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Bookkeeping Transactions

Lesson 1 – Introduction to Double Entry Bookkeeping

'T' Accounts

Account Name

Debit Side	Credit Side
Assets	Liabilities
Drawings	Capital
Purchases	Sales
Expenses	Other Income

'DEAD CLIC'

- **D**ebit **E**xpenses **A**ssets & **D**rawings
- **C**redit **L**iabilities **I**ncome & **C**apital
- **Assets** are things that you **own**
- **Liabilities** are things that you **owe**
- **Capital** is money invested in the business by the owner
- **Drawings** is money the owner of the business pays themselves as 'wages'
- **Expenses** are costs incurred in the day to day running of the business

‘PEARLS’

- **Debit: P**urchases, **E**xpenses and **A**ssets
- **Credit: R**evenue, **L**iabilities and **S**ales
- Revenue represents income from sources other than from sales, for instance from renting out rooms above your shop or bank interest received.

The Accounting Equation

- ***Assets – Liabilities = Capital***
- A **debit** entry **increases** an **asset** and a **credit** entry **decreases** an **asset**
- A **credit** entry **increases** a **liability** and a **debit** entry **decreases** a **liability**
- A **credit** entry **increases capital** and a **debit** entry **increases drawings**
- <u>Example:</u>
- A baker starts their business with £150 in cash from their own savings
- **Asset** (Cash) **£150** – **Liabilities £0** = **Capital £150**

Double Entry Bookkeeping

- ***Every transaction must have two equal and opposite entries – one debit entry and one credit entry for the same amount of money***
- <u>Example 1: You sell goods for £100 cash</u>
- You would **debit** your **Cash** 'T' Account with **£100** and **credit** your **Sales** 'T' Account with **£100**
- <u>Example 2: You buy office stationery for £30 paying in cash</u>
- You would **debit** your **Office Stationery** 'T' Account with **£30** and **credit** your **Cash** 'T' Account with **£30**.

Double Entry Bookkeeping

Cash

Debit Side		Credit Side	
Capital	£150	Office Stationery	£30
Sales	£100		

Balancing Off 'T' Accounts

- When all of the information has been entered into your 'T' Accounts you should balance off the accounts
- Both sides should be totalled and the larger amount shown on each side
- The difference between the two totals should be added above the totals to the **smaller side** to make the two sides balance
- This is called the **balance carried down** (c/d) and this is entered on the last day of the current accounting period
- The same amount should be shown on the other side below the totals as the **balance brought down** (b/d) on the first day of the new accounting period.

Double Entry Bookkeeping

Cash

Debit Side		Credit Side	
Capital	£150	Office Stationery	£30
Sales	£100	Balance c/d	£220
	<u>£250</u>		<u>£250</u>
Balance b/d	£220		

The Trial Balance

- ***The Trial Balance lists all of the balances b/d on your 'T' Accounts***
- Its purpose is to check the arithmetical accuracy of the bookkeeping
- If it doesn't balance then something has gone wrong. It could be that something has been partially omitted, duplicated, transposed or the wrong amount has been entered somewhere
- However, not all bookkeeping errors are identified by the trial balance not balancing. For instance, if you entered the correct amount on both sides but mixed up the debit and credit sides then the Trial Balance would still balance even though it is incorrect.

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The Trial Balance

Trial Balance		
Account Name	**Debit (£)**	**Credit (£)**
Cash	220	
Office Stationery	30	
Sales		100
Capital		150
Totals	**250**	**250**