DegreeLive

Bachelor of Commerce (B2001) | Level 1 • Part A Core | Monash University

Introduction to financial accounting

Course Code: ACC1100 • Module 2 Notes

Module 2: The Recording Cycle: Double-Entry Systems, Journals, Ledgers & Trial Balances

1. Accounts, Double-Entry Bookkeeping, and Debit–Credit Mechanics

1.1 From Transaction Worksheets to Formal Accounts

While a tabular accounting-equation worksheet demonstrates the duality principle for a small handful of events, it becomes unworkable once an enterprise processes hundreds or thousands of transactions each month. To manage volume efficiently and preserve an auditable trail, accounting systems classify transactions into individual **accounts**—structured records that accumulate all increases and decreases relating to a specific asset, liability, equity component, income stream, or expense category.

Collectively, all accounts maintained by an entity constitute its **General Ledger**, organised systematically through a numerical **Chart of Accounts**. In Australian commercial practice, charts of accounts typically use four-digit numbering blocks so that related balances sit together in financial statement sequence:

Account Range	Element Category	Representative Australian Ledger Accounts
1000 – 1999	Assets (Current & Non-Current)	1010 Cash at Bank, 1100 Accounts Receivable Control, 1200 Inventory, 1300 Prepaid Insurance, 1400 GST Paid (Input Tax Credits), 1500 Equipment, 1510 Accumulated Depreciation – Equipment
2000 – 2999	Liabilities (Current & Non-Current)	2010 Accounts Payable Control, 2100 Unearned Revenue, 2200 Accrued Wages Payable, 2300 GST Collected, 2310 PAYG Withholding Payable, 2500 Bank Loan Payable
3000 – 3999	Shareholders' Equity	3010 Share Capital, 3100 Asset Revaluation Surplus, 3200 Retained Earnings, 3300 Dividends Declared, 3900 Profit and Loss Summary
4000 – 4999	Income (Revenues & Gains)	4010 Sales Revenue, 4020 Sales Returns & Allowances (Contra-Revenue), 4100 Consulting Revenue, 4200 Interest Revenue, 4300 Gain on Disposal of Equipment
5000 – 5999	Expenses & Cost of Sales	5010 Cost of Sales, 5100 Wages & Salaries Expense, 5120 Superannuation Expense, 5200 Rent Expense, 5300 Depreciation Expense, 5400 Electricity Expense, 5500 Interest Expense

1.2 Mathematical Derivation of Debit and Credit Rules

In double-entry bookkeeping, the terms **Debit (Dr)** and **Credit (Cr)** carry strictly positional meanings: Debit denotes the left side of an account and Credit denotes the right side. Neither word inherently means "good", "bad", "increase", or "decrease"; whether a debit increases or decreases an account depends entirely on which side of the expanded accounting equation the account occupies.

Rearranging the expanded corporate accounting equation so that every term carries a positive sign yields the mathematical foundation of debit and credit mechanics:

Degree Live

$$A + X + D = L + SC + RE_0 + I$$

Where:

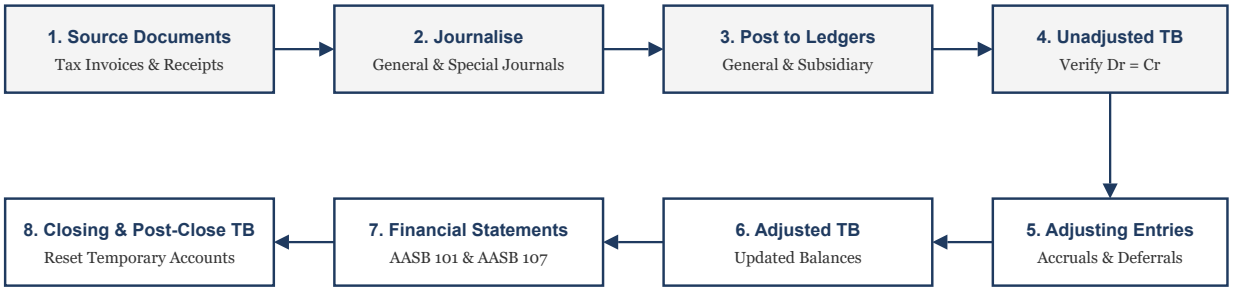
- A: Assets (accounts on the left-hand side of the identity)
- X: Expenses (accounts on the left-hand side that reduce equity)
- D: Dividends Declared (distributions on the left-hand side that reduce retained earnings)
- L: Liabilities (accounts on the right-hand side of the identity)
- SC: Share Capital (contributed equity on the right-hand side)
- RE_0: Opening Retained Earnings (accumulated equity on the right-hand side)
- I: Income, comprising Revenues and Gains (accounts on the right-hand side that increase equity)

By universal convention, accounts positioned on the **left-hand side** of this rearranged identity (A, X, D) increase with a **Debit** (left entry), decrease with a **Credit** (right entry), and therefore normally carry a **Debit balance**. Conversely, accounts positioned on the **right-hand side** (L, SC, RE_0, I) increase with a **Credit**, decrease with a **Debit**, and normally carry a **Credit balance**. Because every transaction records equal total debits and total credits ($\sum \text{Dr} = \sum \text{Cr}$), the accounting equation remains continuously balanced.

Account Category	Equation Side	To Increase	To Decrease	Normal Balance
Assets	Left-hand side	Debit (Dr)	Credit (Cr)	Debit
Expenses	Left-hand side	Debit (Dr)	Credit (Cr)	Debit
Dividends Declared	Left-hand side	Debit (Dr)	Credit (Cr)	Debit
Liabilities	Right-hand side	Credit (Cr)	Debit (Dr)	Credit
Share Capital & Retained Earnings	Right-hand side	Credit (Cr)	Debit (Dr)	Credit
Income (Revenue & Gains)	Right-hand side	Credit (Cr)	Debit (Dr)	Credit
Contra-Asset (e.g., Accumulated Depreciation)	Offset to Left-hand side	Credit (Cr)	Debit (Dr)	Credit
Contra-Revenue (e.g., Sales Returns)	Offset to Right-hand side	Debit (Dr)	Credit (Cr)	Debit

1.3 Overview of the Complete Accounting Recording Cycle

Financial statements are the output of a structured sequence of steps executed across each reporting period, known as the **accounting cycle**. Module 2 examines Steps 1 through 4 (capturing source evidence through to the unadjusted trial balance), while Module 3 completes Steps 5 through 8 (adjusting, closing, and statement preparation).



Continuous Audit Trail: Source Document ↔ Journal Entry ↔ Ledger Reference ↔ Trial Balance

2. Source Documents and Goods and Services Tax (GST) in Australia

2.1 Source Documents and Verifiability

Every entry recorded in an accounting system must be supported by objective, verifiable evidence known as a **source document**. Source documents substantiate the date, monetary amount, counterparty, nature of goods or services, and tax status of each transaction, directly fulfilling the enhancing qualitative characteristic of *verifiability*.

Common Australian business source documents include:

- **Tax Invoices:** Issued by GST-registered suppliers to substantiate sales and allow buyers to claim input tax credits. Under ATO rules, a valid tax invoice for supplies exceeding A$82.50 (GST-inclusive) must display the words "Tax Invoice", supplier identity and Australian Business Number (ABN), issue date, description and quantity of items, and the GST amount (or a statement that the total price includes GST). For sales of A$1,000 or more, the buyer's identity or ABN is also required.
- **Adjustment Notes (Credit Notes):** Issued when goods are returned, damaged, or discounted after initial invoicing, reducing previously recorded sales or purchases and reversing the corresponding GST component.
- **EFTPOS, BPAY, and Bank Statements:** Electronic funds transfer confirmations, merchant settlement summaries, and monthly bank statements verifying cash inflows, outflows, bank fees, and interest.
- **Payroll Summaries and Single Touch Payroll (STP) Records:** Authorised timesheets and STP pay-run reports substantiating gross wages, PAYG withholding, and Superannuation Guarantee contributions.

2.2 Mechanics of the Australian 10% Goods and Services Tax (GST)

Under *A New Tax System (Goods and Services Tax) Act 1999 (Cth)*, Australia imposes a broad-based consumption tax of **10%** on most goods, services, and other items sold or consumed in Australia. Businesses with an annual GST turnover of A$75,000 or more (A$150,000 for non-profit bodies) must register for GST with the ATO. For accounting purposes, GST supplies fall into three statutory categories:

1. **Taxable Supplies (10% GST):** Most retail, wholesale, commercial property, and professional service transactions. The seller charges 10% GST and remits it to the ATO; a GST-registered

business buyer claims back that 10% GST as an *Input Tax Credit*.

2. **GST-Free Supplies (0% GST, Input Tax Credits Claimable):** Includes most basic unprocessed foods, exports, eligible health and medical services, and accredited education courses. No GST is charged on the sale, yet the business can still claim GST paid on business inputs.
3. **Input-Taxed Supplies (0% GST, No Input Tax Credits Claimable):** Includes financial supplies (such as bank loans and interest charges) and residential rental income.

Crucially, for a GST-registered business, **GST is neither revenue nor an expense**—the business acts purely as a collection agent for the Australian Taxation Office. Consequently, Sales Revenue, Purchases/Inventory, Expenses, and Property, Plant and Equipment are always recorded at their **GST-exclusive** amounts, whereas Accounts Receivable and Accounts Payable are recorded at the full **GST-inclusive** invoice amounts that customers must pay or suppliers must be paid.

Two separate GST ledger accounts (or a combined net clearing account) track these tax obligations:

- **GST Collected (Liability):** Credited when the business makes taxable sales. It represents a present obligation to remit collected tax to the ATO.
- **GST Paid / Input Tax Credits (Asset / Contra-Liability):** Debited when the business purchases taxable goods, services, or non-current assets. It represents a claimable offset against GST Collected.

2.3 GST Extraction and Net BAS Remittance Formulas

Australian consumer and commercial prices are frequently quoted on a GST-inclusive basis. Because the 10% tax is added onto the base price ($P_{\text{excl}} \times 1.10 = P_{\text{incl}}$), the GST component equals exactly one-eleventh ($\frac{1}{11}$) of the GST-inclusive total:

$$\text{GST Component} = \frac{P_{\text{incl}}}{11}, \qquad P_{\text{excl}} = \frac{P_{\text{incl}}}{1.1}$$

Where:

- P_{incl}: Total GST-inclusive invoice or cash price (in A$)
- P_{excl}: GST-exclusive base amount recorded to Revenue, Inventory, Expense, or Asset accounts (in A$)
- GST Component: 10% GST amount recorded to GST Collected or GST Paid (in A$)

At the end of each monthly or quarterly Business Activity Statement (BAS) reporting period, the entity calculates its net settlement with the ATO:

$$\text{Net GST Payable (or Refundable)} = \text{GST Collected} - \text{GST Paid}$$

Where:

DegreeLive

- GST Collected: Total output tax charged on taxable sales (net of sales returns) during the BAS period
- GST Paid: Total input tax credits on eligible business acquisitions (net of purchase returns) during the BAS period

If $\text{GST Collected} > \text{GST Paid}$, the business owes a net GST liability to the ATO; if $\text{GST Paid} > \text{GST Collected}$, the business is entitled to a net GST refund from the ATO.

Worked Numerical Examples of GST Journal Entries

Assume *Bayside Interiors Pty Ltd* (a GST-registered Melbourne retailer using a perpetual inventory system) enters into the following transactions during September 2026:

1. **Credit Purchase of Inventory:** Purchases shelving units for resale on credit for A$13,200 (GST-inclusive).
   Calculation: $\text{GST Paid} = \frac{13{,}200}{11} = 1{,}200$ (A$1,200); $\text{Inventory cost} = \frac{13{,}200}{1.1} = 12{,}000$ (A$12,000).
   Journal Entry: Dr Inventory A$12,000; Dr GST Paid A$1,200; Cr Accounts Payable A$13,200.
2. **Cash Sale of Merchandise:** Sells shelving units for A$9,900 cash (GST-inclusive). The units sold cost A$5,200 (GST-exclusive).
   Calculation: $\text{GST Collected} = \frac{9{,}900}{11} = 900$ (A$900); $\text{Sales Revenue} = \frac{9{,}900}{1.1} = 9{,}000$ (A$9,000).
   Journal Entry (Revenue & Tax): Dr Cash at Bank A$9,900; Cr Sales Revenue A$9,000; Cr GST Collected A$900.
   Journal Entry (Cost of Sales): Dr Cost of Sales A$5,200; Cr Inventory A$5,200 (note: no GST applies to internal inventory transfers).
3. **Credit Sale Return (Adjustment Note):** A credit customer returns defective goods originally billed at A$1,100 (GST-inclusive), which had cost A$600.
   Calculation: $\text{GST Component} = \frac{1{,}100}{11} = 100$ (A$100); $\text{Sales Return} = 1{,}000$ (A$1,000).
   Journal Entry: Dr Sales Returns & Allowances A$1,000; Dr GST Collected A$100; Cr Accounts Receivable A$1,100; and Dr Inventory A$600; Cr Cost of Sales A$600 (assuming goods are restockable).
4. **Acquisition of Office Equipment & Payment of Bank Interest:** Buys a computer workstation on credit for A$4,400 (GST-inclusive) and is charged A$350 bank loan interest (input-taxed financial supply, 0% GST).
   Calculation: Workstation $\text{GST Paid} = \frac{4{,}400}{11} = 400$ (A$400); $\text{Equipment Cost} = 4{,}000$ (A$4,000). Bank interest has zero GST.
   Journal Entries: Dr Office Equipment A$4,000; Dr GST Paid A$400; Cr Accounts Payable A$4,400; and Dr Interest Expense A$350; Cr Cash at Bank A$350.
5. **Net BAS Settlement:** Across the period above, $\text{GST Collected} = 900 - 100 = 800$ (A$800), while $\text{GST Paid} = 1{,}200 + 400 = 1{,}600$ (A$1,600). Net GST is $800 - 1{,}600 = -800$ (a A$800 refund due from the ATO). When the ATO refunds A$800 and clears both GST accounts:
   Journal Entry: Dr Cash at Bank A$800; Dr GST Collected A$800; Cr GST Paid A$1,600.

DegreeLive

3. General Journals, Special Journals, and Subsidiary Ledgers

3.1 The General Journal

Before transactions are posted to individual ledger accounts, they are recorded chronologically in a **book of original entry**. The **General Journal** is the universal book of original entry capable of recording any transaction. Each General Journal entry comprises five mandatory elements: (1) transaction date, (2) account titles and account numbers to be debited (listed flush left), (3) account titles and numbers to be credited (indented), (4) equal debit and credit monetary amounts in separate columns, and (5) a concise *narration* explaining the transaction and citing the source document reference.

Maintaining a journal prior to posting offers three vital accounting controls: it presents the complete effect of a transaction in a single location (whereas posting directly to ledgers scatters the debit and credit across separate pages), provides a chronological record of events, and reduces posting omissions or one-sided errors because debit-credit equality is verified at entry.

3.2 Special Journals and Division of Labour

In retail, wholesale, and service enterprises executing hundreds of repetitive daily events—credit sales, inventory purchases, cash receipts, and cash payments—recording every transaction individually in the General Journal becomes slow and error-prone. Businesses therefore introduce four **Special Journals** alongside a General Journal (which is retained for non-routine entries such as equipment purchases on credit, returns, adjusting entries, and closing entries).

Journal	Transactions Recorded	Typical Column Structure (with Australian GST)	Posting Frequency
Sales Journal (SJ)	Credit sales of inventory only	Date | Customer | Invoice No. | Dr Accounts Receivable | Cr Sales Revenue | Cr GST Collected | Dr Cost of Sales / Cr Inventory	Individual amounts posted daily to Accounts Receivable Subsidiary Ledger; column totals posted monthly to General Ledger.
Purchases Journal (PJ)	Credit purchases of inventory (or supplies/inventory)	Date | Supplier | Invoice No. | Cr Accounts Payable | Dr Inventory | Dr GST Paid	Individual amounts posted daily to Accounts Payable Subsidiary Ledger; column totals posted monthly to General Ledger.
Cash Receipts Journal (CRJ)	All cash inflows (cash sales, debtor receipts, loans, share issues)	Date | Details | Dr Cash at Bank | Dr Discount Allowed | Cr Accounts Receivable | Cr Sales | Cr GST Collected | Cr Other Accounts	Individual debtor receipts posted daily to AR Subsidiary Ledger; totals & "Other" items posted monthly to General Ledger.

Degreelive

Journal	Transactions Recorded	Typical Column Structure (with Australian GST)	Posting Frequency
Cash Payments Journal (CPJ)	All cash outflows (creditor payments, cash expenses, wages, drawings/dividends)	Date | Payee | Ref | Cr Cash at Bank | Cr Discount Received | Dr Accounts Payable | Dr Expenses/Purchases | Dr GST Paid | Dr Other Accounts	Individual supplier payments posted daily to AP Subsidiary Ledger; totals & "Other" items posted monthly to General Ledger.
General Journal (GJ)	Non-routine transactions (credit equipment, returns, adjustments, closing)	Date | Account Titles & Narration | Ref | Debit (A)|$Credit(A)$	Posted individually to General Ledger (and relevant Subsidiary Ledger if AR/AP affected).

3.3 Control Accounts and Subsidiary Ledgers

When an entity sells on credit to 400 customers and buys from 150 suppliers, placing 550 individual customer and supplier accounts inside the General Ledger would bloat the Trial Balance and obstruct monthly reporting. Instead, the General Ledger holds a single summary account called **Accounts Receivable Control** (and **Accounts Payable Control**), while detailed individual customer and supplier balances are maintained separately in the **Accounts Receivable Subsidiary Ledger** and **Accounts Payable Subsidiary Ledger**.

This two-tier architecture strengthens internal control through independent reconciliation: at month-end, the sum of all individual customer balances in the Accounts Receivable Subsidiary Ledger must equal the ending balance of the Accounts Receivable Control account in the General Ledger. Any discrepancy immediately alerts staff to an unposted invoice, misallocated customer receipt, or arithmetic error.

4. Posting, Trial Balance Preparation, and Error Analysis

4.1 Running-Balance Ledger Format vs T-Account Format

Transferring journalised figures into ledger accounts is termed **posting**. Academic illustrations frequently use simplified **T-accounts** (showing debits on the left and credits on the right), whereas commercial accounting software and formal corporate ledgers employ the **running-balance (three-column) ledger format** displaying Date, Description, Posting Reference, Debit, Credit, and updated Balance (with a Dr/Cr indicator) after every entry. The running-balance format instantly reveals an account's current position—such as remaining cash at bank—without needing to foot and balance columns manually.

Below is the running-balance General Ledger format for *Cash at Bank (Account 1010)* extracted from the August 2026 transactions of Yarra Valley Office Supplies Pty Ltd:

Date	Explanation	Ref	Debit (A$)	Credit (A$)	Balance (A$)	Dr/Cr
1 Aug	Share Capital issue	GJ1	100,000	—	100,000	Dr

Date	Explanation	Ref	Debit (A$)	Credit (A$)	Balance (A$)	Dr/Cr
2 Aug	Showroom rent	GJ1	—	4,400	95,600	Dr
14 Aug	Cash sales (incl. GST)	GJ1	8,800	—	104,400	Dr
21 Aug	Receipt – Monash Precinct Clinics	GJ1	20,900	—	125,300	Dr
25 Aug	Payment – PaperCorp Australia	GJ1	—	20,000	105,300	Dr
28 Aug	August staff wages	GJ1	—	5,600	99,700	Dr
30 Aug	Electricity invoice	GJ1	—	660	99,040	Dr
31 Aug	Interim dividend paid	GJ1	—	2,000	97,040	Dr

4.2 Complete End-to-End Worked Cycle: *Yarra Valley Office Supplies Pty Ltd*

To consolidate double-entry recording, Australian 10% GST mechanics, ledger posting, and trial balance preparation, trace the first month of operations (August 2026) for **Yarra Valley Office Supplies Pty Ltd** (a GST-registered wholesaler in Ringwood, Victoria, using a perpetual inventory system). All sales and taxable purchases are quoted GST-inclusive unless stated otherwise.

Step 1: Transactions for August 2026

1. **1 Aug:** Shareholders invest A$100,000 cash for ordinary shares (no GST on equity contributions).
2. **2 Aug:** Pays A$4,400 cash (GST-inclusive) for August showroom rent.
3. **4 Aug:** Purchases office stationery inventory on 30-day credit from PaperCorp Australia for A$33,000 (GST-inclusive).
4. **6 Aug:** Purchases warehouse shelving on credit from Metro Fitouts for A$11,000 (GST-inclusive).
5. **10 Aug:** Sells stationery on 14-day credit to Monash Precinct Clinics for A$22,000 (GST-inclusive); cost of inventory sold is A$12,500.
6. **14 Aug:** Makes cash sales of stationery to walk-in business clients for A$8,800 (GST-inclusive); cost of inventory sold is A$4,900.
7. **18 Aug:** Monash Precinct Clinics returns damaged goods worth A$1,100 (GST-inclusive) under an adjustment note; returned goods cost A$620 and are returned to inventory.
8. **21 Aug:** Receives A$20,900 cash from Monash Precinct Clinics in full settlement of its net account (A$22,000 – A$1,100).
9. **25 Aug:** Pays PaperCorp Australia A$20,000 cash on account.
10. **28 Aug:** Pays staff wages of A$5,600 cash for August (wages are outside the scope of GST).
11. **30 Aug:** Receives and pays an electricity bill of A$660 cash (GST-inclusive).
12. **31 Aug:** Declares and pays an interim cash dividend of A$2,000 to shareholders (no GST).

DegreeLive

Step 2: General Journal Entries (August 2026)

Date	Account Titles & Narration	Debit (A$)	Credit (A$)
1 Aug	Cash at Bank	100,000	
	Share Capital		100,000
	(Issued ordinary shares for cash; outside GST scope)		
2 Aug	Rent Expense (4,400 / 1.1)	4,000	
	GST Paid (4,400 / 11)	400	
	Cash at Bank		4,400
	(Paid August showroom rent, GST-inclusive)		
4 Aug	Inventory (33,000 / 1.1)	30,000	
	GST Paid (33,000 / 11)	3,000	
	Accounts Payable		33,000
	(Purchased inventory on credit from PaperCorp)		
6 Aug	Store Equipment (11,000 / 1.1)	10,000	
	GST Paid (11,000 / 11)	1,000	
	Accounts Payable		11,000
	(Purchased warehouse shelving on credit from Metro Fitouts)		
10 Aug	Accounts Receivable	22,000	
	Sales Revenue (22,000 / 1.1)		20,000
	GST Collected (22,000 / 11)		2,000
	Cost of Sales	12,500	
	Inventory		12,500
	(Credit sale to Monash Precinct Clinics & COGS recognition)		
14 Aug	Cash at Bank	8,800	
	Sales Revenue (8,800 / 1.1)		8,000
	GST Collected (8,800 / 11)		800
	Cost of Sales	4,900	
	Inventory		4,900
	(Cash sales & COGS recognition)		
18 Aug	Sales Returns & Allowances (1,100 / 1.1)	1,000	
	GST Collected (1,100 / 11)	100	
	Accounts Receivable		1,100
	Inventory	620	
	Cost of Sales		620
	(Sales return adjustment note & restocking of goods)		
21 Aug	Cash at Bank	20,900	
	Accounts Receivable		20,900
	(Received full settlement from Monash Precinct Clinics)		
25 Aug	Accounts Payable	20,000	
	Cash at Bank		20,000
	(Partial payment to PaperCorp Australia)		

DegreeLive

Date	Account Titles & Narration	Debit (A$)	Credit (A$)
28 Aug	Wages Expense Cash at Bank *(Paid August staff wages; GST-exempt payroll)*	5,600	5,600
30 Aug	Electricity Expense (660 / 1.1) GST Paid (660 / 11) Cash at Bank *(Paid August electricity invoice, GST-inclusive)*	600 60	660
31 Aug	Dividends Declared Cash at Bank *(Paid interim dividend; equity distribution)*	2,000	2,000

Step 3: General Ledger Summary (Account Balances as at 31 August 2026)

Posting each journal line to its respective General Ledger account yields the following closing balances:

- **Cash at Bank (1010):** Debits = 100,000 + 8,800 + 20,900 = 129,700; Credits = 4,400 + 20,000 + 5,600 + 660 + 2,000 = 32,660 → **Dr Balance = A$97,040**.
- **Accounts Receivable (1100):** Debits = 22,000; Credits = 1,100 + 20,900 = 22,000 → **Balance = A$0**.
- **Inventory (1200):** Debits = 30,000 + 620 = 30,620; Credits = 12,500 + 4,900 = 17,400 → **Dr Balance = A$13,220**.
- **GST Paid (1400):** Debits = 400 + 3,000 + 1,000 + 60 = 4,460 → **Dr Balance = A$4,460**.
- **Store Equipment (1500):** Debits = 10,000 → **Dr Balance = A$10,000**.
- **Accounts Payable (2010):** Credits = 33,000 + 11,000 = 44,000; Debits = 20,000 → **Cr Balance = A$24,000** (PaperCorp A$13,000 + Metro Fitouts A$11,000).
- **GST Collected (2300):** Credits = 2,000 + 800 = 2,800; Debits = 100 → **Cr Balance = A$2,700**.
- **Share Capital (3010):** Credits = 100,000 → **Cr Balance = A$100,000**.
- **Dividends Declared (3300):** Debits = 2,000 → **Dr Balance = A$2,000**.
- **Sales Revenue (4010):** Credits = 20,000 + 8,000 = 28,000 → **Cr Balance = A$28,000**.
- **Sales Returns & Allowances (4020):** Debits = 1,000 → **Dr Balance = A$1,000**.
- **Cost of Sales (5010):** Debits = 12,500 + 4,900 = 17,400; Credits = 620 → **Dr Balance = A$16,780**.
- **Rent Expense (5200): Dr Balance = A$4,000**; **Wages Expense (5100): Dr Balance = A$5,600**; **Electricity Expense (5400): Dr Balance = A$600**.

Step 4: Unadjusted Trial Balance as at 31 August 2026

Acc. No.	Account Title	Debit (A$)	Credit (A$)
1010	Cash at Bank	97,040	—

DegreeLive

Acc. No.	Account Title	Debit (A$)	Credit (A$)
1200	Inventory	13,220	—
1400	GST Paid (Input Tax Credits)	4,460	—
1500	Store Equipment	10,000	—
2010	Accounts Payable	—	24,000
2300	GST Collected	—	2,700
3010	Share Capital	—	100,000
3300	Dividends Declared	2,000	—
4010	Sales Revenue	—	28,000
4020	Sales Returns & Allowances	1,000	—
5010	Cost of Sales	16,780	—
5100	Wages Expense	5,600	—
5200	Rent Expense	4,000	—
5400	Electricity Expense	600	—
	Total Unadjusted Trial Balance	**154,700**	**154,700**

Note that total Debits (A$154,700) equal total Credits (A$154,700), confirming mathematical equality across the ledger. Observe also the GST position for August: GST Paid (A$4,460) exceeds GST Collected (A$2,700) because the company stocked up on initial inventory and store shelving, generating a net GST refund entitlement of A$4,460 − A$2,700 = A$1,760 on its August BAS.

4.3 Limitations of the Trial Balance and Classification of Accounting Errors

A balanced Trial Balance proves only that total debits equal total credits; it does **not** guarantee that the underlying accounting records are free from error or compliant with AASB standards. Accountants distinguish between errors revealed by an out-of-balance Trial Balance and errors concealed despite equality.

Error Category	Detected by Trial Balance?	Mechanism & Diagnostic Clue
Single-Sided Posting or Unequal Dr/Cr	Yes	Debit total differs from Credit total by the exact omitted or mismatched amount.
Transposition Error (e.g., A$5,420 posted as A$5,240)	Yes (if on one side only)	Swapping two adjacent digits creates a Trial Balance difference always evenly divisible by 9 (here, $5,420 - 5,240 = 180$, and $180 \div 9 = 20$).

Error Category	Detected by Trial Balance?	Mechanism & Diagnostic Clue
Slide Error (e.g., A$450 posted as A$4,500)	Yes (if on one side only)	Shifting a decimal point produces a discrepancy also evenly divisible by 9 ($4,500 - 450 = 4,050$).
Error of Complete Omission	No	An entire transaction (e.g., a credit purchase invoice) is never journalised; both Dr and Cr are absent.
Error of Commission	No	Correct amount posted to the wrong account of the same class (e.g., debiting Telephone Expense instead of Electricity Expense).
Error of Principle	No	Transaction violates accounting principles by posting to the wrong element class (e.g., debiting Repairs Expense instead of Office Equipment for a new asset).
Complete Reversal of Entry	No	Debit and credit accounts are inverted (e.g., Dr Accounts Payable, Cr Cash instead of Dr Cash, Cr Accounts Receivable).
Compensating Errors	No	Two unrelated errors of identical magnitude occur on opposite sides (e.g., Sales overstated by A$300 and Rent overstated by A$300).

Worked Example: Preparing Correcting Journal Entries

When an error is discovered after journalising and posting, existing ledger entries should never be erased or overwritten (which destroys the audit trail); instead, a **correcting journal entry** is recorded. Suppose two errors are identified before closing the August 2026 books of a Melbourne consultancy:

1. **Error of Principle:** A A$3,300 (GST-inclusive) laptop computer purchase paid by cash was incorrectly recorded by debiting Office Supplies Expense A$3,000 and GST Paid A$300, and crediting Cash at Bank A$3,300.
   Analysis: Cash at Bank (Cr A$3,300) and GST Paid (Dr A$300) were recorded correctly. However, Office Supplies Expense was overstated by A$3,000 while Office Equipment (an asset) was understated by A$3,000.
   Correcting Entry: Dr Office Equipment A$3,000; Cr Office Supplies Expense A$3,000.
2. **Complete Reversal Error (Cash Receipt):** A A$1,500 cash collection from a credit customer was mistakenly journalised as Dr Accounts Receivable A$1,500; Cr Cash at Bank A$1,500.
   Analysis: To undo the erroneous entry and record the true event, the correction must be twice the transaction amount (A$3,000): the first A$1,500 reverses the wrong entry back to zero, and the second A$1,500 records the actual receipt.
   Correcting Entry: Dr Cash at Bank A$3,000; Cr Accounts Receivable A$3,000.

Degreelive