

The double-entry system and the Accounting process

Study Unit 4

Study Unit 4: The double-entry system and the Accounting Process

The Double-entry system

Lecture 1

Double-entry System

- We added an infographic on the double-entry system in Study Unit 2 (Lecture 7)

Go revise that... and the reasons we introduced it... before we carry on!

Study Unit 2: The Financial Position

Class Example: Tim's Garden Services (Double-entry system)

Lecture 2

Class Example

- Download the handouts for Tim's Garden Services - I'm going to use this as a basis to explain how we work with the double-entry system practically

Watch the video to see how you should think about the entries. I'll do the first few... you try the rest!

Lecture 2

Class Example: Solution

- Follow with me as I talk you through the rest of the transactions for Tim's Garden Services. This practice will help consolidate your understanding

Watch out for learning these off-by-heart... you need to be able to think about these!

Study Unit 4: The double-entry system and the Accounting Process

The General Ledger

Lecture 4

The General Ledger entries

- 'Posting'
- Groups of Accounts:
 - Asset accounts
 - Liability accounts
 - Equity accounts
 - Income accounts
 - Expense accounts

Lecture 4

The General Ledger

Dr

Cr

<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>

Dr

Cr

<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>

Lecture 4

The General Ledger

2 March: Tim paid R500 to StationeryRUS for office stationery. He paid the amount from the business account

Dr				Stationery				Cr					
<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>
2 Mar	Bank		500										

Dr				Bank				Cr					
<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>
					2 Mar	Stationery		500					

Lecture 4

Study Unit 4: The double-entry system and the Accounting Process

Debits and Credits

Lecture 5

Debits and Credits

- What knowledge do we need to complete the General Ledger?
 - The elements of the AFS
 - Basic Accounting Equation
 - The debits and credits for each element

Debits & Credits

- The infographic shows you the rules of the debits and credits for each element of the AFS

Use this infographic to help you learn these rules

THEY ARE VITAL!

PRINT THEM... LEARN THEM... LOVE THEM!

Lecture 6

Debits and Credits

- Debits and Credits are the terms we use to indicate the side of the General Ledger Account the transaction is to be recorded in
- Each element of the AFS have their own debit and credit rules
- **You have to learn these well!**

Study Unit 4: The double-entry system and the Accounting Process

General Ledger:

Multiple transactions in accounts

Lecture 7

Multiple transactions

Additional note for discussion covered in the video

- With all the transactions that happen during the month, there will definitely be more than one transaction in some accounts
- Instead of opening new accounts for these transactions, we use the same account to capture them

Lecture 7

Example

Additional example not covered in the video

- Tim's Garden Services:
 - 2 March: Tim paid R500 to StationeryRUS for office stationery. He paid the amount from the business account
 - 25 March: He paid R350 for paper and stationery from OfficeSupply from the business account

Example - Solution

Dr Stationery Cr

<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>
2 Mar	Bank		500					
25 Mar	Bank		350					

Dr Bank Cr

<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>
					2 Mar	Stationery		500
					25 Mar	Stationery		350

Lecture 7

Study Unit 4: The double-entry system and the Accounting Process

General Ledger:

Closing off the Accounts

Lecture 8

Closing-off: Income and Expenses

- Think of the debits and credits for Income and Expenses:
 - Revenue transactions are credited
 - Expense transactions are debited
- If there are only credits / debits in an account, then you just need a total

Closing-off: Income and Expenses

Dr				Stationery				Cr					
<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>
2 Mar	Bank		500										
25 Mar	Bank		350										
			850										

Lecture 8

Closing-off: Assets & Liabilities

- Think of the debits and credits for Assets & Liabilities:
 - Asset transactions are debited
 - Liability transactions are credited
- If there are only credits OR debits in an account, then you just need a total

BUT

Lecture 8

Closing-off: Assets & Liabilities

- The Bank Account:
 - When cash from sales or capital is deposited, the bank account is debited
 - When expenses or liabilities are paid, the bank account is credited
- We need to close these accounts off slightly differently

Example

- Tim's Garden Services:
 - 2 March: Tim paid R500 to StationeryRUS for office stationery. He paid the amount from the business account
 - 7 March: Tim was paid R1 200 for services rendered
 - 25 March: He paid R350 for paper and stationery from OfficeSupply from the business account

Closing-off: Income and Expenses

Dr Stationery Cr

<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>
2 Mar	Bank		500					
25 Mar	Bank		350					
			850					

Dr Services Rendered Cr

<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>
					7 Mar	Bank		1 200

Lecture 8

Closing-off: Assets & Liabilities

Dr				Bank	Cr			
<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>
7 Mar	Services Rendered		1 200		2 Mar	Stationery		500
					25 Mar	Stationery		350
						Balance	c/d	350
			1 200					1 200
	Balance	b/d	350					

Lecture 8

Study Unit 2: The Financial Position

Class Example: Tim's Garden Services (General Ledger)

Lecture 9

Class Example

- Download the handouts for Tim's Garden Services – we'll use this to practice our General Ledger postings

I'll do the first few... you try the rest using the blank GL format I've included!

Class Example: Solution

- Follow with me as I talk you through the rest of the transactions for Tim's Garden Services. This practice will help consolidate your understanding
- Also, consider what the information actually tells us about his business

Watch out for learning these off-by-heart... you need to be able to think about these!

Lecture 10

Study Unit 4: The double-entry system and the Accounting Process

Trial Balance

Lecture 11

What is a Trial Balance?

- Think of all the entries you've made in the General Ledger.
 - Every transaction should have a debit and a credit
 - Every account should affect the Basic Accounting Equation in the correct way
 - All the numbers should be entered properly and accurately
 - All the accounts should be closed off correctly, and have an accurate balance

What is a Trial Balance?

- Every debit has a credit...
 - If you've accounted for all these properly, and created all the accounts necessary...
 - If you add up the balances for all the accounts with debit balances, and all the accounts with credit balances... they should be the same!
- This is what we use a Trial Balance for!

Remember our example...

- Tim's Garden Services:
 - 2 March: Tim paid R500 to StationeryRUS for office stationery. He paid the amount from the business account
 - 7 March: Tim was paid R1 200 for services rendered
 - 25 March: He paid R350 for paper and stationery from OfficeSupply from the business account

Closing-off: Income and Expenses

Dr Stationery Cr

<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>
2 Mar	Bank		500					
25 Mar	Bank		350					
			850					

Lecture 11

Closing-off: Income and Expenses

Dr

Sales

Cr

<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>
					2 Mar	Bank		1 200
						Balance		1 200

Lecture 11

Closing-off: Assets & Liabilities

Dr				Bank	Cr			
<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>		<u>Date</u>	<u>Details</u>	<u>Fol</u>	<u>Amount</u>
7 Mar	Services Rendered		1 200		2 Mar	Stationery		500
					25 Mar	Stationery		350
						Balance	c/d	350
			<u>1 200</u>					<u>1 200</u>
	Balance	b/d	350					

Lecture 11

Trial Balance for our example...

Account	Debit	Credit
Bank	350	
Services Rendered		1 200
Stationery	850	
	1 200	1 200

Lecture 11

What if it doesn't balance?

- Check whether you have a debit and credit for every transaction
- Check your calculations and closing off calculations

If it balances... everything is perfect?

NO!

- What if you did create a credit for every debit, but you used the wrong account? (eg: you credited Salaries instead of Sales)
 - The TB can't tell you whether it's in the correct account
- What if you got the amount wrong, in both the debit AND credit? (ie: you posted R15 instead of R51 in both accounts)
 - The TB will still balance, but would still be wrong!

Lecture 11

Trial Balance

- Checks whether you have applied the debit & credit rules properly
- Checks your calculations and accuracy
- Summarises all your account balances to help you prepare the Statement of Profit or Loss and other Comprehensive Income and the Statement of Financial Position

Study Unit 2: The Financial Position

Class Example: Tim's Garden Services (Trial Balance)

Lecture 12

Class Example

- Download the handouts for Tim's Garden Services – let's use the GL we created for the transactions to create the Trial Balance

I'll do the Trial Balance without any 'sorting', as this is how we'd do it in exams

Class Example: Solution

- Also, consider what the information actually tells us about his business

Watch out for learning these off-by-heart... you need to be able to think about these!

Study Unit 4: The double-entry system and the Accounting Process

The Annual Financial Statements

Lecture 13

Study Unit 2: The Financial Position

Class Example: Tim's Garden Services (Financial Statements)

Lecture 13

Class Example

- Download the handouts for Tim's Garden Services – We've created the Trial Balance, now we can compile the Annual Financial Statements
- Use the blank AFS formats I've provided to attempt these yourself

I'll do the Statement of Profit or Loss and the Statement of Changes in Equity with you

Lecture 13

Class Example: Solution

- Use the blank Statement of Financial Position format to complete the AFS, once we've got the Equity figure
- Learn the Notes to the AFS

Again, pay attention to headings and account names

Lecture 14