Accounting is known as the ‘language of business’ and is is essential to the recording and presentation of accounting records and financial statements. Accounting is all about communicating complex financial information clearly and concisely!

# **Tasks**

There are 5 areas of tasks you need to complete:

1. Understanding Debits and Credits – this is fundamental in your accounting course
2. Types of transactions – cash and credit
3. Source documents used in accounting – you’ll be introduced to only 2
4. How to close off accounts
5. Percentage change calculations – discounts

# **Understanding debits and credits**

* Every account in business has two sides: a debit side and credit side

**Golden rules when it comes to debits and credits:**

1. “Every debit entry must have an equal and opposite credit entry”.
2. **DEAD CLIC is a mnemonic to help you classify what is a debit and credit**

To show an increase in value to a debit item e.g. expenses, assets and drawings you would debit that account. To show an increase in value to a credit item e.g. liabilities, income and capital you would credit that account.

|  |
| --- |
| Account name |
| **D**ebit (Dr) | **C**redit (Cr) |
| **E**xpenses | **L**iabilities  |
| **A**ssets | **I**ncome |
| **D**rawings | **C**apital |

1. If you want to decrease a debit side item, then you credit it. If you want to decrease a credit side item, then you debit it.

**Definitions**

* An expense is money *spent* by the business that is associated with the activities of a business e.g. stock or rent
* Assets are items owned by the business. There are 2 types:
	+ Current assets which are those things a business owns and keeps for less than 12 months e.g. **debtors** (people who owe the business money like credit customers; **stock** (the stuff you sell to make revenue) and **cash** you have in the bank
	+ Non-current assets – things which a business owns and keeps for more than a year like buildings, company cars, furniture etc.
* A drawing is money withdrawn from the business by the owner for personal use, not associated with business activities.
* A liability is money owed e.g. payment on a bank loan or money owed to suppliers
* Income is money made by the business by selling its goods/services
* Capital is money put into the business by the owner. This is a liability for the business.

**Example double entries**

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| **Introducing capital into the business**Frankie starts a business and pays £5,000 into the business bank account. What is the double entry? |

These T shapes is how you need to show the double entry

Bank

£5,000

Capital

£5,000

* £5,000 has been paid into the bank account therefore your current assets have increased as your cash in the bank has increased which is therefore a debit.
* The business owes Frankie £5,000 which is a liability therefore its liabilities have increased and consequently a credit

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| **Paying office rent**Frankie pays £1000 per month to rent his office. He pays the landlord. What is the double entry? |

Rent

£1000

Bank

£1000

* The business has paid out £1000 from its bank account – therefore bank will be credited as you want to decrease it
* Frankie has also paid out £1000 on rent which is an expense therefore expenses are debited

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| **Buying stationery – not as stock but used in business** Frankie pays £200 for items of stationery. He pays with a cheque to the supplier. What is the double entry? |

Stationery

£200

Bank

£200

* The business has paid £200 out of its bank account therefore bank is reduced and therefore credited.
* Stationery in this example is an expense therefore his expenses have increased by £200 which means it’s debited.

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| --- |
| **Buying a computer – not for resale but to be used long term in the firm therefore it’s a non-current asset.** Frankie pays £900 to purchase a computer. He pays cash |

Computer

£900

Bank

£900

* The business has paid £900 for the computer therefore £900 leaves the account – in order to reduce bank you need to credit it.
* The computer is a fixed asset therefore you would debit the fixed asset computer account as your assets have gone up

|  |
| --- |
| **Receiving income from sales of goods – i.e. sell goods it has purchased for re-sale**Frankie sells goods for £1,500. The customer pays cash. What is the double entry? |

Sales

£1,500

Bank

£1,500

* Frankie has sold goods for £1,500 therefore he will receive the cash which will increase his bank account – to increase bank you need to debit it.
* The money Frankie receives is his income which increases by £1,500 therefore is credited.

# **Over to you now:**

Can you do the double entry for the following examples

1. Purchase stock for £100

Stock

Bank

1. Purchase of a cash register by cash

Expense

Bank

1. Payment received from a credit customer

Debtors

Bank

1. A cash sale of £250

Income

Bank

1. Payment of a rent bill totalling £150

Rent

Bank

# **Types of transactions and source documents**

Please read the following:

* A **cash purchase** occurs when goods are bought (or a service received) and the customer pays immediately using cash, cheques or credit cards). A **receipt** is issued for the amount of cash paid
* A **credit purchase** occurs when goods are bought (or a service received) and the customer does not pay immediately but can pay after a specified number of days. An **invoice** will be issued to request payment for the amount due.
* A **cash sale** occurs when goods are sold (or a service provided) and the customer pays immedicably with cash, cheque or credit card. A **receipt** is issued for the amount of cash received.
* A **credit sale** occurs when goods are sold (or a service provided) and the customer does not have to pay immediately but can pay after a specified number of days. An **invoice** is issued to request payment of the money owed.

The source documents are in red.

* A receipt is issued for cash purchases and sales
* An invoice in issued for credit purchases and sales. An invoice is a request for payment by the supplier.

**Complete the following table identifying the source document and the doble entry required for each transaction:**

|  |  |  |  |
| --- | --- | --- | --- |
| Transaction  | Source document  | Debit  | Credit |
| Purchased stock on credit from supplier  | Invoice  | Stock  | Supplier  |
| Paid office expense by cash  |  |  |  |
| Products sold to customer on credit  |  |  |  |

# **Percentage changes**

Question 1

**A business increases its selling price from £5 to £7.** Calculate the percentage increase in price.

Question 2

**A business reduces its selling price from £12 to £7.50.** Calculate the percentage decrease in price.

Question 3

**A business sells a product for £150 per unit. It decides to reduce the price by 20%.** Calculate the new selling price per unit.

Question 4

**A business employs 2,200 staff. 176 staff work at the Head Office of the business.** Calculate the percentage of staff who work at Head Office

# **Closing off accounts**

Steps to follow:

1. Total both the debit and credit sides of the ledger account and make a note of each total
2. Insert the higher of the two totals on both sides of the ledger account leaving a line beneath the final entry on each side of the account
3. On the side with the smaller total insert the figure needed to make this column add up to the total. Call this figure the **balance carried down** (or Bal c/d as an abbreviation)
4. On the opposite side of the ledger account, below the total insert this same figure and call it the **balance brought down** (or Bal b/d as an abbreviation)

**Simple Example**

Bank

Capital £5,000

Sales £300

Sales £400

Capital £500

Purchases £200

Drawings £100

Rent £400

Stationery £300

Purchases £400

*Sub-total debits*  £3,000

*Sub-total credits* £1,400

***TOTAL £3,000***

***TOTAL £3,000***

Bal c/d £1,600

Bal b/d £1,600

The subtotals would not normally be written on the account itself – they are only shown here to explain the process more clearly.

**More complex example: Percy –‘worked examples double entry’ sheet**

1. Paid £20,000 into a business bank account
2. Spent £500 on a second-hand van
3. Paid £1000 on purchases of stock
4. Took £50 cash for his own use
5. On 5 January bought goods for cash costing £500
6. Made sales for cash of £2,000
7. On 15 January paid £200 of rent

This shows that the business has £19,750 left in the bank account at the end of Jan and therefore also on the first day of Feb. The balance brought down is on the debit side and therefore is known as a debit balance and indicates that this is an asset – money in the bank account

|  |
| --- |
| **Bank** |
| Date |  |  | £ | Date |  |  | £ |
| 01-Jan | Capital | 1 | 20,000 | 01-Jan | Van | 2 | 500 |
| 05-Jan | Sales | 6 | 2,000 |  | Purchases | 3 | 1,000 |
|  |  |  |   |  | Drawings | 4 | 50 |
|  |  |  |   | 05-Jan | Purchases | 5 | 500 |
|  |  |  |   | 15-Jan | Rent | 7 | 200 |
|  |  |  |   | *31-Jan* | *Balance c/d* |  | *19,750* |
|  | **Total** |  | **22,000** |  | **Total** |  | **22,000** |
| *01-Feb* | *Balance b/d* |  | *£19,750* |  |  |  |  |
|  |  |  |   |  |  |  |  |

|  |
| --- |
| **Capital** |
| Date |  |  | £ | Date |  |  | £ |
|  |  |  |  | 01-Jan | Bank | 1 | 20,000 |
|  |  |  |  |  |  |  |  |

As there is only one entry there is no need to balance the account. The entry is on the credit side and is known as a credit balance. A credit balance is a liability to the business and this account shows that the business owes £20,000

No need to balance the account. It’s a debit balance as the van is an asset

|  |
| --- |
| **Van** |
| Date |  |  | £ | Date |  |  | £ |
| 1. Jan
 | Bank | 2 | 500 |  |  |  |  |
|  |  |  |  |  |  |  |  |

|  |
| --- |
| **Purchases** |
| Date |  |  | £ | Date |  |  | £ |
| 01-Jan | Bank | 3 | 1,000 |  |  |  |  |
| 05-Jan | Bank | 5 | 500 | *31-Jan* | *Bal c/d* |  | *1,500* |
|  |  |  |   |  |  |  |  |
|  | **Total** |  | **1,500** |  | **Total** |  | **1,500** |
| 1. *Feb*
 | *Bal b/d* |  | *1,500* |  |  |  |  |

This shows during the month £1,500 worth of purchases were made. It’s a debit balance as purchases are an expense for the firm

|  |
| --- |
| **Drawings** |
| Date |  |  | £ | Date |  |  | £ |
| 1. Jan
 | Bank | 4 | 50 |  |  |  |  |
|  |  |  |  |  |  |  |  |

This is a debit balance as drawings are a reduction of the capital owed to the owner which is a credit balance.

|  |
| --- |
| **Sales** |
| Date |  |  | £ | Date |  |  | £ |
|  |  |  |  | 05-Jan | Bank | 6 | 2,000 |
|  |  |  |  |  |  |  |  |

No need to balance the account. A £2,000 credit balance representing income

|  |
| --- |
| **Rent** |
| Date |  |  | £ | Date |  |  | £ |
| 1. Jan
 | Bank | 7 | 200 |  |  |  |  |
|  |  |  |  |  |  |  |  |

No need to balance the account. A £200 debit balance indicates an expense

# **Over to you!**

Below is a bank account account for the month of March. Show the balance b/d at 31 March

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** |  | **£** | **Date** |  | **£** |
| 1 Mar | Capital | 12000 | 3 Mar | Purchases | 3000 |
| 7 Mar | Sales | 5,000 | 15 Mar | Fixed asset | 2400 |
| 19 Mar | Sales | 2,000 | 20 Mar | Purchases | 5300 |
| 22 Mar | Sales | 3000 | 24 Mar | Rent | 1000 |
|  |  |   | 28 Mar | Drawings | 2000 |

Answer: