

Business Economics & Accounting

**Faculty of Engineering
Semester 6**

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Rules of Double Entry

Intended Learning Outcomes

At the end of the session, learners will be able to;

- Understand the concept of double entry
- Identify different types of accounts
- Distinguish between general ledger and general journal
- Apply the double entry concept

Rules of Double Entry

- The day to day transactions are recorded in the books of a business using the double entry system of bookkeeping
- The term double entry is used because the two effects of a transaction are both recorded

Rules of Double Entry

Account	
Debit Always the left side (The term debit is usually abbreviated to Dr)	Credit Always the Right side (The term credit is usually abbreviated to Cr)

Rules of Double Entry Cont....

	Increase	Decrease	
Assets	Debit	Credit	Normal balance - Debit
Liabilities	Credit	Debit	Normal Balance - credit
Equity	Credit	Debit	Normal Balance - credit
Revenue	Credit	Debit	Normal Balance - Credit
Expenses	Debit	Credit	Normal Balance - Debit

Rules of Double Entry Cont....

$$\text{Assets} + \text{Expenses} = \text{Capital} + \text{Income} + \text{Liability}$$

Increase - Debit

Decrease - Credit

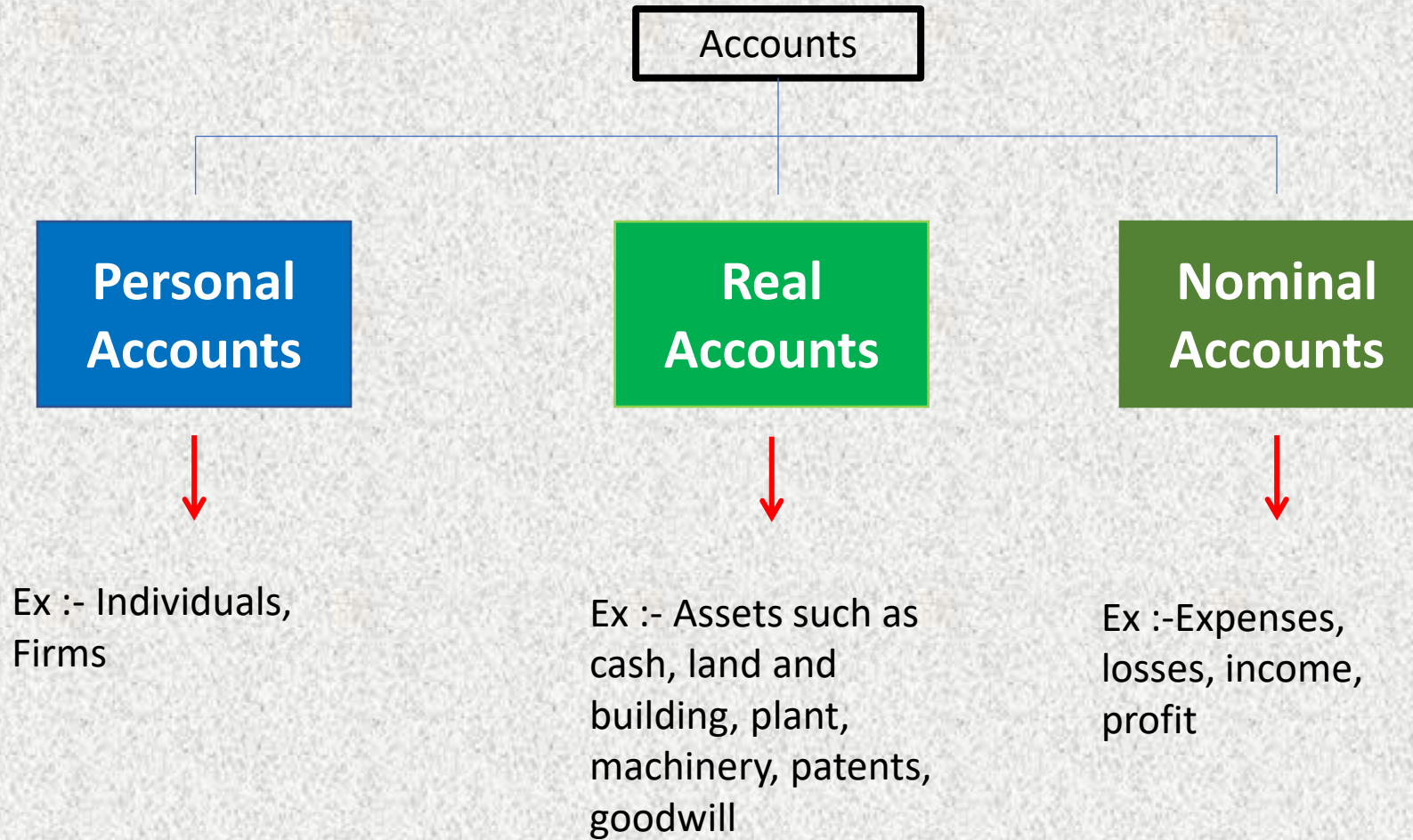
Normal balance - Debit

Increase - Credit

Decrease - Debit

Normal balance - Credit

Types of Accounts



General Ledger

- This is often defined as a book of accounts
- General ledger contains a classified summary of all transactions

General Journal

- A general journal is a financial record for entering all types of business transactions
- Transactions are recorded in the dual aspect
- Journalizing is the process of recording transactions in a journal

General Journal

Journal entries				
Date	Particulars	L.F.	Dr.	Cr.
			Rs.	Rs.
1.	Depreciation A/c Dr To furniture A/c (Being the depreciation charged on furniture)		300	300
2.	Rent A/c Dr To outstanding rent A/c (Being the rent due, but not paid)		2000	2000
3.	Charity A/c Dr To purchases A/c (Being the goods distributed as charity)		500	500
4.	Bad debts A/c Dr To sundry debtors A/c		200	200

Example 1

Journalize the following transactions and draw ledger accounts

- 01.01.2020 - Shehan commenced a business by investing Rs. 500,000 worth of cash
- 03.01.2020 - Purchased furniture worth Rs. 20,000
- 06.01.2020 - Purchased equipment to be used by the business worth Rs. 4000
- 10.01.2020 - Obtained a bank loan worth Rs. 200,000
- 12.01.2020 - Paid expenses amounting to Rs. 4000
- 15.01.2020 - Received rent income worth Rs. 10,000

Example 2

Journalize the following transactions and draw ledger accounts

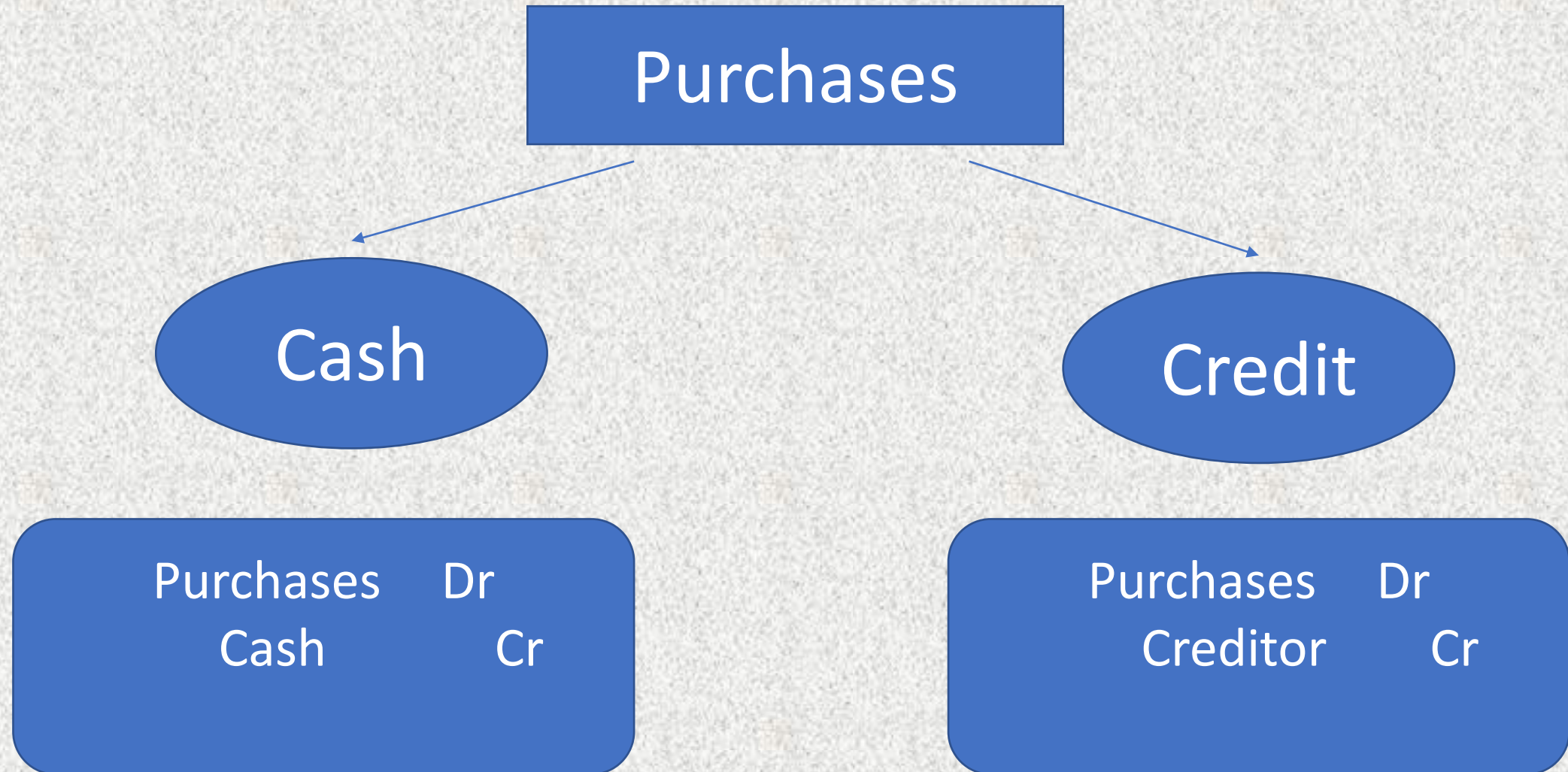
- 01.01.2020 - Nuwan commenced a business by investing Rs. 700,000 worth of cash, Rs. 600,000 worth of goods and Rs. 200,000 worth of furniture.
- 03.01.2020 - Purchased a Motor Vehicle worth Rs. 600,000
- 04.01.2020 – Deposited Rs. 5,000 in the bank account
- 06.01.2020 – Obtained a bank loan of Rs. 500,000
- 12.01.2020 - Paid rent expenses amounting to Rs. 4000
- 15.01.2020 - Received rent income worth Rs. 10,000
- 18.01.2020 – Received interest income of Rs. 10,000

Double entry records

➤ Purchases

- This belongs to the category of “Expenses”
- This includes the items bought by the business for resale
- Purchases does not include assets purchased to be used by the business

Double entry records Cont.

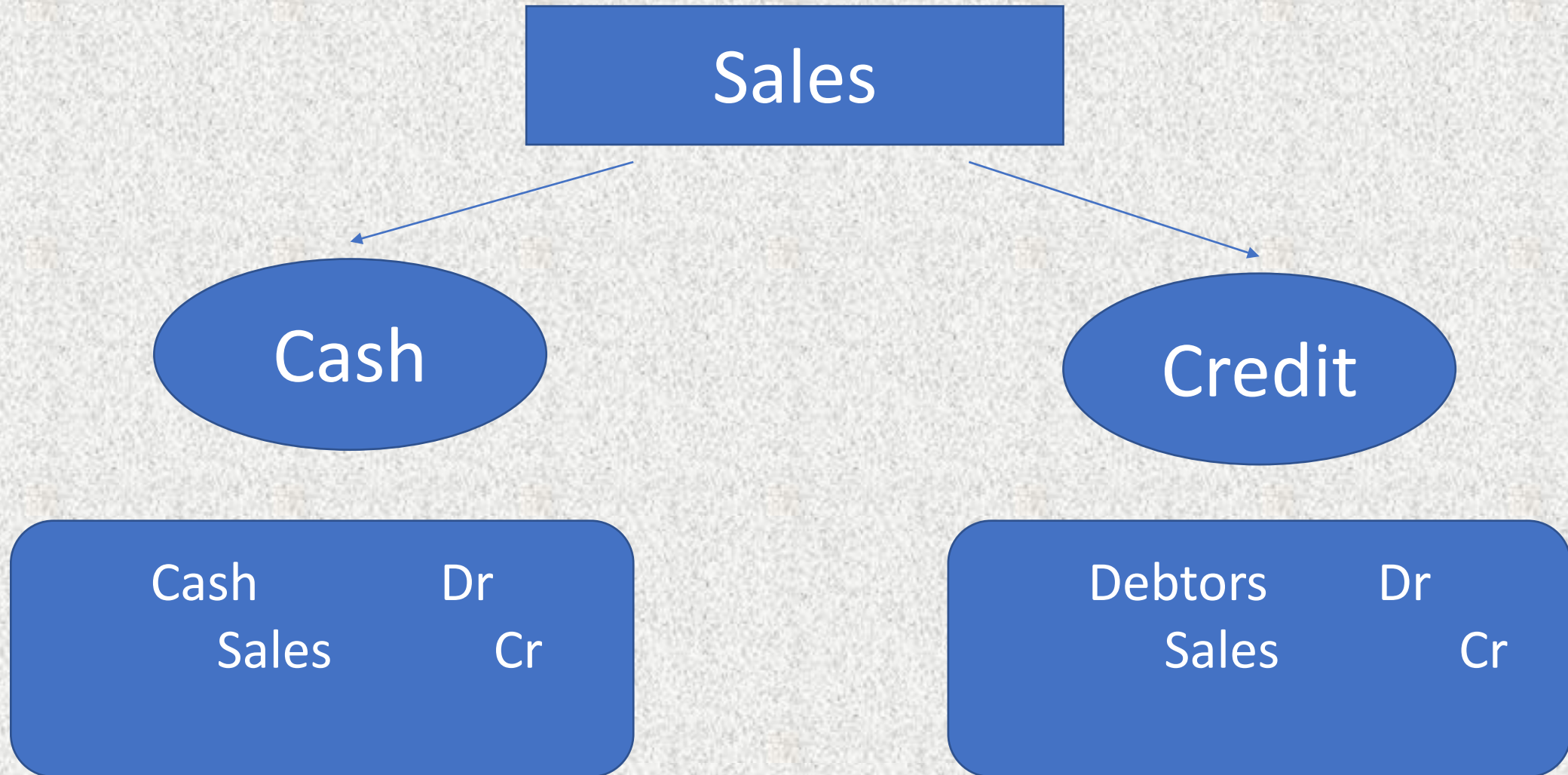


Double entry records Cont.

➤ Sales

- This belongs to the category of “Income”
- This includes the goods sold in ordinary course of business
- Sale of non-current assets used by the organization does not fall into this category

Double entry records Cont.



Double entry records Cont.

➤ Drawings

- Whenever the owner of the business takes value from the business, it is considered as drawings
- This value may be in the form of money, non-current assets, or inventory
- Drawings account should be opened up to record drawings

Double entry records Cont.

- Cash drawings

Drawings	Dr
Cash	Cr

- Goods drawings

Drawings	Dr
Purchases	Cr

- Non –current assets

Drawings	Dr
Non-current assets a/c	Cr

Double entry records Cont.

➤ Return Inwards (Sales Returns)

- Faulty or wrong goods that the **customers return back to the business** if they carry defects or if they are not according to the specifications of the buyer

Double Entry

Return inwards Dr

Debtors Cr

Double entry records Cont.

➤ Return Outwards (Purchases Returns)

- Faulty or wrong goods that the business returns back to suppliers

Double Entry

Creditors Dr

Return Outwards Cr

Double entry records Cont.

➤ Carriage Inwards

- Is the cost of transporting goods **into** the firm
- **Double Entry**

Carriage Inwards

Dr

Cash

Cr

Double entry records Cont.

➤ Carriage Outwards

- Is the cost of transporting goods **out of the firm** to its customers

Double Entry

Carriage Outwards	Dr
Cash	Cr

Practice Question 1

- Write journal entries for the following for the month of January 2016

- I. 1st January, Sold goods to Nuwan worth Rs. 50,000
- II. 2nd January, Return inwards amounts to Rs. 2,000
- III. 3rd January, Sold goods to Rakitha worth Rs. 100,000 on credit
- IV. 3rd January Carriage outwards amounts to Rs. 1,000
- V. 5th January, Sales return by Rakitha amounts to Rs. 2,500
- VI. 5th January, Purchased goods from Sonali Rs. 75,000 on credit
- VII. 7th January, Purchases return to Sonali were Rs. 4,000
- VIII. 8th January, Purchased goods from XYZ Ltd worth Rs. 60,000
- IX. 9th January, Carriage inwards incurred Rs. 2,000
- X. 10th January Return outwards amounts to Rs. 3,000

Practice Question 1 Cont...

- XI. 11th January, Owner withdrew cash from the business Rs. 1,000
- XII. 12th January, Owner withdrew goods from the business Rs. 2,000
- XIII. 15th January, Owner's house rent was paid Rs. 15,000
- XIV. 17th January, A chair costing Rs. 6,000 which belonged to the business was taken by the owner for his personal use

Trial Balance

- When all accounts of the ledger are in balance, a Trial Balance is prepared
- A trial balance is a listing of all accounts and their respective balances
- This is a statement of debit balances and credit balances extracted from ledger accounts on a particular date
- A trail balance, is thus a summary of all the Ledger Balances outstanding as on a particular date

Trail Balance

All Star Repairs Adjusted Trial Balance July 31, 20__		
	Debit	Credit
Cash	\$20,200	
Accounts receivable	70,600	
Supplies	2,500	
Shop equipment	26,600	
Accumulated depreciation: shop equipment		\$9,600
Accounts payable		18,000
Notes payable		3,700
Income taxes payable		26,700
Capital stock		22,200
Retained earnings		5,900
Dividends	16,700	
Fees earned		127,400
Rent expense	9,000	
Wages expense	35,600	
Supplies expense	2,900	
Utilities expense	2,100	
Depreciation expense: shop equipment	600	
Income taxes expense	<u>26,700</u>	
	<u>\$213,500</u>	<u>\$213,500</u>