



# Principles of Double Entry Webinar

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# Principles of Double Entry

The Double Entry Bookkeeping system dates back to the 15<sup>th</sup> century, it was thought to be created by a Venetian monk – Luca Pacioli.

When recording transactions, we use the principles of the Accounting equation:

$$\text{Assets} - \text{Liabilities} = \text{Capital}$$

## Dual Effect Principle

This principle states that all transactions have two effects.

For example, if a business buys a computer for cash what is the dual effect?

## Example

For each of the following transactions state the dual effect:

1. Owner invests £5,000 of his own money into the business bank account
2. Take out a bank loan for £10,000
3. Purchase goods worth £1,500 with cash
4. Office Rent paid by cheque for £500
5. Buy a computer for £3,000 for use in the business



Using this approach would be a cumbersome way of recording the hundreds of transactions a business could need to record every day. To speed up the process, accounts are created which summarise each type of transaction. This process is Double Entry Bookkeeping. This process is carried out by recording the amounts as debit or credit entries to the individual accounts. Debits are recorded on the left-hand side of the account whilst the credits are recorded on the right-hand side of the account.

A 'T' account / General Ledger account / Nominal Ledger account

Debits			Credits		
Date	Description	Amount	Date	Description	Amount

The following rules will help to understand when an account should be debited or credited:

**Debit** entries show - the creation of, or an increase to:

- Assets
- Drawings
- Expenses

**Credit** entries show - the creation of, or an increase to:

- Liabilities
- Income
- Capital

**There is an easier way to remember the rules of double entry bookkeeping:**

D	C
E	L
A	I
D	C



When carrying out Double Entry Bookkeeping, negative figures are not used to reduce an amount previously recorded. Instead, to record a reduction to the account, the amount would be recorded on the opposite side of the account.

For example: To reduce the amount of expenditure for rent you would credit the rent account. To reduce a liability, you would record the amount on the debit side of the liability account.

Debits will reduce the value of income, liability and capital accounts.

Credits will reduce the value of assets, drawings and expense accounts.

**Golden Rule:**



**For every debit there is an equal and opposite credit**



So...why, when we take money out of the bank do we use a debit card?

Owner of a business carries out the following transactions:

- £500 of their own money paid into the business bank account
- Takes £200 cash as drawings from the business

Cash at Bank					
Date	Description	Amount £	Date	Description	Amount £

My Account					
Date	Description	Amount £	Date	Description	Amount £

**Example:**

Kath started a new company in October 20X7, and the following is a list of transactions for her first month of trading. These need recording in the following T accounts. Then close the accounts off at the end of the month and then a trial balance should be produced to check the double entry.

1/10/20X7 – Capital introduced of £20,000

3/10/20X7 – Cash Purchases made of £1,500

6/10/20X7 – A company car was bought by cheque for £5,000

10/10/20X7 – Credit sales made of £600

18/10/20X7 – Purchases made on credit for £2,000

20/10/20X7 – Cash sale made for £900

22/10/20X7 – Rent paid by cheque for £400

Bank					
Date	Description	Amount £	Date	Description	Amount £

Capital					
Date	Description	Amount £	Date	Description	Amount £



Purchases					
Date	Description	Amount £	Date	Description	Amount £

Motor Vehicles					
Date	Description	Amount £	Date	Description	Amount £

Sales					
Date	Description	Amount £	Date	Description	Amount £

Rent					
Date	Description	Amount £	Date	Description	Amount £



Receivables / SLCA					
Date	Description	Amount £	Date	Description	Amount £

Payables / PLCA					
Date	Description	Amount £	Date	Description	Amount £

Production of Trial Balance:

Account Name	Debit (£)	Credit (£)
Totals		

