



École de gestion

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School of Management

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LEADERSHIP

CHAPTER 3

THE ACCOUNTING INFORMATION SYSTEM

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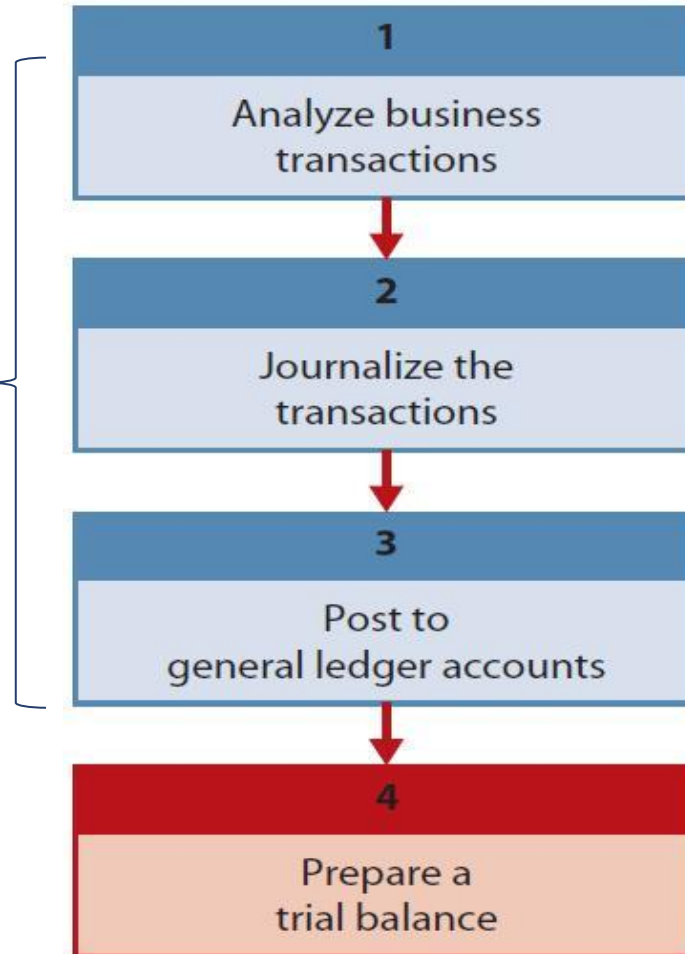


Learning Objectives

1. Analyze business transactions.
2. Journalize the transactions.
3. Post to the general ledger accounts.
4. Prepare a trial balance.

The Recording Process

The recording process





Transaction Analysis

- Accounting transactions occur when assets, liabilities, or shareholders' equity items change as a result of some economic event.

- Transaction analysis:
 - First step in the recording process

 - identify how the transaction is going to impact the accounting equation.
 - The accounting equation must always balance:
$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

Transaction Analysis Cont'd.

Transaction	Assets	=	Liabilities	+	Shareholders' Equity
1. Issue of common shares for cash					
2. Issue of note payable					
3. Purchase of equipment in cash					
4. Receipt of cash in advance from customers					
5. Payment of rent in cash					

Transaction Analysis Cont'd.

Transaction	Assets	=	Liabilities	+	Shareholders' Equity
6. Prepaid insurance in cash					
7. Purchase of supplies on account					
8. Service performed on account					
9. Payment of salaries					
10. Payment of dividends					

Transaction Analysis Cont'd.

Transaction	Assets	=	Liabilities	+	Shareholders' Equity
11. Collection of account					



Transaction Analysis Cont'd.

			Shareholders' Equity			
			Retained Earnings			Common Shares
<u>Transaction</u>	<u>Assets</u>	<u>Liabilities</u>				
1.	+\$250	+\$250	NE	NE	NE	NE
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						
10.						

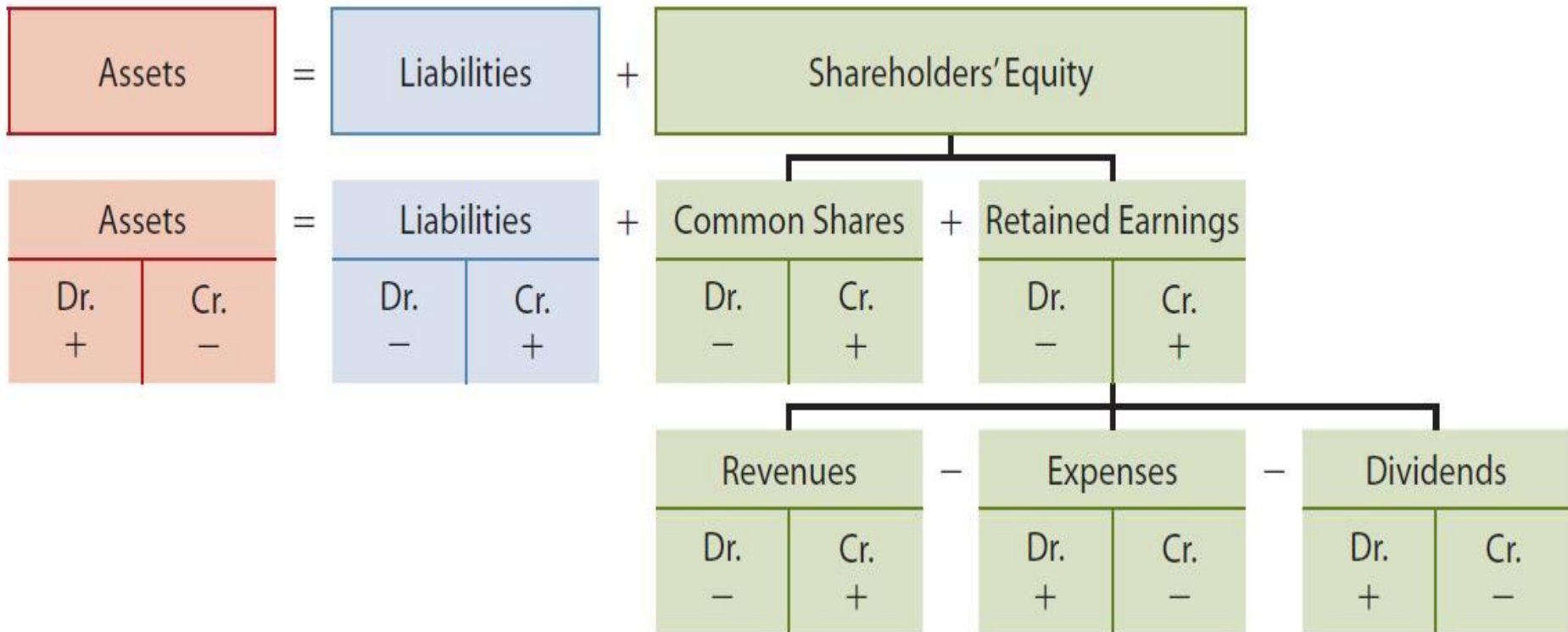
Debits and Credits

- An account is an individual accounting record of increases and decreases in a specific asset, liability, or shareholders' equity item.

Title of Account	
Debit (Dr.) (left) side	Credit (Cr.) (right) side

- The normal balance of an account is always on its increase side.

Debits and Credits



The Journal

- Second step in the recording process.
- The journal has a place to record the debit and credit effects on specific accounts for each transaction.
- Transactions are entered in the journal in chronological order.

GENERAL JOURNAL

Date	Account titles and explanation	Debit	Credit
Oct 1	Cash Common shares (issue common shares)	100,000	100,000

The Ledger

- contains all of the asset, liability and shareholders' equity accounts, as well as revenue and expense accounts.

- provides management with the balances (or subtotals) in various accounts.

- Posting in the general ledger:
 - third step in the recording process.
 - the process of transferring journal entries to the ledger accounts.
 - it accumulates the effects of journal transactions in the individual ledger accounts.

The Ledger Cont'd.

- Order of listing:
 1. asset accounts,
 2. liability accounts,
 3. equity accounts,
 4. dividends,
 5. revenues,
 6. expenses.

The Ledger Cont'd.



The Trial Balance

- Provides a list of accounts and their balances at a specific time.
- proves the mathematical equality of debits and credits after posting.
- accounts in the trial balance are listed in the same order as they are listed in the general ledger.
- the retained earning amount shown in a trial balance would be as at the beginning of the period.



The Trial Balance Cont'd.

- uncovers errors in journalizing and posting.

- can not uncover errors, when:
 - a transaction is not journalized,
 - a correct journal entry is not posted,
 - a journal entry is posted twice,
 - incorrect accounts are used in journalizing and posting, or
 - offsetting errors are made in recording the amount of a transaction.