

The double-entry system for Assets, Capital, Drawings & Liabilities

The double-entry system

We have seen from the horizontal balance sheet that every *business transaction* affects two items. In accounting we use the *double-entry system* to record the information.

It may be thought that drawing up a new balance sheet after each transaction would provide all the information required. However, a balance sheet does not give us enough detail on who the debtors and creditors actually are and what financial figures apply to each.

The accounts for double-entry

The double-entry system divides each account into two halves in the form of a 'T'. Consequently each account is commonly referred to as 'T' or Ledger accounts.

The left side of the 'T' account is called the *debit (Dr)* side and the right side is known as the *credit (Cr)* side.

1. The owner starts the business with \$10,000 in cash on August 1.

	Dr	Cash Account	Cr
		\$	\$
August 1	Capital	10,000	
		\$	\$
	Dr	Capital Account	Cr
		\$	\$
		August 1	Cash
			10,000

2. A motor van is bought for \$2,750 on 2 August

	Dr	Motor Van Account	Cr
		\$	\$
Aug 2	Cash	2,750	
		\$	\$
	Dr	Cash Account	Cr
		\$	\$
Aug 1	Capital	10,000	
		Aug 2	Motor Van
			2,750

3. Fixtures bought on credit from Furniture Fitters on 3 August for \$1,150.

Dr		Fixtures Account		Cr	
		\$			\$
August 3	Furniture Fitters	1,150			

Dr		Furniture Fitters Account		Cr	
		\$			\$
			August 3	Fixtures	1,150

4. Paid the amount owing to Furniture Fitters (\$1,150) in cash on 17 August.

Dr		Furniture Fitters Account		Cr	
		\$			\$
August 17	Cash	1150	August 3	Fixtures	1150

Dr		Cash Account		Cr	
		\$			\$
August 1	Capital	10,000	August 2	Motor Van	2,750
			August 17	Furniture Fitters	1,150

Drawings

When a business-person withdraws anything from the firm for his or her personal use this has to be recorded using double-entry.

Example

25th August Proprietor (Owner) takes \$50 cash out of the business for his own use.

Dr		Drawings Account		Cr	
		\$			\$
Aug 25	Cash	50			

Dr		Cash Account		Cr	
		\$			\$
August 1	Capital	10,000	August 2	Motor Van	2,750
			August 17	Furniture Fitters	1,150
			August 25	Cash	50