THEME: T-ACCOUNTS

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ACCOUNTING TERM: T-Account

A T-Account is a template or format shaped like a "T" that represents a particular general ledger account. Debit entries are recorded on the left side of the "T" and credit entries are recorded on the right side of the "T". It is a tool for organizing journal entries and analyzing accounting transactions.

FEATURE ARTICLE: Working With T-Accounts

There are a few of us who have a fantastic ability to remember details, but I would venture to say that most of us find our memory diminishing over time. T-Accounts come in handy when a series of journal entries are required and it becomes too difficult to keep all of them in your head.
When solving accounting problems, you have to think of accounting transactions in terms of the "accounting model". Click this link if you need to refresh your memory regarding the accounting model:

http://www.reallifeaccounting.com/accounting_model.asp

The "accounting model" is a template you can use to remember how debits and credits work. The two most common scenarios for using T-Accounts are: 1) determining why certain transactions were previously posted to the general ledger; or, 2) working out the most appropriate place to post certain accounting transactions.

T-Accounts work because they are visually effective. This means they are simple to understand and usually it is possible to portray all the T-Accounts on one page. Let's look at a basic accounting transaction and then translate it into T-Account form. Assume you sold a product for $100 cash and deposited the money into the bank. You originally bought the product for $50 and put it into inventory. Now that the product is sold you have to decrease inventory by that amount and increase Cost of Goods Sold. The journal entries for the transaction would look like this:

DESCRIPTION	DEBIT	CREDIT
Cash	100	
Sales		100

DESCRIPTION	DEBIT	CREDIT
Cost of Goods Sold	50	
Inventory		50

The T-Accounts would look like this:

Cash			Sales	
100				100

Cost of Goods Sold			Inventory	
50				50

You can easily see that the debits equal the credits. Let's look at a more complex accounting transaction. (1) You bought a company van for $25,000 and you did this by putting $5,000 down and setting up a liability (Notes Payable) for $20,000. (2) You made your first payment of $380, of which $80 was interest, and (3) your first month's depreciation was $833. To the unfamiliar, these transactions might appear confusing until T-Accounts are used.

(1)

Fixed Assets –Van			Cash			Notes Payable	
25,000				5,000			20,000

(2)

Notes Payable			Interest Expense			Cash	
300			80				380

(3)

Depreciation Expense			Accumulated Depreciation	
833				833

A critical step is to make sure that the debits equal the credits. If not, you have made a mistake that must be solved. Next, simply put these T-Accounts in journal entry form:

(1) DESCRIPTION	DEBIT	CREDIT
Fixed Assets - Van	25,000	
Cash		5,000
Notes Payable		20,000

(2) DESCRIPTION	DEBIT	CREDIT
Notes Payable	300	
Interest Expense	80	
Cash		380

(3) DESCRIPTION	DEBIT	CREDIT
Depreciation Expense	833	
Accum Depreciation		833

Remember that every account in the general ledger is a T-Account. Drawing the T-Account is just another way to portray the account. I can't count the number of times that I have used the back of a napkin to draw T-Accounts to explain accounting concepts to clients. I can't remember one time that a client was not able to follow me even though his/her accounting knowledge was minimal. The beauty of T-Accounts is their simplicity.

QUESTION: Is There A Way To Keep Track Of Multiple T-Account Entries?

The question is whether there is a way to keep track of multiple T-account entries. The answer is yes, and it is very important to do so to avoid confusion and mistakes. Usually you will be working with a series of transactions. Therefore, each transaction should be assigned a letter in alphabetical order. Use letters rather than numbers so there is no confusion between the order of the transaction and the numbers used in the transaction. Let's assume the same transaction used above in the purchase of the van, but this time we will add some more transactions. For instance, before you bought the new van you sold an older van for $6,000. You used $5,000 of it for the down payment on the new van, and the remaining $1,000 to pay off the balance of a note on the old van. You originally bought the old van for $20,000 and had depreciated it down to $4,000.

The first step in your organizational system is to identify all the transactions in sequential order and assign them a letter. For instance:

(a)   Sold the old van for $6,000 and deposited the money into the bank. Used the Miscellaneous Suspense account until the gain could be determined.
(b)   Paid the old note off of $1,000.
(c)   Removed the old van asset $20,000 from the books. Removed the accumulated depreciation of $16,000 on the old van from the books. Determined the gain from the sale of the old van of $2,000.
(d)   Made a $5,000 down payment on a new van. Used the Miscellaneous Suspense account until all the purchase information was available.
(e)   Recorded the purchase of the new van $25,000. Set up a liability on the new van of $20,000.
(f)   Made first payment on the van note of $380 - $300 for principal and $80 for interest.
(g)   Set up new depreciation schedule for the new van at $833 per month.

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The next step is to arrange the T-Accounts in the order they are listed on your Chart of Accounts. Doing this makes it a little easier to locate the accounts, rather than having them scattered willy-nilly. Once this is done, start with transaction (a) and record the debits and credits to the T-Accounts.   (**Note that a previous balance in the account will be given the notation (BB) for beginning balance.)**

Cash				Fixed Assets - Vans	
(BB) 3,000	1,000 **(b)**		**(BB)** 20,000	20,000 **(c)**
(a) 6,000	5,000 **(d)**		**(e)** 25,000	
	380 **(f)**			

Accumulated Depreciation			Miscellaneous Suspense	
(c) 16,000	16,000 **(bb)**		**(c)** 6,000	6,000 **(a)**
	833 **(g)**		**(d)** 5,000	5,000 **(e)**

Notes Payable-Vans			Gain/Loss Disposition of Assets	
(b) 1,000	1,000 **(BB)**			2,000 **(c)**
(f) 300	20,000 **(e)**			

Interest Expense		Depreciation Expense
(f) 80		**(g)** 833

You can see that, with all these numbers, it would be easy to forget where they came from. However, with each transaction identified by letter, the related entries can be quickly traced back to their original source. If you are so inclined, go though each transaction and locate the entries in the T-Accounts by letter. Make sure you understand the accounting logic for each entry. This exercise will give you a good handle as to how T-Accounts work.

TIP: Summarizing Your Work

If you are only trying to figure out how some journal entries should be written, then it is not necessary to summarize the T-Accounts for the ending account balance. However, there are times when you may want to know the ending balance of an account in order to compare it with the account balance found on a financial statement or general ledger. The method for doing this is as follows:

When you are done posting, add your debit and credit columns, draw a line and subtract one from another, with the difference remaining.

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           Cash                              Fixed Assets - Vans
(BB) 3,000  |   1,000  (b)          (BB) 20,000  |  20,000  (c)
(a)  6,000      5,000  (d)          (e)  25,000
                 380   (f)          _____
_____                 45,000   |  20,000
     9,000  |   6,380               _____
_____                 25,000   |
     2,620  |                         ======
     =====


  Accumulated Depreciation            Miscellaneous Suspense
(c) 16,000 |  16,000  (BB)          (c) 6,000   |   6,000  (a)
              833   (g)             (d) 5,000       5,000  (e)
_____        _____
   16,000  |  16,833                  11,000   |   11,000
_____        _____
           |    833                     0      |     0
               =====                  =====        =====


   Notes Payable-Vans              Gain/Loss Disposition of Assets
(b) 1,000    |   1,000  (BB)                    |   2,000   (c)
(f)   300       20,000  (e)                         =====
_____
    1,300    | 21,000
_____
             | 19,700
                ======



   Interest Expense                  Depreciation Expense
(f)    80  |                       (g)   833  |
       ====                              ====
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Using T-Accounts to help solve accounting problems is one of your most valuable tools. The next time you are struggling with how to post a transaction try using T-Accounts. From that moment on, "you won't leave home without them".