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: Wages and Cash Accounts

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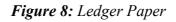2. Credit the Sales Account (value given). This is shown in Figure 7.

Cash Account		
Dr	£	Cr
Sales	700	

Sales Account		
Dr		£ Cr
	Cash	700

Figure 7: Cash and Sales Accounts

At this stage, it would be quite useful to look at the correct ruling for accounting paper that is normally used to record these types of transaction. This is called "ledger paper", and it is illustrated in Figure 8.

Date	Details	F	£		Date	Details	F	£
	Debit (value received)							

Figure 8: Ledger Paper

The two sides are identical. The column labelled "F" is the Folio column.

Returning to the example, it should be fairly obvious that a new cash account is not required for each transaction. Only one cash account will be used, and all cash received and paid out will be recorded in that account.

The transactions need to be dated in order to give the example a little more reality. The list of transactions will now look like this:

Date   Transaction

April 1   F Smith puts £10 000 cash into a restaurant business.
       2   Pays rent £500 cash.
       3   Buys equipment £6 000 cash.
       5   Buys food and drink £250 cash.
       8   Pays wages £200 cash.
       10   Sales to date £700 cash.

Altogether seven accounts are required – cash, capital, rent, equipment, purchases, wages and sales. These accounts are numbered 1 to 7, as shown in Figure 9 (See diagram on next page).

You will notice that the folio numbers, for example, L.2, which means ledger account number 2, indicate where to find the other half of the double entry record. For example, in the cash account on April 10th, there is an entry on the debit side of Sales £700. The folio L.7 indicates that the credit entry will be found in L.7, that is, ledger account number 7. Therefore the folios provide a cross-reference system that can be used to check the accuracy of the recording system.

At this stage, it will be useful take a preliminary look at the system for checking the accuracy of the double entry records – the trial balance, and the uses to which we can put this information – the trading, profit and loss accounts, and the balance sheet.

THE TRIAL BALANCE (A SIMPLE TREATMENT)

All the transactions have been entered twice in the records, once on the debit side and once on the credit side. It, therefore, follows that if a list is made of the debit balances and the credit balances their totals will be equal, and that the double-entry records are, in a limited sense, correct.

The first step in constructing a list of balances is straightforward, because it is a list of the accounts (1) to (7). The second step is to decide whether the balance in a particular account is a debit balance or a credit balance. The general rule is that assets and expenditure have debit balances, and liabilities and income have credit balances. However, at this stage, it is better to have a more straightforward technique for recognising the differences.

DR					Cash Accounts (1)			CR
DATE M D	PARTICULARS	FOLIO	VALUE £		DATE M D	PARTICULARS	FOLIO	VALUE £
April 1	Capital	L.2	10,000		April 2	Rent	L.3	500
10	Sales	L.7	700		3	Equipment	L.4	6,000
					5	Purchases	L.5	250
					8	Wages	l.6	200
					10	Balanced	c/d	3750
								10,700
			10,700					
10	Balance	b/d						
			3,750					

DR				Capital account (2)			CR
DATE M D	PARTICULARS	FOLIO	VALUE £	DATE M D	PARTICULARS	FOLIO	VALUE £
				April 1	Cash	L.1	10,000

DR				Rent a/c (3)			CR
DATE M D	PARTICULARS	FOLIO	VALUE £	DATE M D	PARTICULARS	FOLIO	VALUE £
April 2	Cash	L.1	500				

DR				Equipment a/c (4)			CR
DATE M D	PARTICULARS	FOLIO	VALUE £	DATE M D	PARTICULARS	FOLIO	VALUE £
April 3	Cash	L.1	6,000				

DR				Purchases a/c (5)			CR
DATE M D	PARTICULARS	FOLIO	VALUE £	DATE M D	PARTICULARS	FOLIO	VALUE £
April 5	Cash	L.1	250				

DR				Wages a/c (6)			CR
DATE M D	PARTICULARS	FOLIO	VALUE £	DATE M D	PARTICULARS	FOLIO	VALUE £
April 8	Cash	L.1	200				

DR					Sales a/c (7)			CR
DATE M D	PARTICULARS	FOLIO	VALUE £		DATE M D	PARTICULARS	FOLIO	VALUE £
					April 10	Cash	L.1	700

Figure 9: Accounts 1-7

Three characteristics suggest themselves:

a. If there is only one entry in the account, then the side on which it is entered indicates the type of balance in the account. Hence, a single entry on the debit side of the Rent Account (expenditure) indicates that it has a debit balance. The reverse is true of the Sales Account.

b. The larger of the two sides indicates what kind of balance exists. In the Cash Account (before it is balanced) the debit side exceeds the credit side and the Cash Account, therefore, has a debit balance.

c. The side on which the balance is brought down indicates the type of balance.

Therefore, the Trial Balance will look like this:

	Debit £	Credit £
Cash	3,750	
Capital 1st April		10,000
Rent	500	
Equipment	6,000	
Purchases	250	
Wages	200	
Sales		700
	10,700	10,700