Processing Accounting Information

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SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

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Double-entry bookkeeping and ledger accounts

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- Double-entry bookkeeping is a set of conventions for recording business transactions in a book called the LEDGER. The ledger is divided into sections called ACCOUNTS. The accounts are used to show the detailed increases and decreases in each financial statement item.

- The account is abbreviated as ACC or A/C.

- Double-entry bookkeeping is based on the same idea as the accounting equation. Every accounting transaction entered must involve an equal alteration to both sides of the accounting equation.

- As result, each transaction has two equal but opposite effects, and double-entry bookkeeping means to record the dual effects of each business transaction.

Each account is split into two halves

- \- The left half is called the DEBIT (Dr) side.
- \- The right half is called the CREDIT (Cr) side.

Each account is split into two halves

- For this reason, identifing debits and credits is quite simple.

- In a systém of double-entry bookkeeping, every accounting transaction must be entered in ledger accounts both as a debit and as an equal but opposite credit. The principal accounts are contained in a ledger called the nominal ledger.

Each account is split into two halves

- When the total amount of money on the DEBIT side of an account is greater than that on the CREDIT side, the account is said to have a DEBIT BALANCE.

- Similarly, when the total amount of money on the CREDIT side of an account is greater than that on the DEBIT side, the account is said to have a CREDIT BALANCE.

- An account which contains a DEBIT BALANCE represents either and ASSETS or an EXPENSE.

- An account with CREDIT BALANCE represents LIABILITY, CAPITAL, or INCOME.

The debit and credit rules

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- The debit and credit rules in double-entry bookkeeping are as follows:

- An entry on the DEBIT side is:
- - An increase in an asset, or expense
- - Or a decrease in a liability, capital or income

- An entry on the CREDIT side is:
- - An increase in a liability, capital or income
- - Or a decrease in an asset, or expense

The debit and credit rules

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- All individual account in financial accounting belong to one of the five main categories of account, i.e. asset, liability, owners equity (or capital), revenue (or income), or expense.

Recording transactions: The process

- **Step 1:** Identify the transaction and specify each account affected by the transaction (each account belongs to either an asset, liability, owners equity or capital, revenue, or expense).

- **Step 2:** Determine whether each account is increased or decreased by the transaction. Use the above rules of debit and credit.

- **Step 3:** Do the double entry based on the debit and credit rules as described above.

Balancing off the accounts

- At suitable intervals, the entries in each ledger account are totalled and a balance is struck (also known as closing off the accounts).

- This process creates nil balances in all revenue and expense accounts for the commencement of the new accounting period, whilst all accounts in the Statement of Financial Position (SFP) have balances that are carried down (c/d) at the end of the accounting period and brought down (b/d) in the new accounting period.

Trial balance

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- A trial balance lists all accounts of a business, with their balances at the end of the period.

- It is divided between accounts with debit balances and credit balances.

- The total of debit and credit balances must be the same (check by entering on the trial balance the balance of each account and then add each side).

- The trial balance is used as a basic for preparing the Statement of Profit or Loss (SPL) account and the SFP at the end of the period.

Thank you for your attention.