledgers
 1. Accounts Receivable
 2. Accounts Payable
 3. Support and give detail to the general ledger
 - v. Posting → Transfer from the journal to the ledger.
 - vi. Errors
 1. If the error is just in the journal, simply erase and correct.

2. If the error has already been posted (to the ledger), an adjusting entry must be made.
 - vii. Details
 1. No dollar signs.
 2. No negatives. (DR vs. CR indicates positive vs. negative)
 3. If no running balance is kept, prepare a balance from time to time.
 - e. Trial Balance
 - i. Sum all DRs and CRs from general ledger.
 - ii. Aids in verifying accuracy and in preparing statements.
 - iii. Prepared periodically as necessary
 - f. Financial Statements Prepared
 - i. Done whenever needed. Usually monthly.
 - ii. Pull figures from ledger.
- V. Closing the Books
 - a. Take period-end trial balance.
 - b. Journalize and post trial balance.
 - c. Run adjusted trial balance.
 - d. Journalize and post final closing entries
 - i. Debit all revenues, credit all expenses
 - ii. Post DR or CR to Retained Earnings for each account.