RECORDING BUSINESS TRANSACTIONS

Some common terms

1. Creditors: persons who supply goods to a business on credit
2. Debtors: customers who buy goods from a business on credit
3. Stock: goods for sale
4. Cash: cash in hand
5. Bank cash at bank
6. Drawings money withdrawn by the owner from the business for personal use
7. Expenses any money spent other than purchase of an asset eg rent, wages, salaries, stationery, rates, travelling expenses, postage, telephone interest electricity, water bills, commission etc.
8. Revenue any money earned apart from sale of an asset eg interest received, commission received, rent received,

Ledger accounts

A ledger is a book that contains accounts where business transactions are recorded. An account is a page in a ledger where transactions are recorded. An account has two sides. The left -hand side referred to as Debit and the right- hand side refered to as Credit. To record a transaction on the left-hand side is to Debit. To record a transaction on the right- hand side is to Credit.

FORMAT OF ACCOUNT

DEBIT CREDIT

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| DATE | DETAILL | FOLIO | AMOUNT | DATE | DETAILS | FOLIO | AMOUNT |
|  |  |  |  |  |  |  |  |

DATE Record the date of transaction

DETAILS record the name of account where the corresponding entry will be found

FOLIO is the reference of the page in the ledger on which that particular column is provided to facilitate a ready reference of the page in the ledger on which that particular account appears.

AMOUNT record the amount in money involved in the transaction

**FEATURES OF LEDGER**

1. Ledger is an account book that contains various accounts to which various business transactions of a business enterprise are posted.
2. It is a book of final entry because the transactions that are first entered in the journal or special purpose Books are finally posted in the ledger. It is also called the Principal Book of Accounts.
3. In the ledger all types of accounts relating to assets, liabilities, capital, revenue and expenses are maintained.
4. It is a permanent record of business transactions classified into relevant accounts.
5. It is the ‘reference book of accounting system and is used to classify and summarize transactions to facilitate the preparation of financial statement

**IMPORTANCE OF LEDGER**

1. **Knowledge of Business results**

Ledger provides detailed information about revenues and expenses atone place. While finding out business results the revenue and expenses are matched with each other.

1. **Knowledge of book value of assets**

Ledger records every asset separately. Hence, you can get the information about the Book value of any asset whenever you need.

1. **Useful for management**

The information given in different ledger accounts will help the management in preparing budgets. It also helps the management in keeping the check on the performance of business it is managing.

1. **Knowledge of Financial Position**

Ledger provides information about assets and liabilities of the business. From this we can judge the financial position and health of the business.

1. **Instant Information**

The business always needs to know what it owes to others and what the others owe to it. The ledger accounts provide this information at a glance through the account receivables and payables.

DOUBLE ENTRY SYSTEM

Each business transaction involves a twofold aspect,

(1) The yielding or giving of a benefit, and

(2) The receiving of that benefit.

In other words every business transaction involves exchange of value for value, or inter-change of money or money’s worth or every business transaction involves receiving something having value and giving something which has value. According to Double Entry System, both these aspects of the transaction, the receiving aspect and the giving aspect, are recorded

For every transaction there must be an account debited and an account credited.

Effects of transactions on ledger accounts

An increase in assets is debited

A decrease in assets is credited

An increase in liabilities is credited

A decrease in liabilities is debited

An increase in capital is credited

A decrease in capital is debited

An expense is debited

A revenue is credited

Effects of transactions on specific accounts ledger accounts

|  |  |  |  |
| --- | --- | --- | --- |
| SN | TRANSACTION | ACCOUNT DEBITED | ACCOUNT CREDITED |
| 1 | PURCHASE OF FIXED ASSET ON CASH | FIXED ASSET | CASH |
| 2 | PURCHASE OF FIXED ASSET BY CHEQUE | FIXED ASSET | BANK |
| 3 | PURCHASE OF FIXED ASSET ON CREDIT | FIXED ASSET | SUPPLIER (NAME) |
| 4 | SALE OF FIXED ASSET ON CASH | CASH | FIXED ASSET |
| 5 | SALE OF FIXED ASSET BY CHEQUE | BANK | FIXED ASSET |
| 6 | SALE OF FIXED ASSET ON CREDIT | BUYER (NAME) | FIXED ASSET |
| 7 | PURCHASE OF GOODS ON CASH | PURCHASES | CASH |
| 8 | PURCHASE OF GOODS BY CHEQUE | PURCHASES | BANK |
| 9 | PURCHASE OF GOODS ON CREDIT | PURCHASES | CREDITORS |
| 10 | SALE OF GOODS ON CASH | CASH | SALES |
| 11 | SALE OF GOODS BY CHEQUE | BANK | SALES |
| 12 | SALE OF GOODS ON CREDIT | DEBTORS | SALES |
| 13 | PAYMENT TO CREDITORS BY CASH | CREDITORS | CASH |
| 14 | PAYMENT TO CREDITORS BY CHEQUE | CREDITORS | BANK |
| 15 | RECEIVING CASH FROM DEBTORS | CASH | DEBTOR |
| 16 | RECEIVING CHEQUE FROM DEBTORS | BANK | DEBTOR |
| 17 | OWNER INTRODUCING MONEY INTO THE BUSINESS IN FORM OF CASH | CASH | CAPITAL |
| 18 | OWNER INTRODUCING MONEY INTO THE BUSINESS IN FORM OF CHEQUE | BANK | CAPITAL |
| 19 | BORROWED A LOAN | BANK | LOAN |
| 20 | PAID EXPENSES BY CASH | EXPENSES | CASH |
| 21 | PAID EXPENSES BY CHEQUE | EXPENSES | BANK |
| 22 | RECEIVED REVENUE BY CASH | CASH | REVENUE |
| 23 | RECEIVED REVENUE BY CHEQUE | BANK | REVENUE |
| 24 | DEPOSITED CASH INTO THE BANK | BANK | CASH |
| 25 | WITHDRAW MONEY FOR BUSINESS USE | CASH | BANK |
| 26 | WITHDRAW MONEY FOR PERSONAL USE | DRAWINGS | BANK |

ILLUSTRATION

The following information relates to Jones traders for the month of September 2020

Oct 1 started business with sh 200,000 in the bank

Oct 2 Borrowed a loan of sh50,000 from Equity bank

Oct 3 Bought goods on credit from Patrick sh15,300 and Jess sh41,620

Oct 4 Sold goods on cash sh 19,000

Oct 5 Took sh2, 000 cash and deposited in the bank

Oct 4 Sold goods on credit sh 13,000 to Risey

Oct 8 Sold goods on credit sh 3,000 to Taylor

Oct 10 Bought goods on credit from Patrick sh8, 300

Oct 13 Bought furniture by cheque sh 12,000

Oct 15 paid Patrick sh15, 000 by cheque

Oct 18 received a cheque of sh 10,000 from Risey

Oct 20 paid rent by cheque sh 7,000

Oct 23 bought stationery by cash sh 4,350

Oct 25 sold goods on credit to Medline sh 9,400

Oct 30 received an interest of sh 650 by cheque

Oct 31 Withdrew sh 10,000 from the bank for personal use