

Subject: Leaving Certificate Accounting

Teacher: Mr Lee

Week: Week 1

Lesson: Double Entry

1.1 Learning Intentions

By the end of this week's lesson, you should be able to:

- Outline the Accounting paper layout
- Describe the parties involved in **Financial Information**
- Explain what is meant by **Double Entry Book-Keeping**
- Name the four types of **Account**
- Illustrate how to **Balance** an Account
- Construct a **Trial Balance**



1.2 Exam Structure

Leaving Cert Accounting (Ordinary & Higher Level)

400 marks

3 Hours

Divided into 3 Sections

Section 1: Financial Accounting (120 marks)

This section has four questions (1-4) with the first question being 120 marks and the remaining three being 60 marks each. You should answer either **Question 1 ONLY** or attempt **TWO** of the remaining three questions.

These questions require:

- A thorough knowledge of **Double Entry Book-Keeping**
- A good understanding of Final Accounts **presentation**
- Consistent practise of Q1
- An allocation of 50 minutes for Q1 or 25 minutes each for the **TWO** shorter questions

There is a benefit to choosing Q1. Final Accounts usually appear in the same format and as a result are straightforward to prepare for. No theory required in this question.

Section 2: Financial Accounting (200 marks)

Here we have three questions (5-7) with each question being 100 marks. Here you answer **TWO** questions.

- Interpretation of accounts has come up **Every Year**
- You should allocate roughly 40 minutes per questions
- Each question carries 100 marks
- Expect **theory** on each question.
- This section holds 50% of the marks on the accounting paper

Section 3: Management Accounting (80 marks)

Two questions are offered here (8-9) with each questions being worth 80 marks. You should answer **ONE** question here.

- Option 1 here is a Costing Question
- Option 2 is a Budgeting Question
- Allocate roughly 30 minutes per question
- Theory generally accounts for 12 out of the 80 marks available

1.3 Who is Interested in Financial Information?

Shareholders - These are people looking to own a part of a company. Naturally then they have a keen interest in how an organisation performs financially in order to evaluate an investment.

Managers - Using this information, managers can plan an organisations progress accurately.

Lenders - In order to ascertain an organisation's **credit worthiness**, lenders will use this financial information.

Government - In order to accurately **tax** organisations government monitors organisations financial information.

Competitors - Financial Information may be used by competitors to compare performance or by those looking to merge or takeover a business.

What standards are in place?

Financial Information must have reliability, relevance, understandability and comparability.

Reliability - This is important information which must be verified by independent third parties e.g. Auditor's.

Relevance - The information must give the relevant information needed by the user.

Comparability - This means that the financial information of different organisations over time must be comparable. Consistency here is key with the information being presented on the same basis.

Understandability - Simply put this means the information must be comprehensible to the user.

Who controls this Financial Information?

They **layout, development** and **presentation** of this information is regulated by several bodies.

- Government
- The Accounting Profession
- The EU
- The Stock Exchange

1.4 Double Entry Book-Keeping

Based on a simple idea that for every transaction there is a double action, a **Giving** and a **Receiving**.

E.g. If a van is purchased and paid for by cheque then, a van is **received** and money is **given**. The details of this transaction is recorded in **two accounts**.

The information that appears in an account is shown as this.

Date - Shows the date the transaction took place

Details - Shows the name of the account which has the other half of the double entry

F (Folio) - This is a reference code from where we can get more information (cross referencing)

€ - The amount of money involved

Types of Account

There are four types of account which include:

Expense Accounts - Which record the **cost** of goods and services used by the business e.g. rent, advertising etc.

Income Accounts - Records the **income** or earnings of the business e.g. sales.

Asset Accounts - This account records what is **owned** by the business e.g. premises, stock, machinery.

Liability Accounts - This account records what is **owed** by the business including what is owed to the **owner (Capital)**. Other e.g. loans etc.

All of the above accounts are kept in a book called a **Ledger**.

1.5 Double Entry Rules

Double Entry Rules

When you **debit** an account it means you make an entry on the **debit** side of the account (left hand)

When you **credit** an account it means you make an entry on the **credit** side of the account (right hand)

Debit Entries

If an expense occurs, the **Expense Account** is debited.

If an asset increases in value, the **Asset Account** is debited.

If a liability decreases, the **Liability Account** is debited.

Credit Entries

If there is income, the **Income Account** is credited.

When an asset decreases in value, the **Asset Account** is credited.

If a liability increases, the **Liability Account** is credited.

Each entry compliments the other, e.g. where there is a debit there must be a credit.



1.6 Balancing Accounts & Trial Balance

Balancing Accounts

At the end of an accounting period each account within the ledger is balanced. This means both sides are added up with the smaller being subtracted from the larger.

If the account has a larger debit side it has a **Debit Balance**, if it has a larger credit side it has a **Credit Balance**.

Steps to balancing an account:

1. Add up the totals on both sides and write your answer in your rough work.
2. Subtract the smaller total from the larger total.
3. Enter the difference on the smaller side. The date used is the last day of the period. Write "Balance c/d" in the details and F column.
4. Show the totals on the same line - they should now be the same.
5. Enter the difference on the other side below the total. Use the next day's date and write "Balance b/d" in the details and F column.

The **c/d** means to be carried down to the next accounting period (Feb)

The **b/d** means to be brought down from the previous accounting period (Jan)

The Trial Balance

Now that we have balanced each account within the ledger we will use the trial balance to arrange all the balances into two separate columns.

One column contains all of the Debit Balances and one contains all the Credit Balances.

1.7 Transactions on Credit

Transactions on Credit

A lot of transactions are carried out on credit i.e. payment is made after the transfer of goods.

Goods bought on credit are bought from a "**Creditor**".

Goods sold on credit are sold to a "**Debtor**".

Double Entry Rules: Purchases of Goods on Credit.

Debit Purchases Account



With the cost of goods bought.

Credit Creditor Account

Debit Creditor Account



With payment, when it's made.

Credit Bank Account

1.8 Discounts Allowed & Received

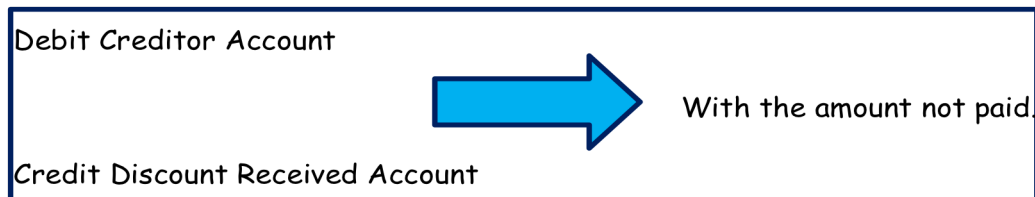
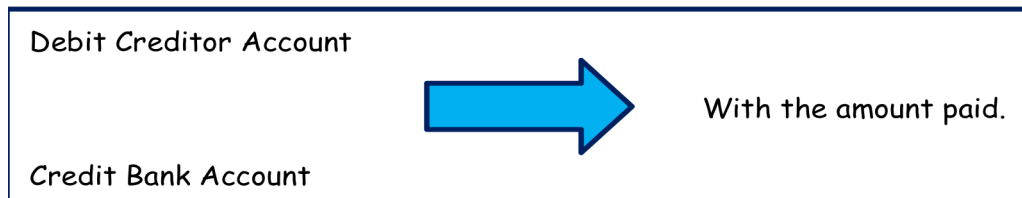
As a business we really want to encourage early payment of debts.

In order to encourage debtors to do this a firm may allow a discount to the debtor (take less than owed).

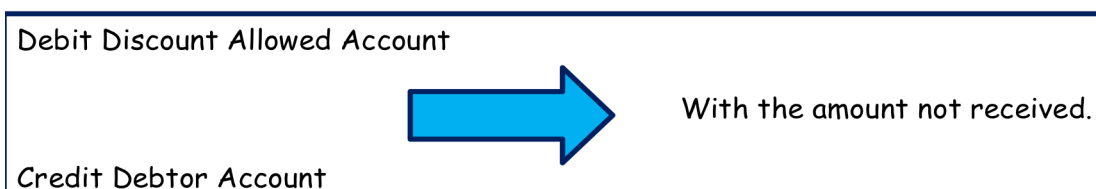
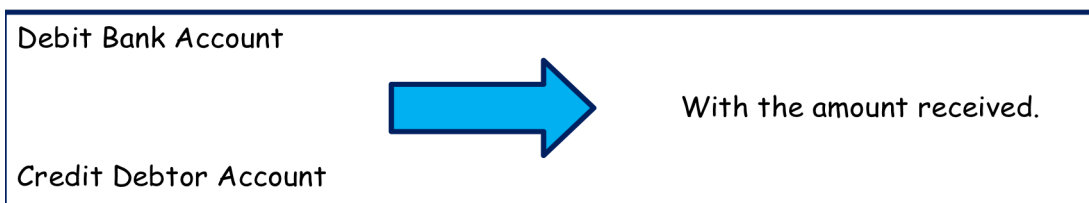
Similarly and an enticement to pay early a firm may receive discounts from its creditors (pay less than owed).

We have two rules to deal with these situations.

Double Entry Rules: Discount **Received** from Creditors.



Double Entry Rules: Discount **Allowed** to Debtors



1.9 Returns

Returns

Goods bought or sold may be returned for various reasons; they may be damaged, not ordered or wrongly delivered etc.

We have two Double Entry Rules to deal with returns be it if they are purchases or sales.

When Purchases Returns (Returns Outwards)

Debit Creditor Account



With cost of goods returned.

Credit Purchases Returns Account

When Sales Returns (Returns Inwards)

Debit Sales Returns Account



With sales price of goods returned.

Credit Debtor Account.

1.10 Drawings

Drawings

When a business is owned by a sole trader, the owner is entitled to withdraw goods, assets or expenses for private reasons.

This is also known as Drawings.

There is a Double Entry Rule for each instance when goods, assets or expenses are used for private purposes.

Let's take a look.

Goods.

Debit Drawings Account



When goods are withdrawn for private purposes.

Credit Purchases Account

Assets.

Debit Drawings Account



When an asset is used for private purposes.

Credit Asset Account

Expenses.

Debit Drawings Account



When an expenses is allocated for private purposes.

Credit Expense Account

1.11 Questions

Example Question 1.1

Assuming this is a one-person business i.e. a sole trader.

Record the following transactions of James Collins in the appropriate accounts in the ledger for the accounting period of January:

	€
Jan 1 Owner lodges money into the business	8,000
Jan 2 Purchased goods by cheque	2,500
Jan 3 Paid rent by cheque	250
Jan 5 Sold goods for cash	1,850
Jan 8 Paid advertising costs by cash	75
Jan 10 Lodged cash into bank	650
Jan 18 Paid wages by cheque	150

Example Question 1.2

Balance the Bank Account from Q1.1

Question 1.3

Record the following transactions of Michael Smith in the appropriate accounts in the ledger, balance each account and construct a Trial Balance at the end of the accounting period in August.

Aug 1 Owner introduced money into the business (lodged)	€ 25,000
Aug 4 Purchased goods by cheque	€ 7,000
Aug 5 Sold goods for cash	€ 4,000
Aug 6 Paid rent by cheque	€ 750
Aug 8 Paid for advertising by cheque	€ 1,150
Aug 13 Paid for light and heat by cheque	€ 450
Aug 16 Purchased goods by cheque	€ 2,500
Aug 17 Sold goods for cash	€ 4,600
Aug 20 Lodged cash in bank	€ 2,800
Aug 21 Paid for wages by cheque	€ 1,700
Aug 24 Sold goods for cash	€ 1,600
Aug 26 Paid for telephone by cash	€ 120
Aug 29 Paid for van by cheque	€ 6,400

1.11 Questions

Question 1.4

Record the following transactions in the correct ledger accounts.

Sep 14	Sold goods on credit to a debtor	€ 18,000
Sep 19	Lodged cheque received in payment for goods sold on Sep 19	

Question 1.5

Record the following transactions in the appropriate ledger accounts.

Feb 3	Bought goods on credit from a creditor	€ 6,000
Feb 7	Paid € 5,900 in full settlement for goods purchased Feb 3	

Question 1.6

Record the following transactions in the appropriate ledger accounts.

June 7	Sold goods on credit to a debtor	€ 5,500
June 9	Received and lodged cheque for € 4,500 in full settlement for 7 June	

Question 1.7

Record the following transactions in the appropriate ledger accounts.

Sep 07	Bought goods on credit from creditor	€ 4,000
Sep 11	Sold goods on credit to a debtor	€ 5,000
Sep 12	Returned € 400 worth of goods bought on Sep 7 as damaged.	
Sep 14	€ 1,200 worth of goods sold on Sep 11 returned as not ordered	

Question 1.8

Record the following transactions in the appropriate ledger accounts.

Oct 08	Bought goods on credit from a creditor	€ 3,000
Oct 11	Sold goods for cash (lodged)	€ 4,000
Oct 14	Owner withdrew goods for private purposes	€ 300
Oct 19	Paid wages by cheque	€ 600
Oct 21	Owner wrote a cheque for private purposes	€ 200
Oct 23	Half the wages paid on Oct 19 were for work done on owners private house.	

1.11 Questions

Question 1.9

Record the following transactions of John Smith into the appropriate accounts in the ledger and extract a Trial Balance at the end of the month.

Nov 01 Owner introduced money to the business (lodged)	€ 45,000
Nov 03 Bought goods on credit from a creditor	€ 7,000
Nov 04 Paid rent by cheque	€ 700
Nov 07 Sold goods on credit to a debtor	€ 2,500
Nov 08 Paid € 6,800 by cheque in full settlement for goods sold on Nov 3	
Nov 10 Debtor returned some of the goods sold on Nov 7	€ 300
Nov 12 Bought goods on credit from creditor	€ 5,500
Nov 15 Returned some of the goods bought on Nov 12	€ 750
Nov 16 Owner took stock for private purposes	€ 350
Nov 18 Sold goods on credit to a debtor	€ 4,500
Nov 19 Paid advertising by cheque	€ 850
Nov 20 Sold goods for cash (lodged)	€ 3,400
Nov 21 Bought motor vehicle, paid by cheque	€ 17,000
Nov 22 Sold goods for cash (lodged)	€ 3,500
Nov 23 Received cheque for €4,100 in full settlement for goods sold Nov 18	
Nov 27 Paid wages by cheque	€ 450
Nov 28 Owner wrote cheque for private purposes	€ 200
Nov 31 Paid light and heat by cheque	€ 150



1.12 Solutions - Q1.1

Bank Account					
Jan-01	Capital	€ 8,000.00	Jan-02	Purchases	€ 2,500.00
Jan-10	Cash	€ 650.00	Jan-03	Rent	€ 250.00
			Jan-18	Wages	€ 150.00
			Jan-31	Balance c/d	€ 5,750.00
		€ 8,650.00			€ 8,650.00
Feb-01	Balance b/d	€ 5,750.00			
Capital Account					
			Jan-01	Bank	€ 8,000.00
Jan-31	Balance c/d	€ 8,000.00			€ 8,000.00
		€ 8,000.00			€ 8,000.00
			Feb-01	Balance b/d	€ 8,000.00
Purchases Account					
Jan-02	Bank	€ 2,500.00	Jan-31	Balance c/d	€ 2,500.00
					€ 2,500.00
		€ 2,500.00			€ 2,500.00
Feb-02	Balance b/d	€ 2,500.00			
Rent Account					
Jan-03	Bank	€ 250.00	Jan-31	Balance c/d	€ 250.00
					€ 250.00
		€ 250.00			€ 250.00
Feb-01	Balance b/d	€ 250.00			
Cash Account					
Jan-05	Sales	€ 1,850.00	Jan-08	Advertising	€ 75.00
			Jan-10	Bank	€ 650.00
			Jan-31	Balance c/d	€ 1,125.00
		€ 1,850.00			€ 1,850.00
Feb-01	Balance b/d	€ 1,125.00			
Advertising Account					
Jan-08	Cash	€ 75.00	Jan-31	Balance c/d	€ 75.00
					€ 75.00
		€ 75.00			€ 75.00
Feb-01	Balance b/d	€ 75.00			
Wages Account					
Jan-18	Bank	€ 150.00	Jan-31	Balance c/d	€ 150.00
					€ 150.00
		€ 150.00			€ 150.00
Feb-01	Balance b/d	€ 150.00			
Sales Account					
Jan-31	Balance c/d	€ 1,850.00	Jan-05	Cash	€ 1,850.00
		€ 1,850.00			€ 1,850.00
			Feb-01	Balance b/d	€ 1,850.00

1.12 Solutions - Q1.2

	€	€
Name of Account	Debit	Credit
Bank	€ 5,750.00	
Capital		€ 8,000.00
Purchases	€ 2,500.00	
Rent	€ 250.00	
Cash	€ 1,125.00	
Advertising	€ 75.00	
Wages	€ 150.00	
Sales		€ 1,850.00
	€ 9,850.00	€ 9,850.00

1.12 Solutions - Q1.3

Bank Account					
Aug-01	Capital	€ 25,000.00	Aug-04	Purchases	€ 7,000.00
Aug-20	Cash	€ 2,800.00	Aug-06	Rent	€ 750.00
			Aug-08	Advertising	€ 1,150.00
			Aug-13	Light & Heat	€ 450.00
			Aug-16	Purchases	€ 2,500.00
			Aug-21	Wages	€ 1,700.00
			Aug-29	Van	€ 6,400.00
			Aug-31	Balance c/d	€ 7,850.00
		€ 2,780.00			€ 27,800.00
Sep-01	Balance b/d	€ 7,850.00			

Capital Account					
Aug-31	Balance c/d	€ 25,000.00	Aug-01	Bank	€ 25,000.00
		€ 25,000.00			€ 25,000.00
			Sep-01	Balance b/d	€ 25,000.00

Purchases					
Aug-04	Bank	€ 7,000.00	Aug-31	Balance c/d	€ 9,500.00
Aug-16	Bank	€ 2,500.00			€ 9,500.00
		€ 9,500.00			
Sep-01	Balance b/d	€ 9,500.00			

Sales Account					
Aug-31	Balance c/d	€ 10,200.00	Aug-05	Cash	€ 4,000.00
			Aug-17	Cash	€ 4,600.00
			Aug-24	Cash	€ 1,600.00
		€ 10,200.00			€ 10,200.00
			Sep-01	Balance b/d	€ 10,200.00

1.12 Solutions - Q1.3

Cash Account					
Aug-05	Sales	€ 4,000.00	Aug-20	Bank	€ 2,800.00
Aug-17	Sales	€ 4,600.00	Aug-26	Telephone	€ 120.00
Aug-24	Sales	€ 1,600.00	Aug-31	Balance c/d	€ 7,280.00
		€ 10,200.00			€ 10,200.00
Sep-01	Balance b/d	€ 7,280.00			

Rent Account					
Aug-06	Bank	€ 750.00	Aug-31	Balance c/d	€ 750.00
		€ 750.00			€ 750.00
Sep-01	Balance b/d	€ 750.00			

Advertising Account					
Aug-08	Bank	€ 1,150.00	Aug-31	Balance c/d	€ 1,150.00
		€ 1,150.00			€ 1,150.00
Sep-01	Balance b/d	€ 1,150.00			

Light & Heat					
Aug-13	Bank	€ 450.00	Aug-31	Balance c/d	€ 450.00
		€ 450.00			€ 450.00
Sep-02	Balance b/d	€ 450.00			

Wages Account					
Aug-21	Bank	€ 1,700.00	Aug-31	Balance c/d	€ 1,700.00
		€ 1,700.00			€ 1,700.00
Sep-01	Balance b/d	€ 1,700.00			

Telephone					
Aug-26	Cash	€ 120.00	Aug-31	Balance c/d	€ 120.00
		€ 120.00			€ 120.00
Sep-01	Balance b/d	€ 120.00			

Van Account					
Aug-29	Bank	€ 6,400.00	Aug-31	Balance c/d	€ 6,400.00
		€ 6,400.00			€ 6,400.00
Sep-01	Balance b/d	€ 6,400.00			

Trial Balance	€	€
Name of Account	Debit	Credit
Bank	€ 7,850.00	
Capital		€ 25,000.00
Purchases	€ 9,500.00	
Sales		€ 10,200.00
Cash	€ 7,280.00	
Rent	€ 750.00	
Advertising	€ 1,150.00	
Light & Heat	€ 450.00	
Wages	€ 1,700.00	
Telephone	€ 120.00	
Van	€ 6,400.00	
	€ 35,200.00	€ 35,200.00