CoachingFinance.com

Accounting Level One

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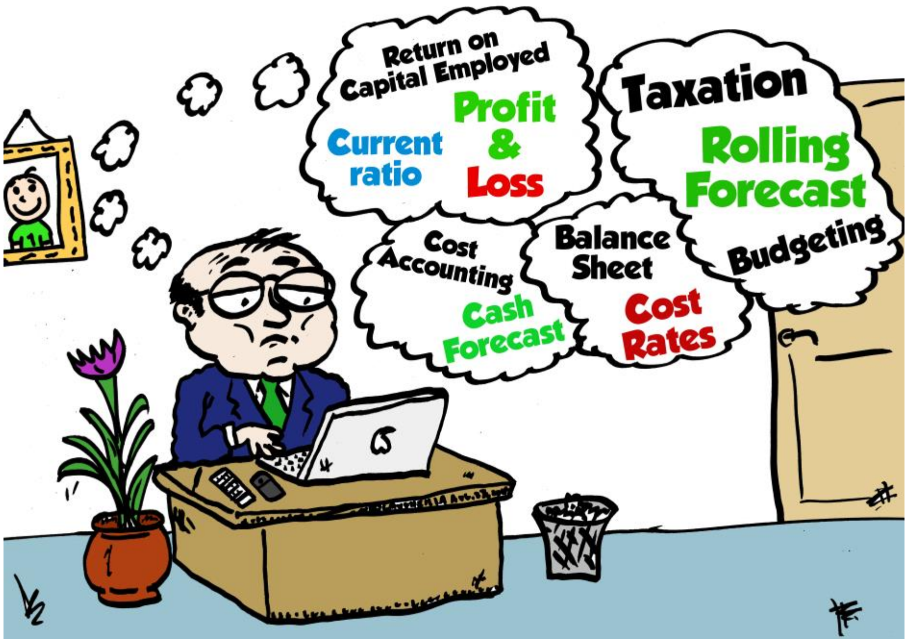
1-Introduction

This chapter will give you an introduction of what's coming in the next six chapters. This is, in effect level one and later we can talk about level two and beyond.

The individual parts of accounting are definitely not difficult, the only difficulty is a sheer number of rules to remember. We're going to concentrate on important rules, which are the fundamentals.

Some of the accounting jargon you do need to understand, but the vast majority of it, can be put on the back burner for the time being, so we can concentrate on the important stuff

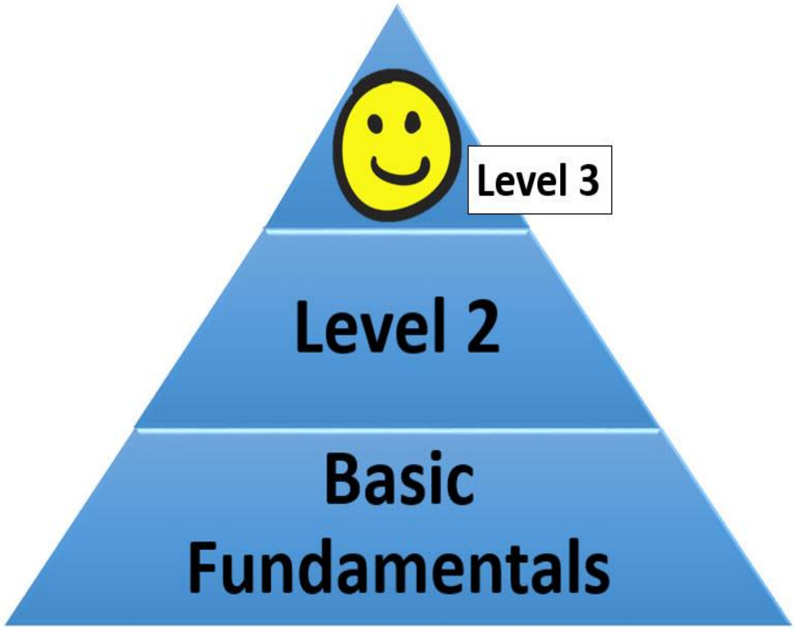


We're going to look at how financials are created, by first doing some basic accounting entries that leads into a Trial Balance, which in turn, creates the company financials. Once you understand the fundamental stuff, the variations are so much easier to understand.

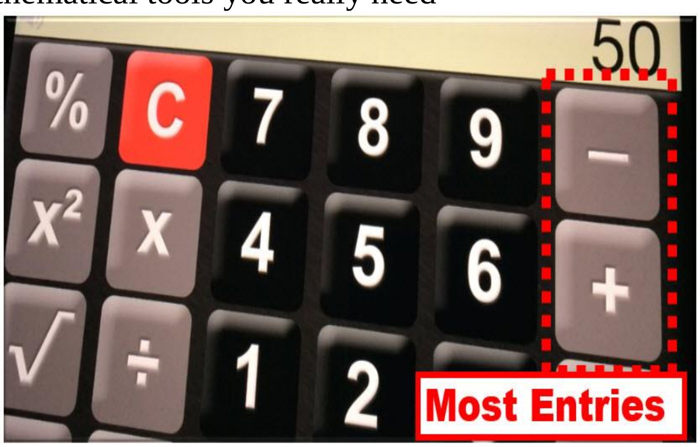
After all it shouldn't be just the accountant that gives targeted questions, you should be giving, him, or her, financial questions on your company.
Your accountant won't mind, in fact you accountant will be pleased, that you are showing interest

The introduction to this course will concentrate on smaller companies, because the only difference between a small company and a large company is the sheer number of transactions and of course the size of the transactions.

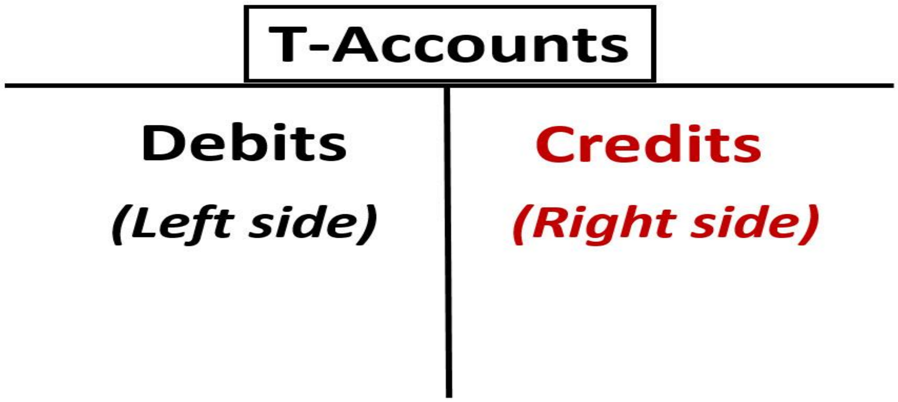
We will not be starting at level 2 and analysing large company finances,
We will instead be starting with the basic fundamentals, this will also help you understand level two and beyond much better later.



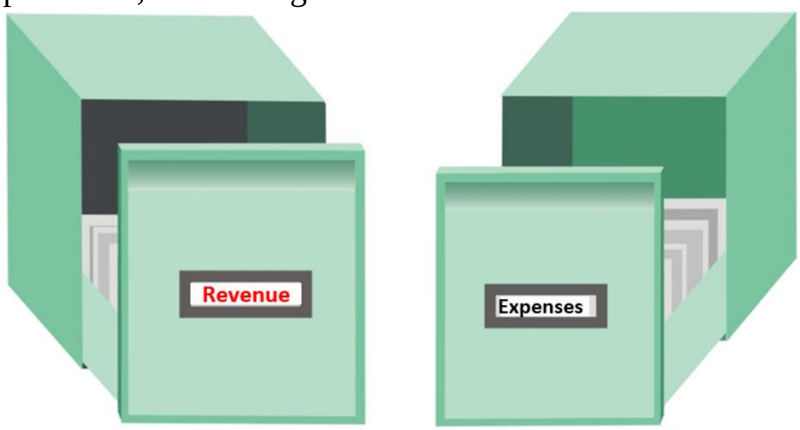
The good news is that you definitely do not need to be mathematical to be an accountant or to understand financials. If you can add and subtract items you are most the way there. Occasionally you need to multiply and divide, but these are the only mathematical tools you really need



Before we start, please remember that T-accounts are made up of debits and credits and that debit accounts are always on the left and the credits are, yes you've guessed it, always on the right hand side.



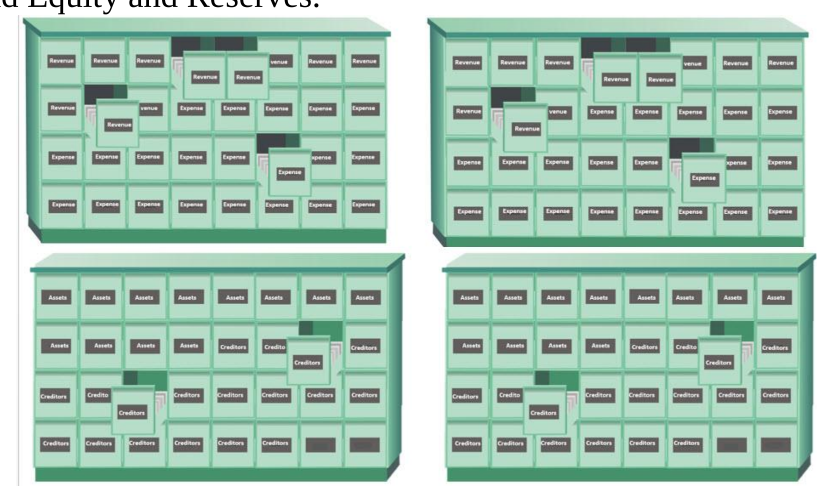
All debits and credits are allocated to a specific account imagine that this account is a simple folder, even though it will be an electronic folder



In larger companies, there are a lot of revenue and expense accounts codes and the transactions will be larger in value.

The company's computer, or cloud accounting system will allocate the various debits and credits, based on the account coding.

In all companies, there are also Balance Sheet accounts, which are Assets, Liabilities and Equity and Reserves.



In the next chapter, we will look at a new company start-up, where the founder has start-up capital, we will see how this affects the new company’s bank account and what the opening balance sheet will look like immediately after the company has made its first transaction.

2-First Transactions

We are going to follow a fictional start-up company and see how the first transactions in the first month go.

Before that, we will see why having a credit balance in your bank isn't necessarily a good thing.

Do you know that that Banks and Accountants fundamentally disagree on this?

Surely not, I thought that bankers and accountants were best buddies?

Banks think that a credit balance is a good thing, Accountants think it's a bad thing. Let's find out why?

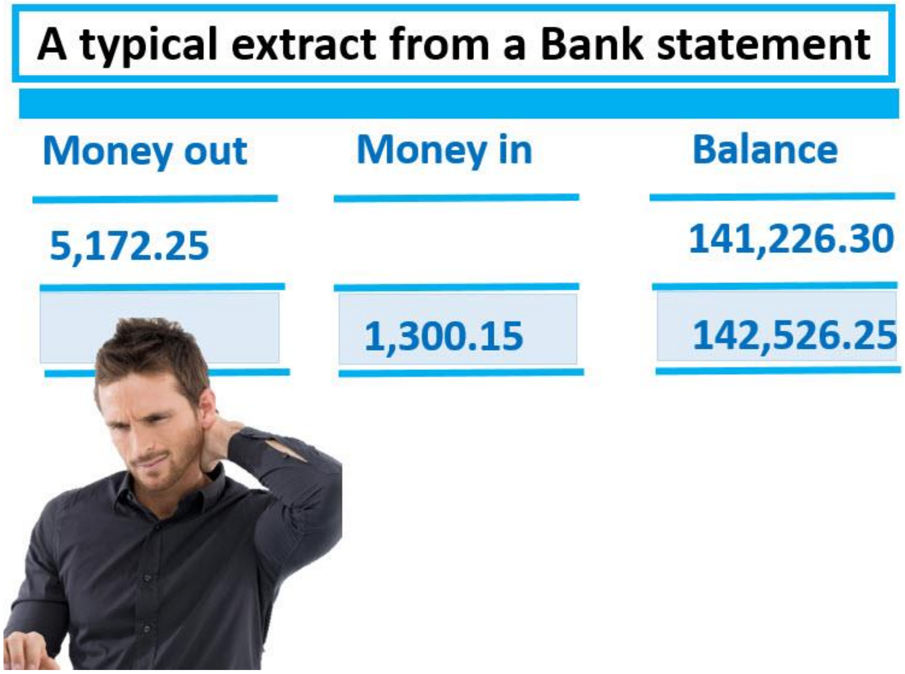
If you understand this point; debits, credits and T-Accounts will be much easier to remember and to correctly master them

Banks confuse us by calling the money we have in the bank a credit balances

Everybody has heard, that if you have money in your bank account, you have a credit balance don't you? After all, that is what the bank calls it, doesn't it?

Well that isn't how accountant's double entry works, so an accountant would say that money in the bank is an asset, and as such it is clearly a debit balance.

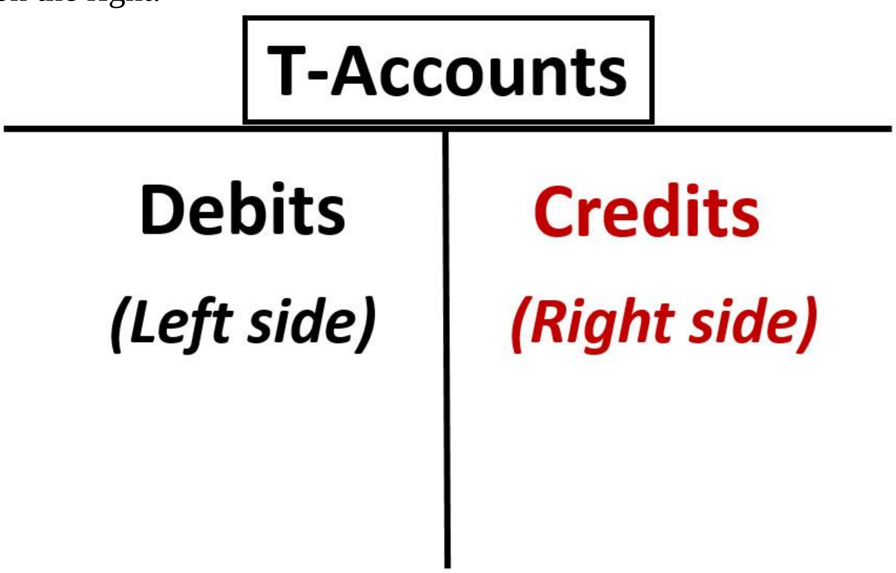
Take this extract from a real bank statement that shows that money coming into the bank account of 1,300 actually increases the positive balance.



In accounting terms, money in the bank balances are debits.

The big take away point is that if you can remember how the bank account works, almost all of the other accounts fall into place.

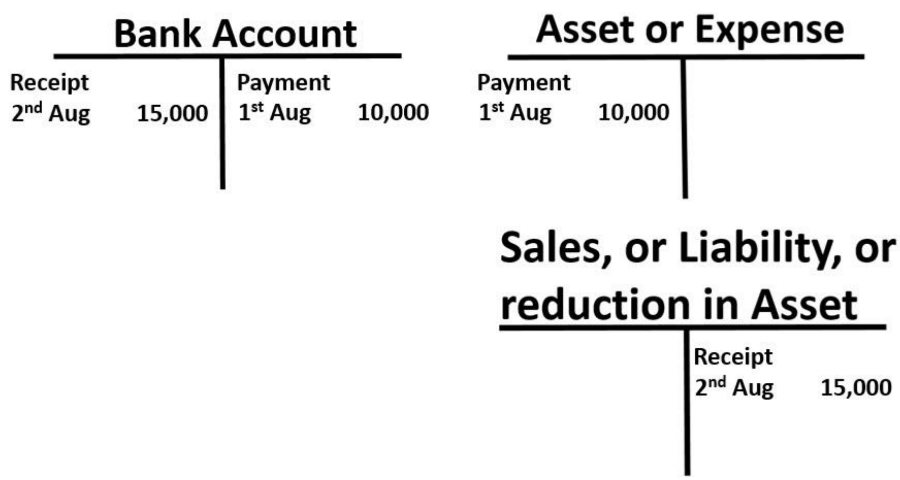
Just a reminder before we get onto the bank account. Debits go on the left and Credits go on the right.



Bills are usually paid out of the bank account, so how do we deal with the accounting?

A payment of 10,000 is made out of the bank for either an asset, or an expense, the entry is credit bank 10,000 and debit asset or expense account,

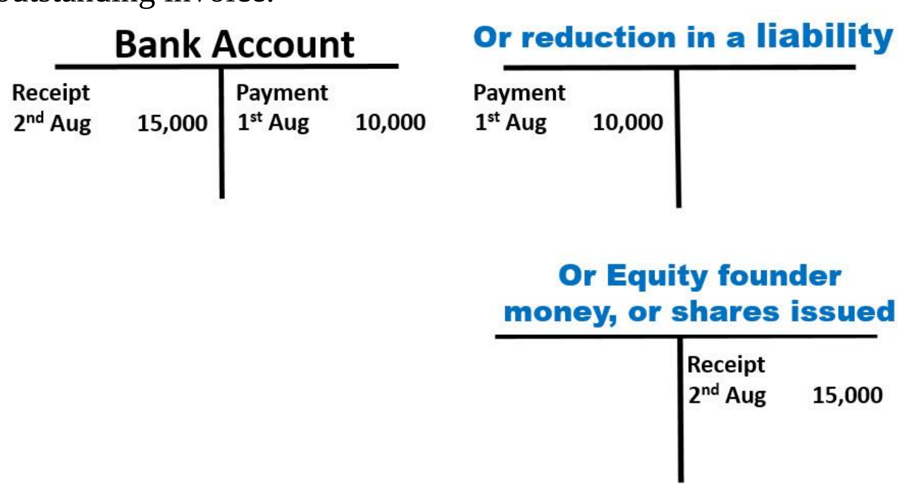
depending on what you spent the 10,000 for.



15,000 has been received into the bank account, so this is a debit because it’s adding to the bank balance.

The opposite entry could be a cash sale, or a loan from the bank, or even a reduction of an existing asset such as a customer paying an outstanding invoice, which would reduce the accounts receivable.

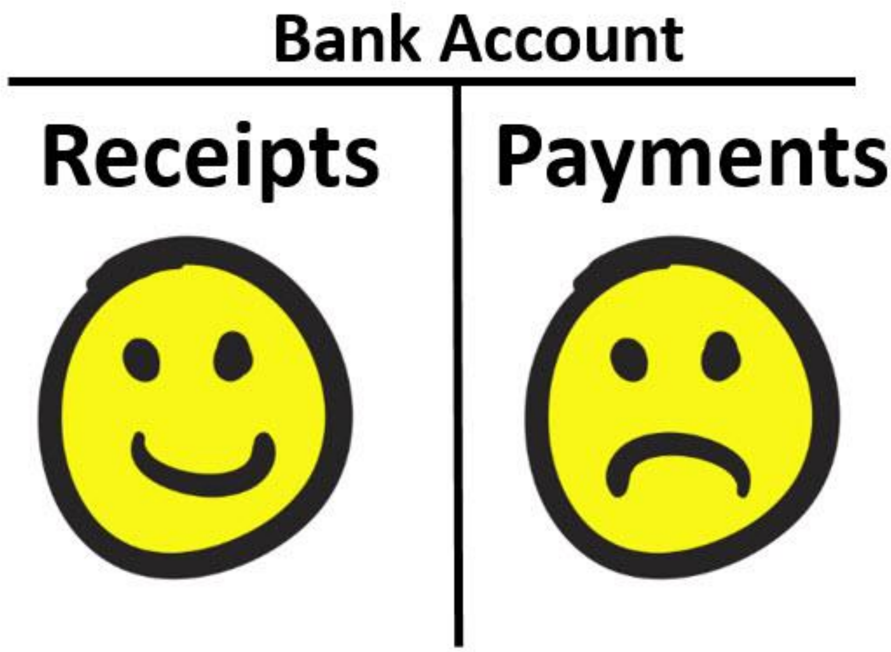
A payment could be a reduction in a liability such as a bank loan payment, or paying an outstanding invoice.



A receipt could also be equity money from the issued shares in the company.

The major point to remember; is that once you’ve worked out how to deal with it in the bank account, the other account will be the opposite entry.

Just to emphasis; remembering how the bank account works is the key to remembering all the other accounts.



Now let's move onto a new startup company.

Tom has come up with a new business idea, which he is convinced will work out, because some of his business contacts have already said to him;

when are you going to start your own business?

Tom has 28,000 capital. He forms a new company, then goes into his bank and opens up a Company bank account.

He then transfers 28.000 of his personal money into his company bank account.

Tom pays his 28,000 into the company bank account. On the T accounts, it is debit bank and credit owners' equity account.

Bank Account

Dr.	Cr.
Initial Capital 1st Aug 28,000	

Owners Equity

Dr.	Cr.
	Initial Capital 1st Aug 28,000

Opening Trial Balance

	Dr.	Cr.
Bank	28,000	
Owners Equity		28,000
	28,000	28,000

If we were to do an opening trial balance, it would simply be debit bank and credit owners' equity and as you can see; it balances.

The opening balance sheet reflects the open trial balance. As you can see the assets have 28,000 and the equity has 28,000. The balance sheet balances.

Opening Balance Sheet

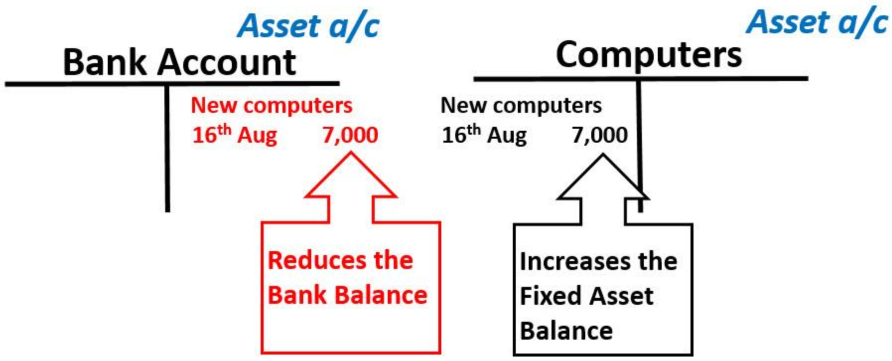
Fixed Assets		**Liabilities**	
	0		0
Current Assets			
Bank	28,000	**Equity**	
		Share Capital	28,000
Debits	28,000	**Credits**	28,000

The horizontal style balance sheet shows the debits on the left hand side and the credits on the right hand side, which is just the same as accounting T Accounts.

Now for a second transaction. Tom needs some computers.

This money comes from the bank account, 7,000 is placed on the credit side of the bank and as this entry must be a double entry,

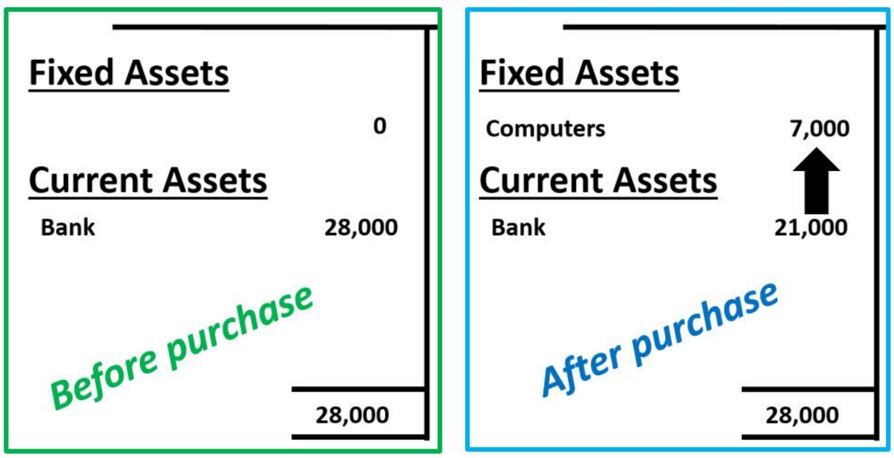
the opposite entry to this is debit 7,000 to computers account.



The extract from the balance sheet before the computer purchase was as follows. The bank shows 28,000.

If we were to do balance sheet immediately after this transaction the only change will be that

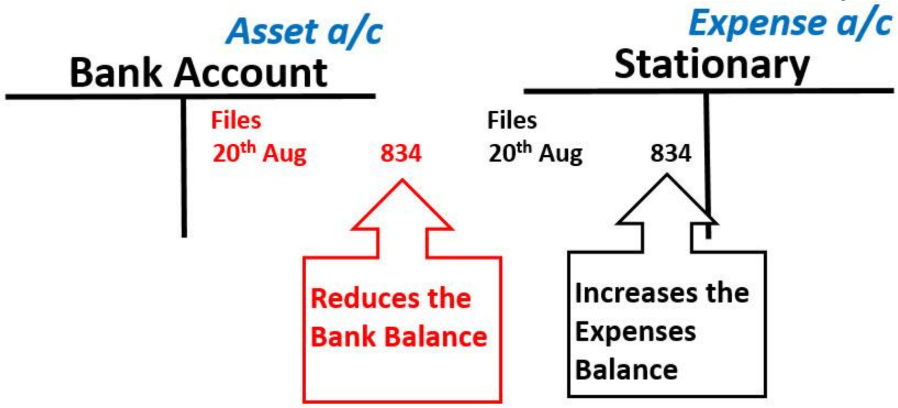
computer assets would raise to 7000 and bank would reduce by 7000.



A simple transfer of assets from one part of the Balance Sheet, Current Assets to another part of the balance sheet, Fixed Assets.

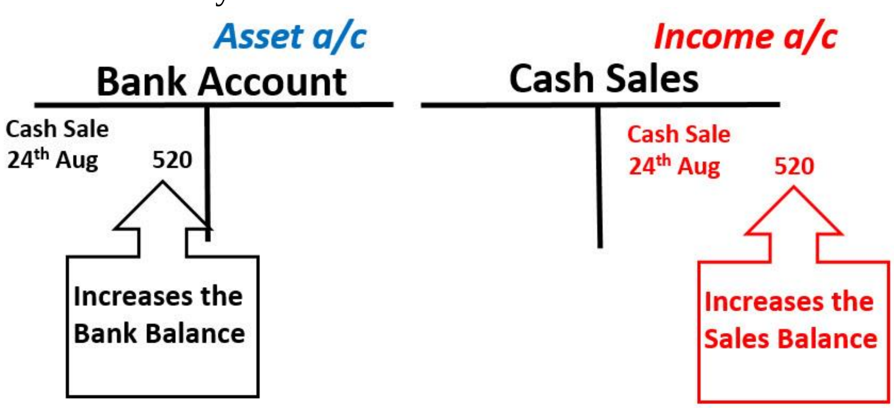
3 T-Accounts Introduction

In the third transaction Tom buys some stationary files for the Company.
The bank account is a current asset account and the stationary is an expense account.



The money comes out of the bank, therefore, the double entry is; Credit bank because the bank And Debit stationary,

Tom has managed to sell a day's services for 520. At the end of the day, a cheque was produced by the customer and Tom paid this into the Company's bank
The double entry for this is Debit bank and Credit cash sales.

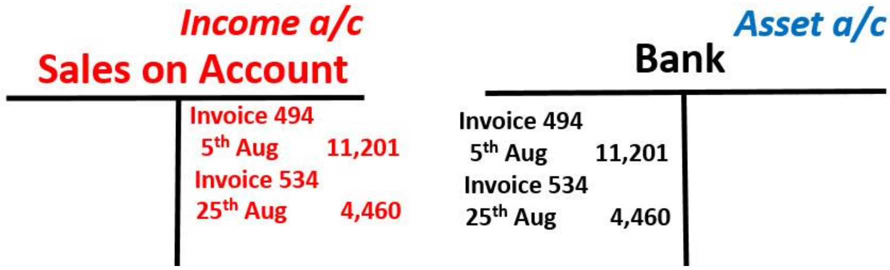


The reason is called cash sales, is Not because it was paid in cash, but the fact that it went straight into the company's bank account and not the normal sales on account
As you can see the debit entry in the bank increases the bank balance, and because sales are expected to be credit balances, the credit entry also increases the sales
When you sell services to larger companies, the customer will usually expect you to invoice them. They will in effect, pay you later. Usually 30 or 60 days later

These sales are called sales on account, the Debit doesn't go directly into the bank, because they haven't paid yet, but to Accounts Receivable. In some countries, this account is called: Trade Debtors

Tom and his staff have managed to perform sales on account work for two companies.

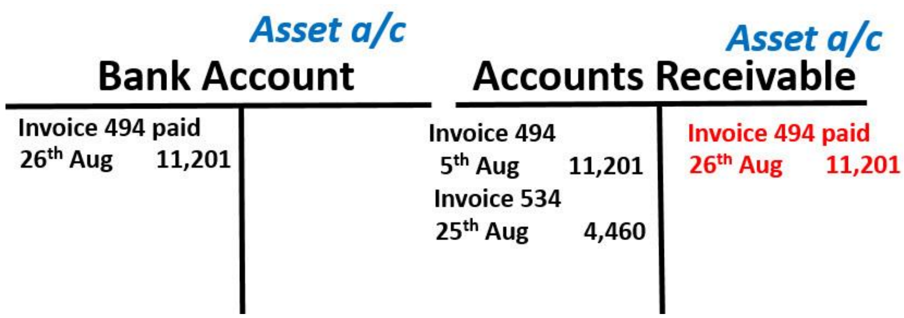
Tom has invoiced them, If it was cash sales the double entry for this would have been credit sales and debit bank, but as this is on account sales, the double entry for this is; Credit sales and Debit accounts receivable



For simplicity I am ignoring local country sales tax, simply because it is different in every country.

One of the conditions that Tom gave for providing a good deal to this first company was that they paid his invoice before the end of the month and three weeks later they fulfil their promise and paid the $11,201.

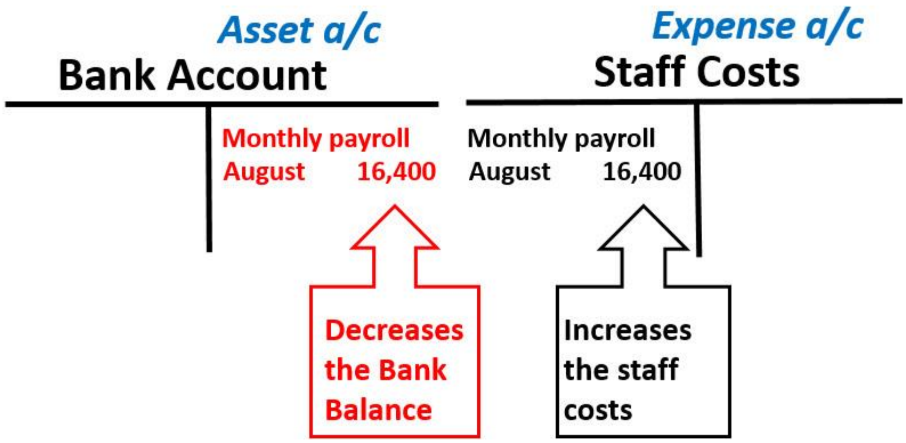
As it reduces the asset Accounts Receivable, the entries are; credit accounts receivable and debit bank.



The amounts owed to Tom's Company has decreased, but he is happy because his Company's bank account has increased

Our final entry is:

Tom has just paid his first monthly payroll from the company bank account. The double entry for this is credit bank and debit staff costs


Asset a/c
Bank Account
Monthly payroll
August 16,400
Decreases the Bank Balance
Expense a/c
Staff Costs
Monthly payroll
August 16,400
Increases the staff costs

4-T-Accounts Conclusion

Just remind you of the opening position before Tom did any business

Tom had 28,000 in the company's bank which was matched by the equity

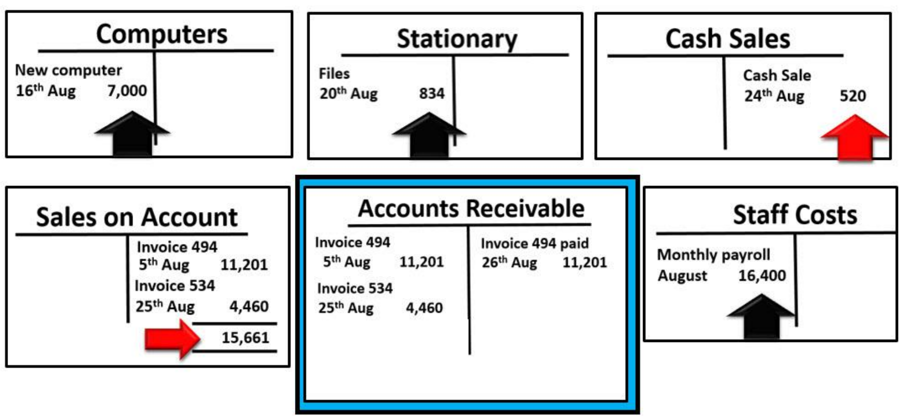
Opening Trial Balance 1st Aug

	Dr.	Cr.
Bank	28,000	
Owners Equity		28,000
	28,000	28,000

These were the other six accounts we worked on

The debit balances are indicated by the black arrows and the credit balance are shown by the red arrows.

So what about the accounts receivable? That has entries on both sides, how do you get a balance from that

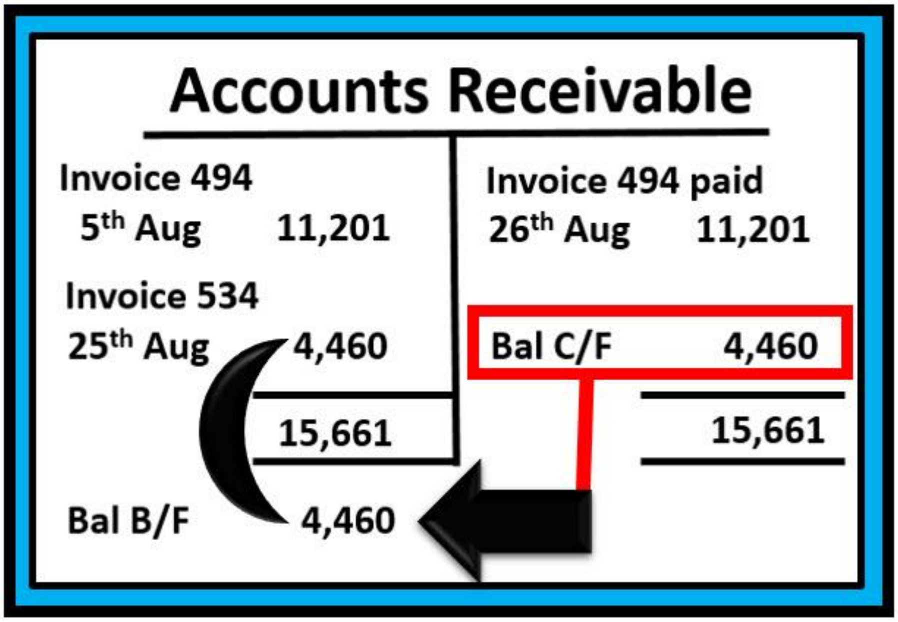


First, we will total up the debit side. The left hand side.

Next we will put in a balance that gets us the same total on the right hand side

This balancing item of 4,460 is carried forward to the brought forward balance of the next period.

As you can see, this balance is the same as invoice 534 for 4,460, because it hasn't been paid yet, so this is still outstanding in accounts receivable



This was the opening bank position from Tom's equity money that he put in the Company bank

The three items on the left were money into the bank

And the three items on the right were payments out of the bank

Debits on the left and credits on the right

The debits on the left exceed the credits on the right, we will total the debits and use the closing balance of 15,487 to balance with the items on the left.

To reconcile that this is correct, let's add all of the entries up:

We have the opening balance of 28,000 from Tom's equity injection

The receipts in during August was the cash sale, plus the invoice 494 that was paid by the customer. This added up to 11,721

The three expenses that were paid during August added up to 24,234.

The closing balance agrees with the bank account closing balance. Its just as well that Tom started off with money in the bank

The 15,487 balancing figure is now carried forward and entered as Balance bought forward on September the 1st

You can now you can see where the end of month bank figure comes from

The trial balance is what makes producing financials possible.

If you've made all of your accounting entries correct, it will balance.

Sometimes it doesn't balance, in this case you simply have to trace your last entries to find the problem.

These days, with computerized accounts, the mistakes are more likely to be posting to the wrong account rather than missing the credit entry completely though

5-Trial Balance

Just a reminder as to where we are heading in these lessons. Our ultimate aim is to produce a simple set of financials

To do this we need to extract a trial balance, which is this lesson

Before that we entered the T Account accounting entries

This is where we left the last video, showing the closing balances of the bank and equity accounts

Bank Account

1st Aug O/Bal b/fwd	28,000	Computer	7,000
24th Aug Cash Sale	520	Stationery	834
25th Aug Inv. 494 paid	11,201	Monthly payroll August	16,400
		C/Bal c/fwd.	15,487
	39,721		39,721
1st Sep O/Bal b/fwd.	15,487		

Owners Equity

		Initial Capital 1st Aug	28,000

So we start of with the closing trial balance.
Please not that Dr. and Cr. are common shortcuts for debit & credit
Lets put in the bank balance as a debit and the equity balance as a credit

Closing Trial Balance 31st Aug **Also called; a TB**

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000

Dr. is short for Debit
Cr. is short for Credit

Our computer account showed a debit balance of 7,000, so that goes into our trial balance

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	

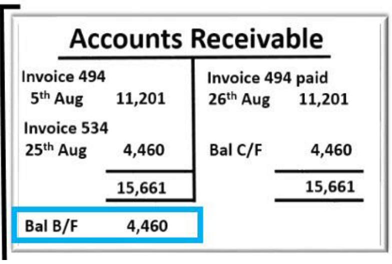
Computers

New computer 16th Aug	7,000		

The accounts receivable end balance is a debit and transferred to the trial balance

Closing Trial Balance 31st Aug

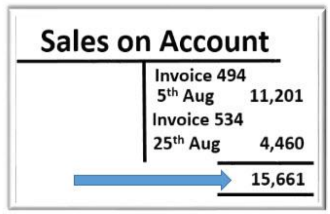
	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	



Both sales accounts are credit balances and are transferred to the TB. Remember that the terms TB and trial balance are interchangeable

Closing Trial Balance 31st Aug

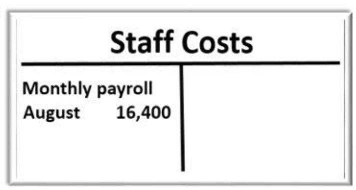
	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520

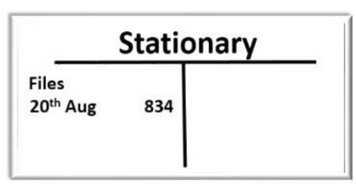


Finally the staff costs and stationery are debit balances and the balances are transferred to the TB

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	





Lets add this up, it balances, as it should do.

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	
	44,181	44,181

6-Income Statement/Profit & Loss Account

The Income Statement get most of the management's attention, for good reason really.

It drives all of the business decisions on a company

and of all the financial statements, Income Statement, Balance Sheet, Cash Statement, the Income Statement is the one that gets the most attention.

The reason for this is that management feel comfortable looking at sales, costs, compare it with budget

and see how they're going to go, and this is why, always the income statement is the most interesting statement of all.

Most trial balances start with Balance Sheet accounts. Why is that?

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	
	44,181	44,181

Well, this is the normal order of a typical account coding that is fairly simple to follow in accounting.

Programs like QuickBooks, or Sage, but is more complex in an accounting system like Oracle,

but, they all seem to follow the logic of Balance Sheets first and Income Statements second.

Chart of Accounts

Number Range	Description
earlier numbers	Balance Sheet Accounts
next set of numbers	Revenue Accounts
middle set of numbers	Direct Cost Accounts
last set of numbers	Overhead Accounts

Income Statement a/cs

After the Balance Sheet items come the Income Statement items

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	
	44,181	44,181

Income Statement

Income Statement items

Just to confuse things, different countries call the statement that measures Revenue and Profit by different names

The US call it an Income Statement, but the UK say that it is a Profit & Loss account, or even a P & L for short

Whatever it's called, it's the same thing, it shows the revenue, the Costs and the Profit/Operating Income.

It's a pity that we call the same thing by different names, but I think that we are stuck we our differences

Back to the trial balance

The first item to extract are the sales accounts,

Let's combine both sales accounts and shown them in what is sometimes called the top line in the Income Statement

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	
	44,181	44,181

Income Statement

Sales Revenue	16,181

Next comes the staff costs as one of the main expenses
And next, the stationary costs

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	
	44,181	44,181

Income Statement

Sales Revenue	16,181
Staff Costs	16,400
Stationary	834

Next, we will total up the expenses to give us the total; costs
You may have noticed that the costs exceed the income.
Well, this is the first month of trading.

Income Statement

Sales Revenue	16,181
Staff Costs	16,400
Stationary	834
Total Costs	17,234

Deducting the total costs from the sales revenue, gives an operating loss for the first month.

Hopefully the revenue will be better in the following months given the amount of staff costs that Tom has committed

Income Statement

Sales Revenue	16,181
Staff Costs	16,400
Stationary	834
Total Costs	17,234
Operating Loss	(1,053)

Tom's first Income Statement, or Profit & Loss Statement, depending on which country he is operating in

In the next chapter, we will look at how to extract a balance sheet from the balance sheet accounts and also surprisingly, the income statement accounts

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	
	44,181	44,181

Income Statement

Sales Revenue	16,181
Staff Costs	16,400
Stationary	834
Total Costs	17,234
Operating Loss	(1,053)

7-Balance Sheet

Bank managers like to look at Balance Sheets for two reasons
One, It shows how much a Company is actually worth and
And secondly it shows how much a Company can afford in the short-term
He looks at the Current Assets less the Current Liabilities and he can usually tell if a Company can afford to pay its way in the short-term.
This is why Bank Managers are so keen at looking at them

In this chapter, we will see how to get from the trial balance

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	
	44,181	44,181

From this

To a completed balance sheet and also see WHY it balances

Horizontal Style Balance Sheet

Assets		Liabilities	0
Computers	7,000	Equity	
A/Cs Rec	4,460	Shares Founder	28,000
Bank	15,487	Periods Loss	(1,053)
Assets	26,947	Liabilities and Equity	26,947

The balance sheet items are all at the top of the trial balance

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	
	44,181	44,181

Balance Sheet items

First we will list the company's assets, the first is computers. Let's list them under assets

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	
	44,181	44,181

Balance Sheet

Assets	
Computers	7,000

The next is accounts receivable, which also goes under assets

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	

Balance Sheet

Assets	
Computers	7,000
A/Cs Rec	4,460

Next we will put in the bank balance. Now we can total up the assets

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661

Balance Sheet

Assets	
Computers	7,000
A/Cs Rec	4,460
Bank	15,487
	26,947

Next comes the equity that was contributed by Tom

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	
	44,181	44,181

Balance Sheet

Assets	
Computers	7,000
A/Cs Rec	4,460
Bank	15,487
	26,947
Equity	
Shares Founder	28,000

Okay, I see that you've used all of the balance sheet items, but it doesn't seem to balance?

Remember the income statement. Which had an Operating Loss of 1,053?

Income Statement

Sales Revenue	16,181
Staff Costs	16,400
Stationary	834
Total Costs	17,234
Operating Loss	(1,053)

The period profit or loss is put in the equity section

Closing Trial Balance 31st Aug

	Dr.	Cr.
Bank	15,487	
Owners Equity		28,000
Computers	7,000	
Accounts R'ble.	4,460	
Sales on a/c		15,661
Cash Sales		520
Staff Costs	16,400	
Stationary	834	
	44,181	44,181

Balance Sheet

Assets	
Computers	7,000
A/Cs Rec	4,460
Bank	15,487
	26,947
Equity	
Shares Founder	28,000
Periods Loss	(1,053)
	26,947

As you can see, the equity section now agrees with the total assets

Traditionally the final balance sheet items are double underlined

If we take all of the income statement items, shaded in green, you can see that it all adds up to a negative 1,053.

Debits less credits

The Balance sheet is now completed in the vertical format with the net assets at the top and the reserves at the bottom

Horizontal Style Balance Sheet

Assets		**Liabilities**	0
Computers	7,000	**Equity**	
A/Cs Rec	4,460	Shares Founder	28,000
Bank	15,487	Periods Loss	(1,053)
Assets	26,947	Liabilities and Equity	26,947

This is the same figures shown in a horizontal style balance sheet that is commonly used in the United States

The assets are on the left and the liabilities and equity is shown on the right.

Tom’s company didn’t have any liabilities

Tom’s first set of management accounts have been produced.

Toms Company Financials for August-Month 1

Income Statement		**Balance Sheet**	
		Assets	
Sales Revenue	16,181	Computers	7,000
		A/Cs Rec	4,460
Staff Costs	16,400	Bank	15,487
Stationary	834		26,947
Total Costs	17,234	**Equity**	
		Shares Founder	28,000
Operating Loss	(1,053)	Periods Loss	(1,053)
			26,947

This has been simplified to give you a helicopter view of how simple accounts, can be produced

In the next chapter, we will look at different style of balance sheets look totally different

But they're not really different at all, the numbers are just re-arranged

8-Balance Sheet Variations

Did you know that other counties show Balance Sheets in different formats?

So why do I care what other countries do?

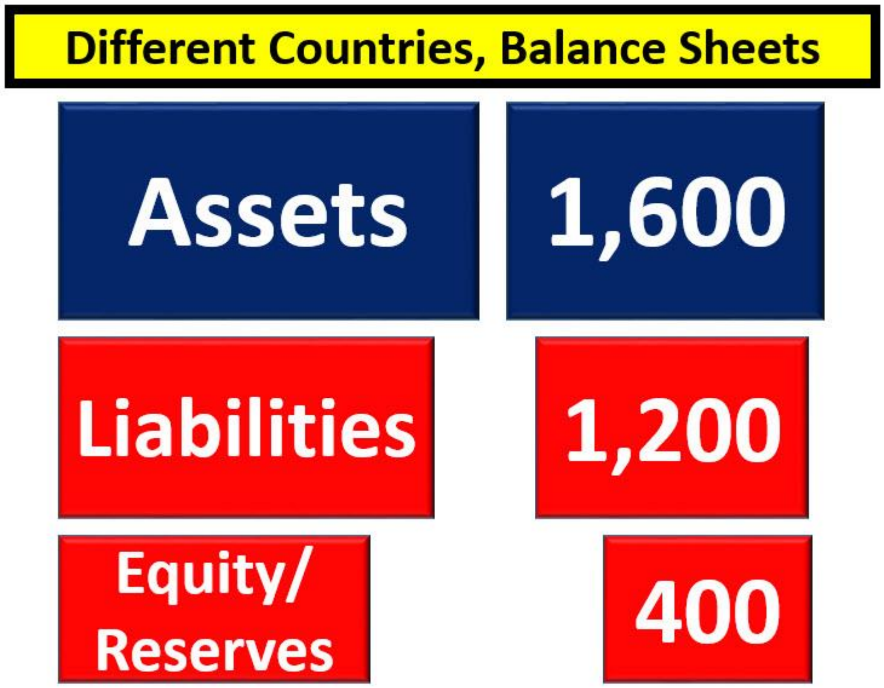
In today's global society it's well worth a couple of minutes to understand the differences and the strong similarities

Whatever part of the world you come from, you need to understand how the balance sheet balances

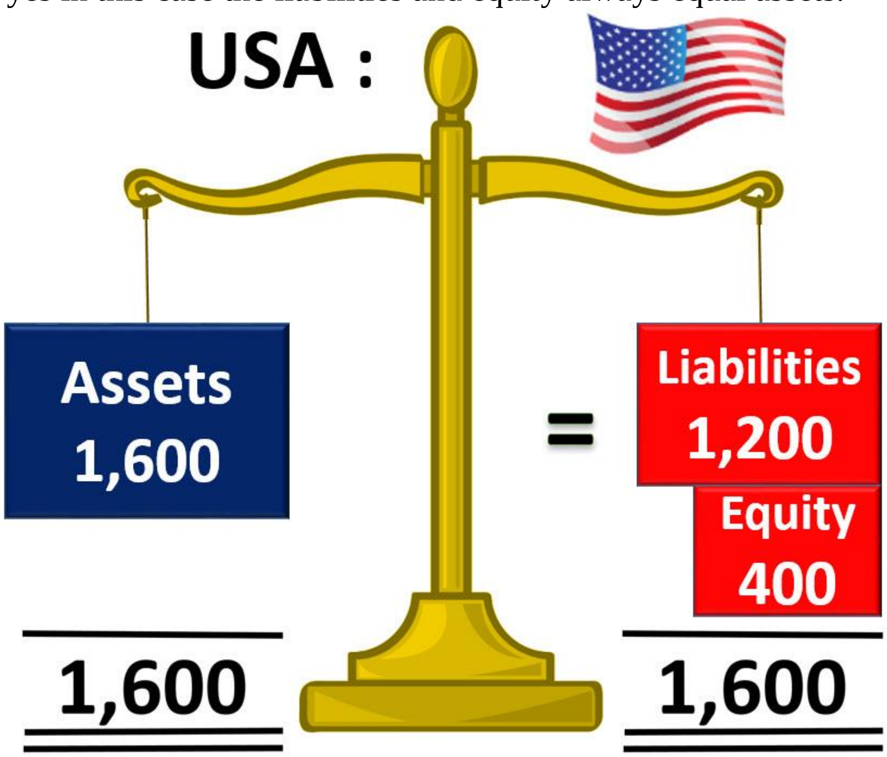
Let's keep things real simple. In this Company there are only three balance sheet items to look at

Assets with 1,600, Liabilities with 1,200, and equity with 400

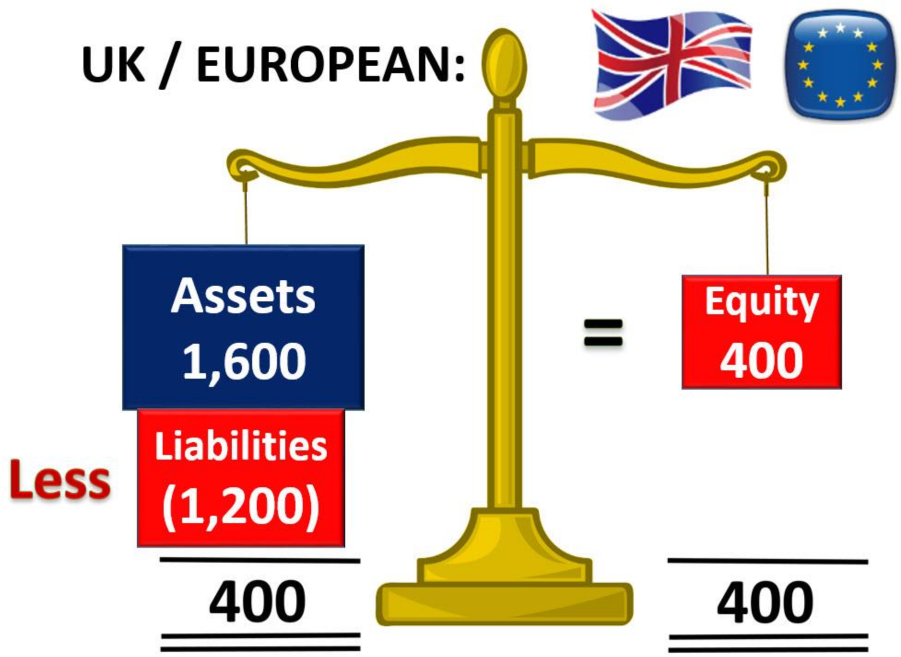
That's all we need to follow



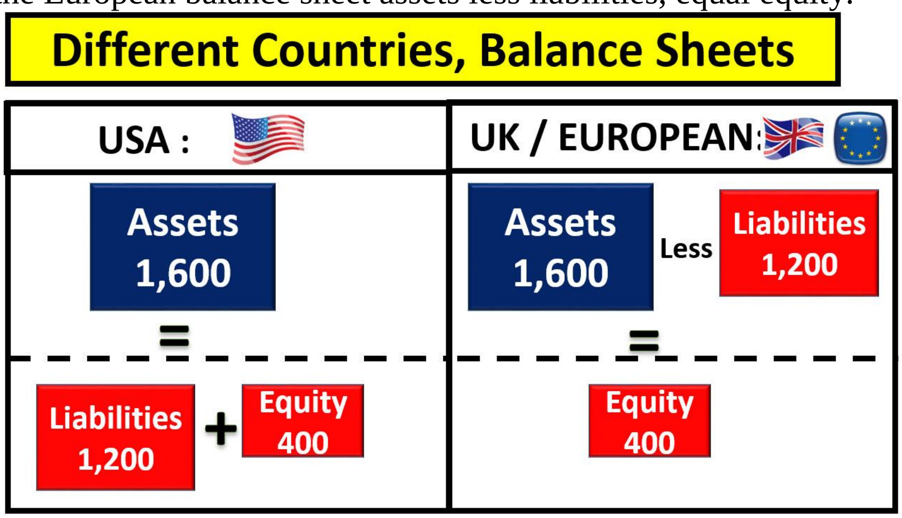
In the American-style balance sheet, also known as a horizontal style balance sheet, the assets are on the left-hand side and the liabilities and equity from the right-hand side and yes in this case the liabilities and equity always equal assets.



Using the same figures, you can see that UK balance sheets deduct the liabilities from the assets before they total it, and the balancing item is just the equity.

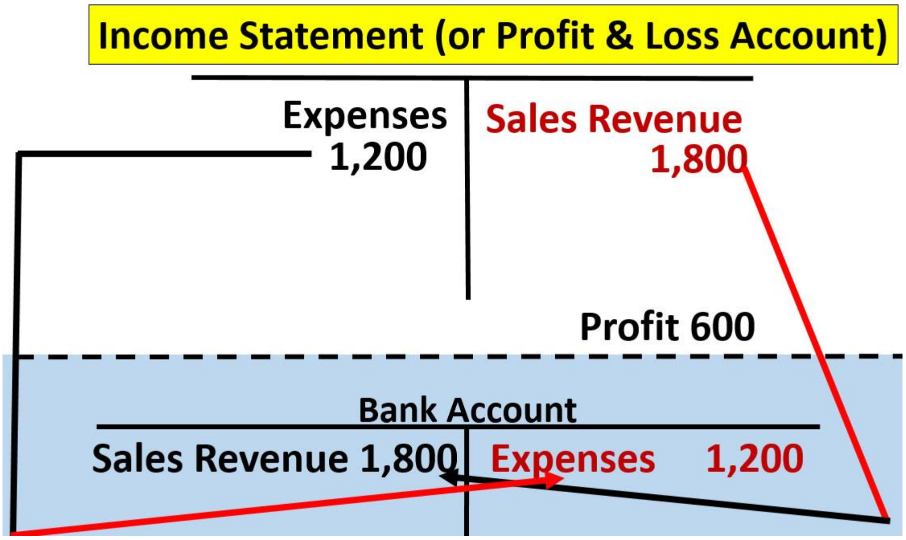


So let's see a side-by-side comparison in the USA assets equal liabilities plus equity. In the European balance sheet assets less liabilities, equal equity.



Depending what country you are in, the simple statement we are about to create is either called an income statement, or a profit & loss account

We are going to create a simple income statement. When I say simple, I really mean really simple. Let us imagine that there are only two transactions:



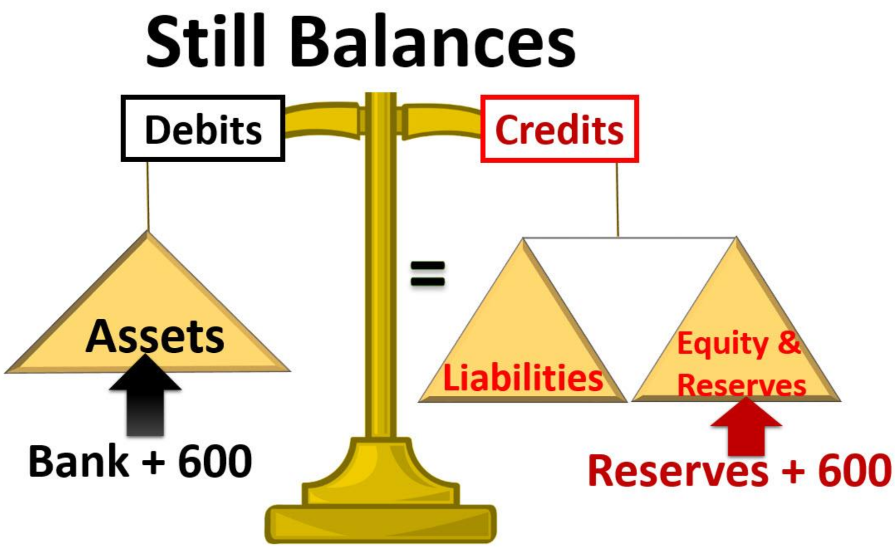
The first entry is Sales revenue of one eighteen hundred and the other entry is an expense of twelve hundred. This gives us a profit for the period of six hundred. I said that it would be simple.

Lets also imagine that both transactions go through the bank.

All bank receipts goes on the debit side, the left hand side of the account. And All expenses, yes you've guessed it goes on the right hand side as a credit

The sales revenue will be paid into the bank as a debit balance and the expenses were paid out of the bank as a credit or minus to the bank

So how does this affect the balance sheet?



This is our balance sheet

The bank has increased by 600, so the assets have increased by the same sum

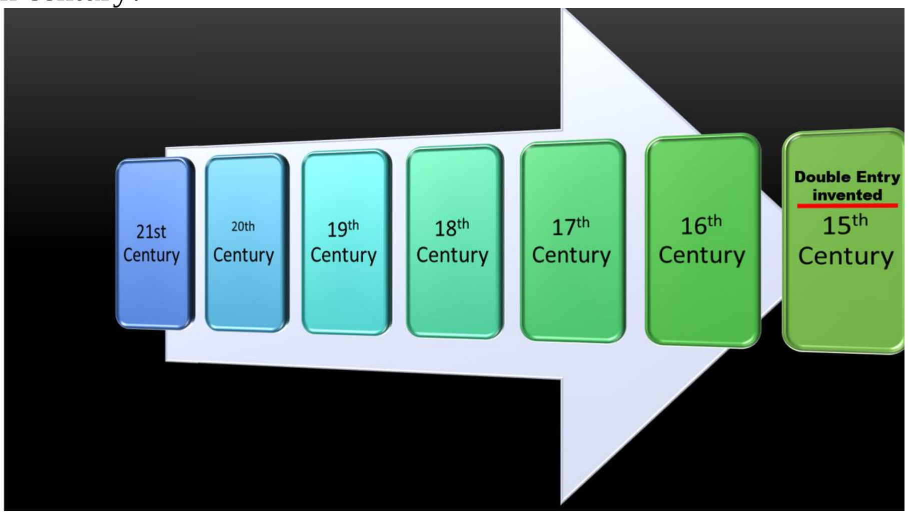
The profit has also increased by 600, so that is why the reserves have increased

So yes, the balance sheet still balances

9-Accounting in practice

So why do accountants get so excited about debits and credits. Is it because accountants lack imagination?

Or is it because debits and credits have been fundamental to all accounting since the 15th century?



What?

Well there's no point in changing something that works is there? After all, nobody has thought to change our Arabic numbers, that were written about more than 1,200 years ago.

They're much better than Roman numerals that didn't even have zeros.

Double entry. No not that double entry, Accountants love debits and credits

Let's find out why accountants are obsessed with debits and credits

We’re going to look at debits and credits and how it affects a small vehicle hire company.

We’re also go to follow a few simple transactions

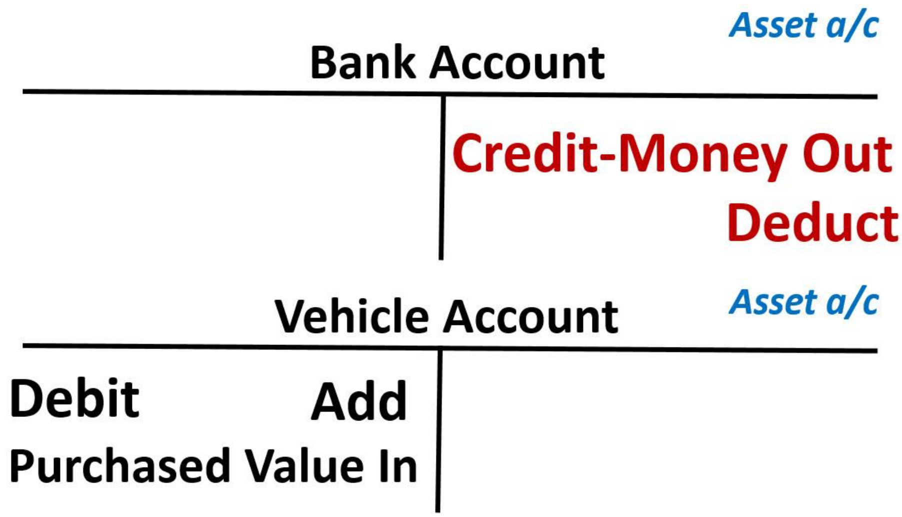
Jane owns a hire company, called Jane’s Vehicle hire. We are going to follow few transactions, and see where they go effect the financials

Jane has money in the bank Which is an asset to the company, but Would like to spend some of this asset and buy new tractor

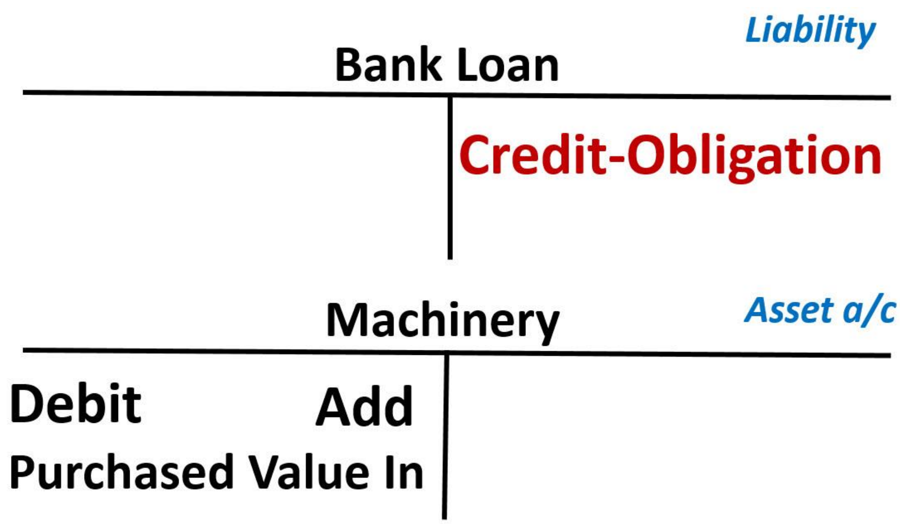
If she spends money from the bank, the bank is credited, in other words, the bank is reduced

But the good news is but she has just acquired a new asset, the tractor she wanted. So she has in effect swapped one asset for another asset

The Bank will be credited as money going out, and the fixed asset account has been debited with the same amount



If Jane managed to purchase some plant and machinery and finance the whole lot from a bank loan, the fixed assets will still be increased by the value of the plant, but the liabilities would also increase by the same amount, because Jane's company owed the bank. The accounting entries will be; Credit bank loan, because they are the company's creditor.



The company now owns this asset, so debit the asset account.

Computer installations are also fixed assets and therefore treated as debits

Current assets can also include items such as invoices billed to the customer, but they have not yet paid.

These assets are called accounts receivable.

In the UK, they can also be called Trade Debtors.

Cash or money at the bank is also a current asset. All assets whether they be fixed assets or current assets are debits

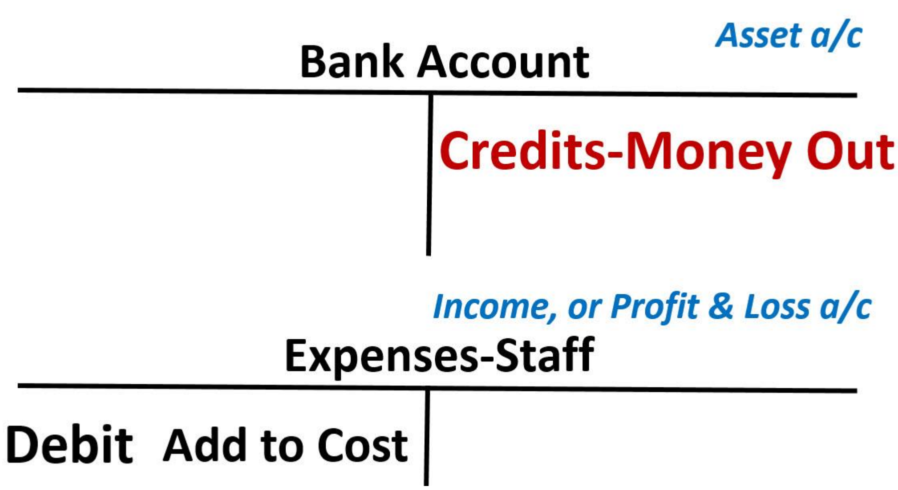
Now the complicated bit, as you know all assets are debits, but also all expenses are also debits. With the exception of cash itself, paid for assets and expenses have cost money. This is a good way to remember that if it cost you money, it is a debit.

Expenses such as office rental leases are therefore debits

As indeed, are office cleaning expenses and staff costs are debits

I know, Staff are the company's greatest asset, but in accounting terms, they are treated as an expense

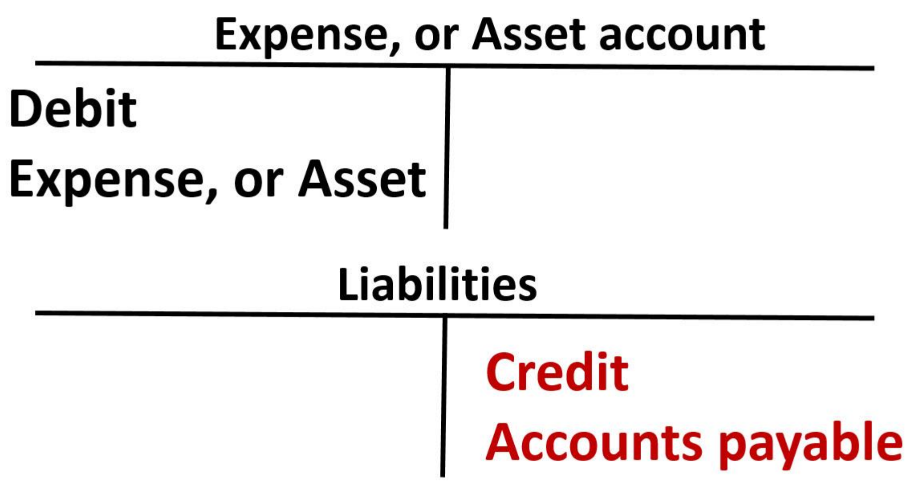
As always when you spend money from the bank, its credit bank and debit expense account



The other side of the balance sheet, are liabilities or creditors, such as accounts payable, which is money owed to suppliers.

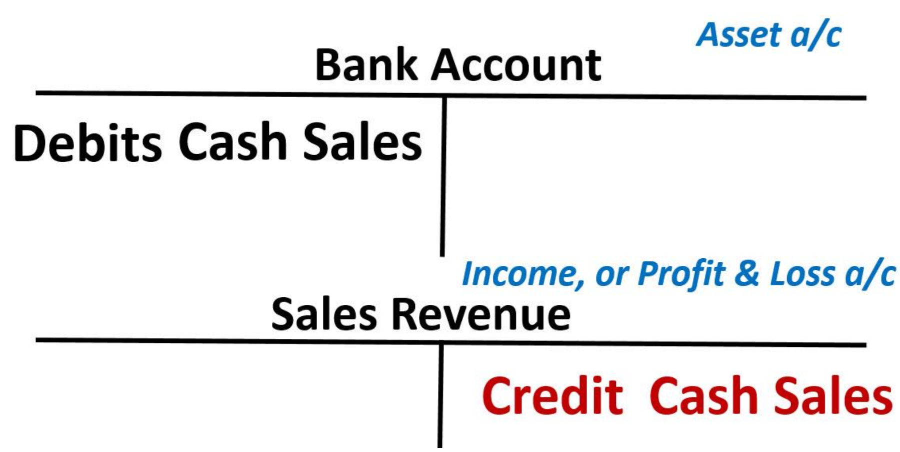
This is where you've received the goods or service, but you haven't paid invoice yet. When you pay the outstanding invoice, the entry is credit bank and debit accounts payable. I was talked about assets being debits in the balance sheet, but the opposite side of the balance sheet are liabilities or creditors, such as accounts payable which is money owed to suppliers for services or product that the supplier has already delivered.

The credit entry is not bank, but accounts payable. The debit entry is the same as if it was paid by cash

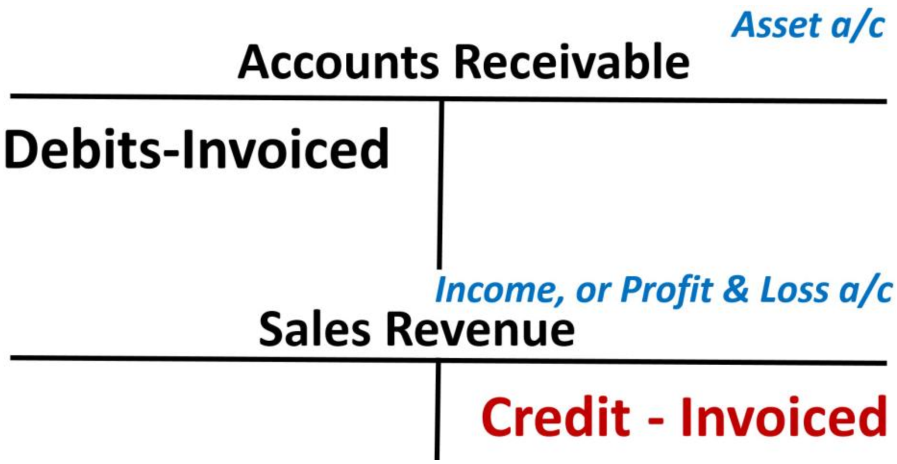


Sales comes basically in two forms, either a sale where the customer pays you now, or invoice sale, where the customer pays later. The accounting entries are similar, this first look at the cash sales

The entries are, Credit cash sales, and because you're adding to the bank, it is Debit bank



If we simply remove the bank account and replace it with Accounts Receivable, it is the same entries. Credit sales, and Debit accounts receivable



The last group of credits, you don’t need to worry about for day-to-day business, they are Profit, Equity, and Share capital