

# 11. T-accounts

A useful tool for demonstrating certain transactions and events is the “t-account.” Importantly, one would not use t-accounts for actually maintaining the accounts of a business. Instead, they are just a quick and simple way to figure out how a small number of transactions and events will impact a company. T-accounts would quickly become unwieldy in an enlarged business setting. In essence, t-accounts are just a “scratch pad” for account analysis. They are useful communication devices to discuss, illustrate, and think about the impact of transactions. The physical shape of a t-account is a “T,” and debits are on the left and credits on the right. The “balance” is the amount by which debits exceed credits (or vice versa). Below is the t-account for Cash for the transactions and events of Xao Corporation. Carefully compare this t-account to the actual running balance ledger account which is also shown (notice that the debits in black total to \$33,800, the credits in red total to \$7,500, and the excess of debits over credits is \$26,300 -- which is the resulting account balance shown in blue).

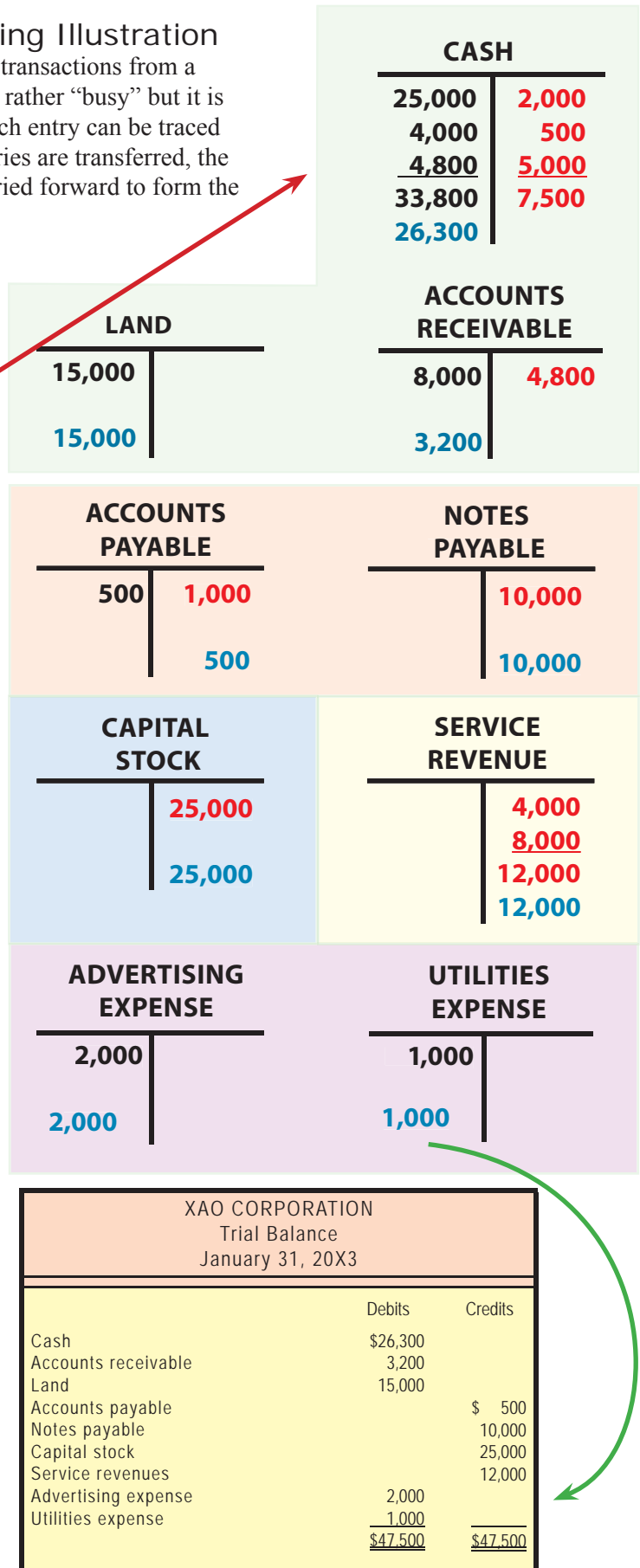
<b>CASH</b>		<b>ACCOUNT: Cash</b>				
		Date	Description	Debit	Credit	Balance
<b>25,000</b>	<b>2,000</b>	Jan. 1, 20X3	Balance forward			\$ -
<b>4,000</b>	<b>500</b>	Jan. 1, 20X3	Journal page 1	\$ 25,000		25,000
<b><u>4,800</u></b>	<b><u>5,000</u></b>	Jan. 4, 20X3	Journal page 1		\$ 2,000	23,000
<b>33,800</b>	<b>7,500</b>	Jan. 8, 20X3	Journal page 1	4,000		27,000
<b><u>26,300</u></b>		Jan. 18, 20X3	Journal page 2		500	26,500
		Jan. 25, 20X3	Journal page 2	4,800		31,300
		Jan. 28, 20X3	Journal page 2		5,000	26,300

### 11.1 Comprehensive T-Accounting Illustration

The following diagram illustrating the flow of transactions from a general journal to a set of t-accounts may look rather “busy” but it is actually quite simple. The debits/credits for each entry can be traced to the corresponding accounts. Once all of entries are transferred, the resulting balances for each account can be carried forward to form the trial balance.

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Date	Accounts	Debits	Credits	
1-1-X3	Cash	25,000		
	Capital Stock		25,000	
	<i>Issued stock to shareholders, in exchange for cash</i>			
1-4-X3	Advertising Expense	2,000		
	Cash		2,000	
	<i>Paid advertising expense for initial advertising programs</i>			
1-8-X3	Cash	4,000		
	Service Revenue		4,000	
	<i>Provided services to customers for cash</i>			

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Date	Accounts	Debits	Credits	
1-15-X3	Utilities Expense	1,000		
	Accounts Payable		1,000	
	<i>Received bill for utility costs incurred</i>			
1-17-X3	Accounts Receivable	8,000		
	Service Revenue		8,000	
	<i>Provided services to customers on account</i>			
1-18-X3	Accounts Payable	500		
	Cash		500	
	<i>Paid half of the amount due on the utility bill received on January 15</i>			
1-25-X3	Cash	4,800		
	Accounts Receivable		4,800	
	<i>Received 60% of the amount due on the receivable that was established on January 17</i>			
1-28-X3	Land	15,000		
	Cash		5,000	
	Notes Payable		10,000	
	<i>Purchased land by giving \$5,000 cash, and promising to pay the remainder in 90 days</i>			



## 11.2 Chart of Account

A listing of all accounts in use by a particular company is called the chart of accounts. Individual accounts are often given a specific reference number. The numbering scheme helps keep up with the accounts in use, and helps in the classification of accounts. For example, all assets may begin with “1” (e.g., 101 for Cash, 102 for Accounts Receivable, etc.), liabilities with “2,” and so forth. A simple chart of accounts for Xao Corporation might appear as follows:

- No. 101: Cash
- No. 102: Accounts Receivable
- No. 103: Land
- No. 201: Accounts Payable
- No. 202: Notes Payable
- No. 301: Capital Stock
- No. 401: Service Revenue
- No. 501: Advertising Expense
- No. 502: Utilities Expense

The assignment of a numerical account number to each account assists in data management, in much



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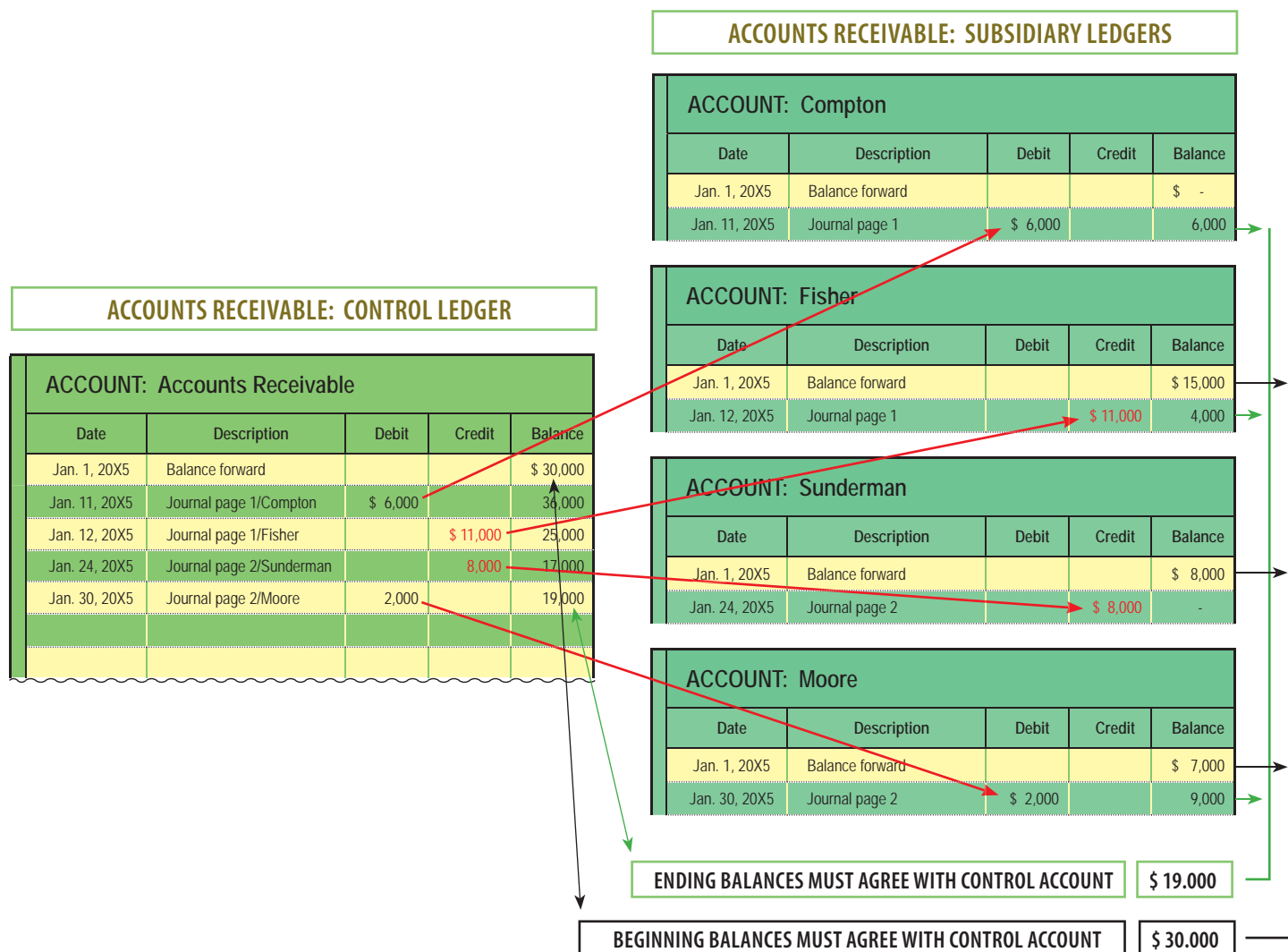
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### 11.3 Control and Subsidiary Accounts

Some general ledger accounts are made of many sub-components. For instance, a company may have total accounts receivable of \$19,000, consisting of amounts due from Compton, Fisher, and Moore. The accounting system must be sufficient to reveal the total receivables, as well as amounts due from each customer. Therefore, sub-accounts are used. For instance, in addition to the regular general ledger account, separate auxiliary receivable accounts would be maintained for each customer, as shown in the following illustration:



The total receivables are the sum of all the individual receivable amounts. Thus, the Accounts Receivable general ledger account total is said to be the “control account” or control ledger, as it represents the total of all individual “subsidiary account” balances.

The company’s chart of accounts will likely be based upon some convention such that each subsidiary account is a sequence number within the broader chart of accounts. For instance, if Accounts Receivable bears the account number 102, you would expect to find that individual customers might be numbered as 102.001, 102.002, 102.003, etc. It is simply imperative that a company be able to reconcile subsidiary accounts to the broader control account that is found in the general ledger. Here, computers can be particularly helpful in maintaining the detailed and aggregated data in perfect harmony.