

In the double entry system value received is thought of as a debit, and value given is thought of as a credit.

**THIS IS THE BASIC RULE OF BOOKKEEPING AND IT IS NECESSARY
FOR THE STUDENT TO LEARN AND REMEMBER IT.**

Remember – Value received is a debit.
Value given is a credit.

Some typical transactions will now be considered to see how they fit into the system. The following simplified example, the setting up of a restaurant business helps to apply these new concepts to the catering situation.

Assume that F Smith puts £10,000 cash into a restaurant operation. This is called the capital of the business. The business receives value in the form of cash and value is given by F Smith in the form of capital. Applying the basic rule it is required to debit a cash account with £10,000 and to credit a capital account with £10,000.

Think of an account as a sheet of paper which is divided vertically into two sections. The left hand side is the debit side and the right hand side is the credit side. It can be represented by a T, as shown in Figure 1.

An Account	
Debit side (value received).	Credit side (value given).

Figure 1

For the example two accounts are required – one for cash and one for capital. This is shown in Figure 2.

Cash Account	
Dr	Cr
Capital	10,000

£10 000 is placed on the debit side of this account because the business received that much value in the form of cash.

Capital Account		
Dr	£	Cr
	Cash	10,000

£10,000 is placed on the credit side of this account because the business has been given capital to that value.

Figure 2

Notice that against the value £'s it is indicated, in words, what the transaction means. Therefore, in the Cash Account the entry means that the cash has been received (because it is on the debit side) to the value of £10,000 in the form of capital. In the Capital Account value has been given of £10,000 in the form of cash.

Also notice, that abbreviations have been used, for debit (DR) and for credit (CR).

Returning to the example, F Smith has put £10 000 cash into a restaurant business and he would now wish to acquire the use of premises, to buy some equipment and stock and to hire some labour. He would then be in a position to sell goods to customers.

A typical list of transactions would look like this:

	£
Pays rent.....	500
Buys equipment.....	6 000
Buys food and drink.....	250
Pays wages.....	200
Sells goods.....	700

It is now necessary to analyse each of these transactions to decide what is value received and what is value given. The student may find some of the arguments which follow quite difficult, but persevere, they are the fundamentals of the double entry system and, once learned, will never be forgotten.

Pays rent £500.

The value received is “the use of premises”. However, instead of opening a “use of premises account”, it will be called a rent account.

The value given is cash.

Therefore, the two entries in the books will be:

1. Debit the rent account (value received) £500.
2. Credit the cash account (value given) £500, as shown in Figure 3.

Rent Account			
Dr	£		Cr
Cash	500		

Cash Account			
Dr		£	Cr
		Rent	500

Figure 3

Buys equipment £6,000.

Expenditure like this, on fixed assets is called capital expenditure because it is using capital to improve the ability of the business to produce goods and services.

The value received is equipment.

The value given is cash.

Therefore, the two entries in the books will be:

1. Debit the Equipment Account (value received).
2. Credit the Cash Account (value given), as shown in Figure 4.

Equipment Account			
Dr	£		Cr
Cash	6,000		

Cash Account		
Dr		£ Cr
	Equipment	6,000

Figure 4

Buys food and drink £250.

Whenever things are bought with the intention of re-selling, they are called purchases. This word is reserved exclusively, in accountancy, for this purpose. If equipment is purchased an equipment account is debited, because the purpose of the business is not to buy and sell equipment. However, if food and drink are bought with the intention of re-selling at a profit, then the term “purchases” is used.

The value received is purchased.

The value given is cash.

Therefore, the two entries in the books will be:

1. Debit the Purchases Account (value received).
2. Credit the Cash Account (value given) as shown in Figure 5.

Purchases Account		
Dr	£	Cr
	Cash	250

Cash Account		
Dr		£ Cr
	Purchases	250

Figure 5

Pay wages £200.

The value received, in this case, is labour, and a Wages Account is used *to* record the wages. This can be quite a complicated item requiring a whole-system for itself. However, for the time being, things will be kept simple and wages will be recorded in the Wages Account.

The value received is labour.

The value given is cash.

Therefore, the two entries in the books will be:

1. Debit the Wages Account (value received).
2. Credit the Cash Account (value given) as shown in Figure 6.

Wages Account			
Dr	£		Cr
Cash	200		

Cash Account			
Dr		£	Cr
		Wages	200

Figure 6

Sells goods £700.

The value received is cash.

The value given is goods which are sold to customers.

Therefore, the two entries in the books will be:

1. Debit the Cash Account (value received).
2. Credit the Sales Account (value given). This is shown in Figure 7.