Accounting Cycle

Step 2… Posting to General Ledger

Posting from general journal to **general ledger** (or simply posting) is a process in which entries from general journal are periodically transferred to ledger accounts (also known as T-accounts). It is the second step of accounting cycle because business transactions are first recorded in the journal and then they are posted to respective ledger accounts in the general ledger.

Ledger accounts are a way of presenting and grouping transactions relating to a particular account at one place. The book in which ledger accounts are maintained is known by various names such as ledger, ledger book or general ledger.

The format of ledger account and posting process

The process of posting journal entries to ledger accounts is very simple. No new information is needed to prepare ledger accounts. The information that has already been recorded in the journal is just transferred to the relevant ledger accounts in the general ledger.

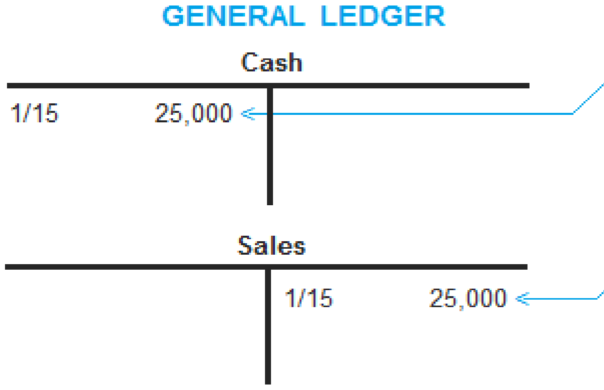
For the purpose of posting to general ledger, we can divide a journal entry into two parts – a debit part and a credit part. Both the parts essentially contain one or more accounts. The amount of the account (or accounts) in the debit part of the entry is written on the debit side of the respective account and the amount of the account (or accounts) in the credit part of the entry is written on the credit side of the respective account in the general ledger.

Transaction: On January 1, 2015, US company sold goods to customers for cash $25,000. The journal entry of the above transaction and its posting to ledger accounts is illustrated below:

GENERAL JOURNAL

Date	Account title and explanation	Debit	Credit
2015 Jan. 15	Cash	25,000	
	Sales		25,000
	(Sold goods for cash)		

GENERAL LEDGER



The debit part of the above journal entry is "cash account" and the credit part is "sales account". So the amount of the journal entry ($25,000) is written on the debit side of the cash account and credit side of the sales account. All journal entries are similarly posted to accounts in general ledger.

Journal entries

MOON SERVICES INC.
General Journal
For the Month of November 2015

Date	Account title and explanation	Debit	Credit
2015			
Nov. 01	Cash	400,000	
	Capital stock		400,000
	(Issued 20,000 shares of common stock at $20 per share)		
Nov. 03	Office rent expense	500	
	Cash		500
	(Paid office rent for the month of November)		
Nov. 06	Office supplies	250	
	Cash		250
	(Purchased office supplies for cash)		
Nov. 12	Office equipment	4,500	
	Accounts payable		4,500
	(Purchased office equipment on account)		
Nov. 16	Vehicle	25,000	
	Cash		10,000
	Notes payable		15,000
	(Purchased company vehicle; paid $10,000 cash and issued a $15,000 note payable for the balance)		
Nov. 21	Accounts receivable	24,000	
	Service revenue		24,000
	(Billed clients on account)		
Nov. 25	Dividends	3,000	
	Dividends payable		3,000
	(Dividends declared to be distributed in December)		
Nov. 28	Utilities expense	180	
	Cash		180
	(November utilities paid in cash)		
Nov. 29	Cash	20,000	
	Accounts receivable		20,000
	(Collected cash from clients billed on November 21)		
Nov. 30	Salaries expense	7,500	
	Cash		7,500
	(Paid salary expense for November)		

Example:

We can prepare ledger accounts using journal entries of Moon Service Inc. prepared in previous page.

GENERAL LEDGER

Cash

Nov. 01	400,000	Nov. 03	500
Nov. 29	20,000	Nov. 06	250
		Nov. 16	10,000
		Nov. 28	180
		Nov. 30	7,500
Nov. 30	401,570		

Accounts receivable

Nov. 21	24,000	Nov. 29	20,000
Nov. 30	4,000		

Dr **Office supplies** Cr

Nov. 06	250		
Nov. 30	250		

Office equipment

Nov. 12	4,500		
Nov. 30	4,500		

Vehicles

Nov. 16	25,000		
Nov. 30	25,000		

Notes payable

		Nov. 16	15,000
		Nov. 30	15,000

Accounts payable

		Nov. 12	4,500
		Nov. 30	45,00

Dividends payable

		Nov. 25	3,000
		Nov. 30	3,000

Capital stock

		Nov.01	400,000
		Nov. 30	400,000

Service revenue

		Nov.	24,000
		Nov. 30	24,000

Office rent expense

Nov. 03	500		
Nov. 30	500		

Salary expense

Nov. 30	7,500		
Nov. 30	7,500		

Utilities expense

Nov. 28	180		
Nov. 30	180		

Dividends

Nov. 25	3,000		
Nov. 30	3,000		

General ledger and the use of computer software

In a manual accounting system, the journal entries are prepared first and then transferred to general ledger at some later period. It may be a tedious and time consuming process for companies with numerous business transactions. A computerized accounting system, on the other hand, is faster and more accurate. Once enough information is provided and the journal entry is correctly recorded, computer software automatically posts it to the relevant accounts in the general ledger and thus increases the efficiency in terms of speed and accuracy.

Step 3….. Preparing unadjusted trial balance

The **unadjusted trial balance** is a list of ledger accounts and their balances that is prepared after the preparation of general ledger but before the preparation of adjusting entries. It is the third step of accounting cycle and is usually prepared at the end of accounting period.

Unadjusted trial balance is not suitable for preparing acceptable financial statements. Income statement, balance sheet and other financial statements prepared on the basis of this trial balance may not comply with the applicable financial reporting frameworks such as IFRSs and GAAPs. After preparing adjusting entries, an adjusted trial balance is prepared that can be directly used for the preparation of many financial statements.

Format of unadjusted trial balance

The unadjusted trial balance consists of three columns. All account names are written in the first column, the debit balances are written in the second column and the credit balances are written in the third column. The accounts are listed in the order in which they appear in the general ledger.

A simple format of unadjusted trial balance is given below:

COMPANY NAME
Unadjusted Trial Balance
------Date------

Account Name	Debit	Credit
Totals		

The total of the debit column of the unadjusted trial balance must be equal to the total of the credit column. If they aren't in agreement, it means that the trial balance has been prepared incorrectly or the journal entries have not been transferred to the ledger accounts accurately.

Example

We can prepare unadjusted trial balance from the ledger accounts of the Moon Service Inc. prepared on the general ledger page.

MOON SERVICE INC.
Unadjusted Trial Balance
November 30, 2015

Account Name	Debit	Credit
Cash	$ 401,570	
Accounts receivable	4,000	
Office supplies	250	
Office equipment	4,500	
Vehicle	25,000	
Notes payable		$ 15,000
Accounts payable		4,500
Dividends payable		3,000
Dividends	3,000	
Share capital		400,000
Client revenue		24,000
Office rent expense	500	
Salaries expense	7,500	
Utilities expense	180	
Totals	$ 446,500	$ 446,500

The purpose of unadjusted trial balance:

The main purposes of preparing an unadjusted trial balance is to check the mathematical equality of debits and credits.

If all the transactions have been correctly recorded in the general journal according to double entry principle of bookkeeping and have been correctly transferred to the ledger accounts, the total of the debit balances should be equal to the total of the credit balances of ledger accounts. An unbalanced trial balance, on the other hand, indicates one or more of the following typical errors:

1. A debit amount has been incorrectly posted as credit or a credit amount has been incorrectly posted as debit.
2. The balances of the ledger accounts have been incorrectly determined.
3. The balances of ledger accounts have been incorrectly copied to the trial balance.
4. A debit balance has been incorrectly listed in the credit column or a credit balance has been incorrectly listed in the debit column of the trial balance.
5. The debit or credit columns of the trial balance has been incorrectly totaled.

The above errors are typical errors that an unbalanced trial balance indicates. One should keep in mind that the errors may still exist even if the totals of debit and credit columns of the trial balance are equal. A few examples of such errors are given below:

Examples of errors that will not be detected by trial balance:

1. The transaction is not correctly analyzed and recorded. For example, the receipt of cash is erroneously debited to another account instead of cash.
2. A transaction is completely omitted from the journal or ledger.
3. The debit and credit amounts of a journal entry are equally overstated.
4. The debit and credit amounts of a journal entry are equally understated.

We may conclude that if the trial balance is balanced, the errors may or may not exist; and if the trial balance is not balanced, the errors certainly exist.