

The double entry system of book-keeping

Read online at pastopic.com/cambridge/accounting-0452/notes/double-entry

Last checked 30 September 2026

Read first: [The accounting equation](#)

© 2026 Pastopic. Free for personal study. Please share the link, not the file.

What you need to know

By the end of this topic you should be able to:

1. **Outline the double entry system.** Every transaction is recorded twice: once on the debit side of one ledger account and once, for the same amount, on the credit side of another. Know the order the data moves in: business documents → books of prime entry → ledger accounts → trial balance → financial statements.
2. **Process accounting data with double entry:** for any transaction, decide which account is debited and which is credited, and for how much.
3. **Prepare ledger accounts** in the standard two-sided layout, with a date, details and amount for every entry.
4. **Post transactions to the ledger accounts**, from the transactions themselves or from the books of prime entry.
5. **Balance ledger accounts** (find the balance carried down and bring it down to start the next period) **and make transfers to the financial statements** at the end of the year.
6. **Interpret ledger accounts and their balances:** say what each entry records and what a debit or credit balance means.
7. **Recognise the three divisions of the ledger:** the sales ledger, the purchases ledger and the nominal (general) ledger.

You do **not** need folio columns or three-column (running-balance) accounts. Business documents and the books of prime entry (journals, cash book, petty cash book) are separate topics; here they are only where the entries come from.

Understand it

Every transaction has two sides

The accounting equation, $\text{assets} = \text{liabilities} + \text{capital}$, stays balanced after every transaction because each transaction changes **two** things. Buy a van by bank transfer: the business has a van (motor vehicles up) and less money (bank down). Double entry records both sides, each in its own **ledger account**:

- one account is **debited** (an entry on its left side), and
- another account is **credited** (an entry on its right side), with the **same amount**.

So the total of all debits always equals the total of all credits. That is what makes a trial balance possible, and it is the check that the books are arithmetically right.

A ledger account

Each asset, liability, type of income, type of expense, the capital and the drawings has its own account, and so does each credit customer and credit supplier. An account has two sides, debit (Dr) on the left and credit (Cr) on the right, and every entry has three parts:

- the **date**;
- the **details**: the **name of the other account** in the double entry (not a description such as "payment for rent");
- the **amount**.

For example, Maya pays rent of \$500 by bank transfer on 3 May. The rent account shows "May 3 Bank 500" on its debit side; the bank account shows "May 3 Rent 500" on its credit side. Each account points to the other.

Which side? The rules

Type of account	An increase is a	A decrease is a	Its usual balance
Asset (premises, vehicles, inventory, trade receivables, bank, cash)	debit	credit	debit
Expense (purchases, wages, rent, discount allowed, sales returns)	debit	credit	debit
Drawings	debit	credit	debit
Liability (loans, trade payables, overdraft)	credit	debit	credit
Capital	credit	debit	credit
Income (sales, rent received, commission received, discount received, purchases returns)	credit	debit	credit

A quick way to remember: **the account that receives the value is debited; the account that gives the value is credited**. Buying a van by bank transfer: the van account receives (debit motor vehicles), the bank gives (credit bank).

The entries you meet most often

Transaction (in the trader's books)	Debit	Credit
Owner pays money into the business bank	Bank	Capital
Owner brings in a vehicle or other asset	The asset (e.g. motor vehicles)	Capital
Cash sale	Cash (or bank)	Sales
Credit sale to Leo	Leo	Sales
Leo returns goods (sales returns)	Sales returns	Leo
Leo pays by cheque after a cash discount	Bank (amount paid) and discount allowed (discount)	Leo (full amount settled)
Leo's cheque is dishonoured	Leo	Bank
Goods bought for cash or by bank	Purchases	Cash or bank

Transaction (in the trader's books)	Debit	Credit
Credit purchase from Hana	Purchases	Hana
Goods returned to Hana (purchases returns)	Hana	Purchases returns
Pay Hana after a cash discount	Hana (full amount settled)	Bank (amount paid) and discount received (discount)
Pay an expense (rent, wages, insurance)	The expense	Cash or bank
Receive income (rent received, commission)	Cash or bank	The income account
Buy a non-current asset by bank	The asset	Bank
Buy a non-current asset on credit from T Ltd	The asset	T Ltd
Borrow from a bank or a person (a loan)	Bank	Loan account (e.g. Ali (loan))
Owner takes cash for private use	Drawings	Cash or bank
Owner takes goods for private use (at cost)	Drawings	Purchases
Cash paid into the bank (a contra)	Bank	Cash

Points that catch people out:

- **Trade discount is never in the ledger.** Record only the net price after trade discount. Goods with a list price of \$800 and 20% trade discount are entered at \$640.
- **Cash discount is.** Discount allowed (to a customer) is an expense; discount received (from a supplier) is income.
- **Buying goods to sell** is always "purchases". Buying something to keep and use (a van, a machine, office equipment) goes to that asset's own account. For a manufacturer, a machine is still an asset, not purchases.
- **A dishonoured cheque** simply reverses the receipt: the customer owes the money again. It is **not** an irrecoverable debt.
- **Goods taken by the owner** are drawings at their **cost** to the business, including any carriage paid to bring them in (\$250 of goods plus \$15 carriage inwards is \$265), never at selling price.
- **Part paid with the owner's own money.** A delivery van costing \$12 000, \$7000 paid from the owner's **personal** bank account and \$5000 owed to the garage: debit motor vehicles \$12 000; credit capital \$7000 and the garage \$5000.

Whose books?

A credit sale in Maya's books is a credit purchase in Leo's books. Always work in the books of the person the question names.

- Rosa sends Jin a credit note because Jin returned goods to her. In **Jin's** books: Jin returned goods, so debit Rosa, credit purchases returns.
- Ben, a tenant, pays his landlord Grace rent in cash. In **Grace's** books: debit cash, credit rent received (rent receivable).
- Kofi pays his supplier Lina and takes a cash discount. In **Kofi's** books: debit Lina, credit discount received.

Balancing an account

At the end of a period (usually a month or a year) each account is balanced to show what it adds up to.

1. Add up **both** sides. Write the larger total at the foot of **both** sides, on the same line.
2. On the smaller side, write the difference as "**Balance c/d**" (carried down), dated the last day of the period, so that the two sides add up to the same total.
3. Bring the same amount down on the **opposite** side as "**Balance b/d**" (brought down), dated the first day of the next period.

Leo account (in Maya's books)					
Dr			Cr		
Mar 1	Balance b/d	600	Mar 15	Sales returns	50
8	Sales	450	20	Bank	570
				Discount allowed	30
			31	Balance c/d	400
①		1 050			1 050
④	Apr 1	Balance b/d	400		

- ① Add the larger side (debit): $600 + 450 = 1\,050$.
- ② Write 1 050 as the total on both sides, on the same line.
- ③ Credit side comes to 650, so Balance c/d = $1\,050 - 650 = 400$.
- ④ Bring 400 down on the debit side: Leo owes Maya \$400.

A balance brought down on the **debit** side is a **debit balance**; on the credit side, a **credit balance**. An account with equal sides has no balance; just total it or rule it off.

What a balance means

Balance	What it means	Where it goes
Debit on a credit customer's account	The customer owes the business	Trade receivables, current asset
Credit on a credit supplier's account	The business owes the supplier	Trade payables, current liability
Debit on a supplier's account	The business has overpaid or paid in advance	A current asset (like a prepayment)
Credit on a customer's account	The customer has overpaid	A current liability
Debit on bank	Money in the bank	Current asset
Credit on bank	Bank overdraft	Current liability
Debit on cash	Cash in hand (cash can never have a credit balance)	Current asset
Debit on an asset account	The asset's value	Statement of financial position
Credit on capital or a loan	What is owed to the owner or the lender	Statement of financial position

Balance	What it means	Where it goes
Debit on an expense account; credit on an income account	The total for the year	Transferred to the income statement

A credit balance can be a liability, capital or income (including income received in advance); a debit balance can be an asset, an expense, drawings or accrued income.

Reading an account

Read each entry from the side it is on and the account named in the details. On a **customer's** account in Maya's books:

- debit "Sales": Maya sold goods to the customer on credit;
- credit "Sales returns": the customer returned goods to Maya;
- credit "Bank" and "Discount": the customer paid, and Maya **allowed** a cash discount for paying early;
- debit "Balance b/d": the customer owed Maya at that date.

On a **supplier's** account it is the other way round: credit "Purchases", debit "Purchases returns", debit "Bank" and "Discount" (discount **received** by the trader), credit "Balance b/d" (the trader owed the supplier). A discount entered next to a payment is always a **cash** discount, never trade discount.

Transfers to the financial statements

At the end of the financial year:

- **Income and expense accounts are closed off** to the income statement. An expense account's debit total is credited to the expense account and debited to the income statement; an income account's credit total is debited to it and credited to the income statement. Discount received is added to gross profit as other income; discount allowed and general expenses are deducted from gross profit.
- **Inventory account:** the opening inventory is credited to the inventory account and debited to the income statement (cost of sales). The closing inventory is debited to the inventory account and credited to the income statement, then carried down as the new opening balance, a debit (an asset).
- **Capital account:** a profit for the year is credited to capital (debit income statement); a loss is debited to capital (credit income statement). The drawings account is closed by debiting capital and crediting drawings.
- **Assets, liabilities and capital are balanced and carried down;** their balances appear in the statement of financial position.

The divisions of the ledger

A business with many accounts splits the ledger into three parts:

Ledger	Holds the accounts of	Examples
Sales ledger	Credit customers (trade receivables)	Leo, Vik, Priya
Purchases ledger	Credit suppliers (trade payables)	Tomas, Hana, Mei
Nominal (general) ledger	Everything else: income, expenses, assets, liabilities, capital, drawings	Sales, purchases, returns, rent, discounts, motor vehicles, inventory, loan, capital

The **cash and bank accounts** are kept in the **cash book**, which is both a book of prime entry and part of the ledger. So "cash" is not a nominal-ledger account, and an entry in the cash book plus one in a ledger account **is** a complete double entry. Entries in a journal (such as the sales journal) are **not** part of the double entry: they are lists that are later posted to the ledger.

When Maya sells on credit to Leo: debit Leo (sales ledger), credit sales (nominal ledger). When she returns goods to Hana: debit Hana (purchases ledger), credit purchases returns (nominal ledger).

Key facts and formulas

There is no formula list in the IGCSE Accounting exam, so everything here must be learnt.

Formula	Status
Every debit entry has a credit entry of the same amount; total debits = total credits	Learn it
Debit: increase in an asset, expense or drawings. Credit: increase in a liability, capital or income	Learn it
balance c/d = larger side total – smaller side total, written on the smaller side	Learn it
Customer: closing balance = opening + credit sales – returns – receipts – discount allowed + dishonoured cheques	Learn it
Supplier: closing balance = opening + credit purchases – returns – payments – discount received	Learn it
net price = list price $\times$ (1 – trade discount rate); only the net price is recorded	Learn it
Goods taken for own use: debit drawings, credit purchases, at cost	Learn it
Order: documents → books of prime entry → ledgers → trial balance → financial statements	Learn it

How to do it

We have 89 tagged questions for this topic from 2021 to 2025 (58 different, as many appear on two or three paper variants): 77 one-mark multiple-choice questions from Paper 1 and 12 twenty-mark Paper 2 questions where a ledger account is one of the parts. 2 of the 89 mix two types, so the counts add up to 91.

Question type	Questions
Record a transaction: which account is debited and which credited	40
Interpret a ledger account or a balance	23
Prepare a customer's or supplier's account (Paper 2)	10
Divisions of the ledger	7
Prepare a nominal account and make year-end transfers (Paper 2)	4

Question type	Questions
The order of the double entry system	4
Calculate a balance after several transactions	3

1. Record a transaction: which account is debited and which credited (40 questions)

1. **Find whose books** you are in. Read the question's last line ("How did Ada record this?").
2. **Name the two accounts.** Use the account names: a person's name for a credit customer or supplier, "purchases" for goods for resale, the asset's own name for anything kept, "capital" for the owner putting in, "drawings" for the owner taking out.
3. **Decide debit and credit** with the rules table: which account receives the value, which gives it.
4. **Check the amount:** net of trade discount, drawings of goods at cost, a cash discount split off into its own account.

Variations you will meet:

- **Returns.** Goods returned **by** the trader to a supplier: debit supplier, credit purchases returns. Goods returned **to** the trader by a customer: debit sales returns, credit customer. If the question involves a credit note or debit note, first work out who returned goods to whom.
- **With the ledger names.** Some options add the ledger: the supplier's account is in the purchases ledger, purchases returns in the nominal (general) ledger.
- **Dishonoured cheque:** debit customer, credit bank (not irrecoverable debts).
- **Loan received:** debit bank, credit the lender's loan account (not a trade payable).
- **Owner's goods:** debit drawings, credit purchases (not inventory, and not the income statement), at cost plus carriage inwards.
- **The other half of a cash-book entry.** A debit in the bank column means money came into the bank; the credit could be a customer, sales, capital, a loan, or cash (money paid in from the cash till, a contra).

2. Interpret a ledger account or a balance (23 questions)

1. **Identify whose books** and what kind of account it is (customer or supplier, asset or expense).
2. **Read every entry** with the "Reading an account" rules: the side it is on and the account named in the details.
3. **Test each option** against what the entries say, one at a time. Look out for reversed names ("Paul sold goods to Mary" when Mary sold to Paul) and "trade" swapped for "cash" discount.

For example, "Vik account" in Tara's books with debit Balance b/d 180 and Sales 260, and credit Returns 35, Bank 171, Discount 9 and Balance c/d 225. Debit balance b/d: at the start Vik owed Tara \$180. Sales on the debit side: Tara sold to Vik. Returns on the credit side: Vik returned goods to Tara. Bank and discount on the credit side: Vik paid, and Tara allowed him a cash discount. The balance c/d of \$225 is brought down on the debit side, so Vik still owes Tara.

Variations you will meet:

- **"What does a credit (or debit) balance on this account mean?"** Use the balances table. A credit balance on a supplier's account in the purchases ledger: the trader owes the supplier. A debit balance there: the trader overpaid or paid in advance, like a prepayment.
- **"Is the balance an asset, an expense, a liability or revenue?"** A debit balance on a customer's account is an asset (a trade receivable).

- **Net purchases** from an account: credit purchases minus purchases returns ($\$1800 - \$75 = \$1725$). Discount is not part of purchases.
- **End-of-year statements.** Check each against the transfer rules: a customer's debit balance is a current asset; a debit on bank is an asset, not a liability; discount received is other income added to gross profit, not part of cost of sales; general expenses are deducted from gross profit.
- **"The trader credited the income statement and debited capital":** that is a loss for the year (a profit is debit income statement, credit capital).
- **Given the entries, find the transaction.** "Debit bank 388, debit discount allowed 12, credit Ines 400" in Marco's books: Ines (a customer) paid Marco by cheque after taking a cash discount.

3. Prepare a customer's or supplier's account (10 questions)

This is a Paper 2 part worth about 4–7 marks, often after a cash book, petty cash book or journal on the same transactions.

1. **Head the account** with the person's name and set out the two sides: Date, Details, \$ on each.
2. **Enter the opening balance** as "Balance b/d" on the correct side: debit for a customer who owes the trader, credit for a supplier the trader owes.
3. **Go through the transactions in date order.** Enter only those that involve this person, each on the correct side with the other account as the details: sales, sales returns, bank, cash, discount allowed (customer); purchases, purchases returns, bank, cash, petty cash, discount received (supplier).
4. **Leave out** cash purchases or cash sales made with the same person (they do not go through their account), and trade discount (use net amounts).
5. **Balance the account:** totals on the same line, "Balance c/d" on the last day, "Balance b/d" on the first day of the next month.

Variations you will meet:

- **Trade discount and returns.** Goods list price \$240 less 5% trade discount are \$228; returning a quarter of them is \$57 in purchases returns.
- **Paid from petty cash:** the details are "Petty cash".
- **Full settlement less a cash discount.** A customer owing \$840 who pays less 2.5% sends \$819: credit bank \$819 and discount allowed \$21, which together clear the \$840.
- **"Where would this balance appear?"** A customer's debit balance: current assets (trade receivables). A supplier's credit balance: current liabilities (trade payables).

4. Divisions of the ledger (7 questions)

1. **Credit customers** are in the sales ledger; **credit suppliers** in the purchases ledger.
2. **Everything else** except cash and bank is in the nominal (general) ledger: sales, purchases, returns, expenses, income, discounts, non-current assets, inventory, loans, capital, drawings.
3. **Cash and bank** are in the cash book.

Variations you will meet:

- **"Which account is not kept in the nominal ledger?"** Cash (it is in the cash book).
- **Where the other half goes.** From a list of cash-book entries, the ones posted to the nominal ledger are payments of expenses, cash sales and similar. A receipt from a credit customer is posted to the **sales ledger**.

- **Where does the seller record a credit sale?** In the nominal ledger (sales) and the sales ledger (the customer), not the cash book or purchases ledger.

5. Prepare a nominal account and make year-end transfers (4 questions)

1. **Open with the balance at the start of the year**, if any, on its usual side.
2. **Post the totals**, not individual items: the purchases journal total to purchases ("Credit purchases for month"), the petty cash analysis column total to its expense account.
3. **Make the year-end transfer**: expenses and income to "Income statement"; for inventory, opening inventory out to the income statement and closing inventory in from it; for capital, profit in and drawings out.
4. **Balance and bring down** anything that remains (inventory, capital, an asset).

For example, a purchases account with \$5140 of purchases so far this year, \$96 of goods bought by bank transfer and a purchases journal total of \$1224 for the month is debited with all three and balanced at \$6460.

Variations you will meet:

- **Inventory account over a year**: debit Balance b/d (opening); credit Income statement (same figure); debit Income statement (closing inventory); credit Balance c/d; then debit Balance b/d on the first day of the next year.
- **Capital account**: credit Balance b/d, credit Income statement (profit), debit Drawings, then balance.
- **Entries from a petty cash book** ("record the entries in the postage account and a supplier's account"): debit postage with the postage column total; debit the supplier with the amount paid to them. Petty cash is the credit side of both.

6. The order of the double entry system (4 questions)

1. **Business documents** (invoices, credit notes, receipts) are the source.
2. They are listed in the **books of prime entry** (journals, cash book).
3. From these the entries are **posted to the ledgers**.
4. The ledger balances are listed in a **trial balance**, which leads to the financial statements.

Any option that starts with the ledger or the trial balance, or puts the documents after the journals, is wrong.

Variation you will meet: "Which is an example of double entry?" An entry in the cash book and one in a ledger account (because the cash book is part of the ledger), not an entry in a journal and a ledger, and not a journal entry on its own.

7. Calculate a balance after several transactions (3 questions)

1. **Draw a quick T-account** for the person, in the books asked about, starting with the opening balance on its correct side.
2. **Enter each transaction** that goes through this account; skip cash transactions that do not.
3. **Balance it** and say which way the balance runs (who owes whom).

Variations you will meet:

- **A cash purchase from a supplier** does not go in the supplier's account. Raj owes his supplier Mei \$610, returns goods of \$45 to her and buys \$180 of goods from her for cash: Raj owes Mei $610 - 45 = 565$, that is \$565.
- **Statement of account**. A debit note received and a credit note issued for the **same** return are one event: count it once. Opening \$380, invoice \$290, payment \$392 plus discount \$8, return \$60: $380 + 290 - 392 - 8 - 60 = 210$, so the statement shows \$210.

- **Total owed to suppliers:** opening + credit purchases – returns – payments – discount received, for example $7200 + 8400 - 350 - 6900 - 150 = 8200$, so \$8200 is owed.

Worked examples

The bold codes show where marks are earned, as in Cambridge mark schemes. The number is how many marks.

- **B1** mark for a correct result on its own, with no method needed.

Example 1

Nadia owed her credit supplier, Kwame, \$500. She paid him \$490 by bank transfer in full settlement. Which entries did Nadia make? **[1]**

	debit	credit
A	Kwame \$500	bank \$490, discount received \$10
B	Kwame \$490, discount allowed \$10	bank \$500
C	bank \$490, discount received \$10	Kwame \$500
D	Kwame \$490	bank \$490

Kwame's account must be cleared, so it is debited with the full \$500. The bank gives \$490 (credit), and the \$10 not paid is a discount **received** by Nadia, which is income (credit). **Answer A B1**

(C puts every entry on the wrong side; D forgets the discount, leaving \$10 still owed.)

Example 2

The following account appeared in Hari's books.

Deepa account

Date	Details	\$	Date	Details	\$
June 1	Balance b/d	750	June 5	Sales returns	40
12	Sales	320	18	Bank	690
				Discount allowed	20
			30	Balance c/d	320
		1 070			1 070

Which statement is correct? **[1]**

A On 1 June, Hari owed Deepa \$750. B On 5 June, Hari returned goods to Deepa. C On 18 June, Deepa received a discount for paying promptly. D On 1 July, Hari owed Deepa \$320.

This is a customer's account (sales on the debit side). A: the debit balance means Deepa owed Hari. B: sales returns on the credit side means Deepa returned goods to Hari. C: Hari allowed Deepa a cash discount for paying early, true. D: the \$320 is brought down on the debit side, so Deepa owes Hari. **Answer C B1**

Example 3

Leila buys goods on credit from Tomas, who allows her a trade discount of 10%. On 1 May 2026 Leila owed Tomas \$640. During May:

- May 4: paid Tomas the amount owed on 1 May by bank transfer, less 2.5% cash discount
- May 11: bought goods, list price \$900, on credit from Tomas
- May 15: returned goods, list price \$120, bought on 11 May
- May 29: bought goods, list price \$500, on credit from Tomas

(a) Prepare Tomas's account in Leila's books for May 2026. Balance the account and bring down the balance on 1 June 2026. [7]

(b) State what the balance on 1 June represents and where it appears in Leila's statement of financial position. [2]

(a) Workings: payment $640 \times 97.5\% = 624$, discount $640 - 624 = 16$; purchases $900 \times 90\% = 810$ and $500 \times 90\% = 450$; returns $120 \times 90\% = 108$.

Tomas account

Date	Details	\$	Date	Details	\$
2026			2026		
May 4	Bank	624	May 1	Balance b/d	640
	Discount received	16	11	Purchases	810
15	Purchases returns	108	29	Purchases	450
31	Balance c/d	1 152			
		1 900			1 900
			June 1	Balance b/d	1 152

B1 opening balance on the credit side; **B1** bank \$624; **B1** discount received \$16; **B1** both purchases at net prices; **B1** purchases returns \$108; **B1** balance b/d \$1152 on the credit side (follows through from your own figures); **B1** dates.

(b) Leila owes Tomas \$1152 **B1**. It is a trade payable, shown under current liabilities **B1**.

Example 4

Arun's financial year ended on 31 December 2025. On 1 January 2025 his capital was \$52 000. On 1 July 2025 he brought his own car, valued at \$8000, into the business. During the year he withdrew \$10 500 in cash and took goods costing \$800 for his family. His profit for the year was \$14 600.

(a) State the double entry for the goods taken for his family. [1]

(b) Prepare Arun's capital account for the year. Balance the account and bring down the balance on 1 January 2026. [5]

(a) Debit drawings \$800, credit purchases \$800 (at cost). **B1**

(b) Drawings for the year = $10\,500 + 800 = 11\,300$, transferred to capital at the year end.

Capital account

Date	Details	\$	Date	Details	\$
2025			2025		
Dec 31	Drawings	11 300	Jan 1	Balance b/d	52 000
	Balance c/d	63 300	July 1	Motor vehicle	8 000
			Dec 31	Income statement	14 600
		74 600			74 600
			2026 Jan 1	Balance b/d	63 300

B1 motor vehicle \$8000; **B1** income statement \$14 600; **B1** drawings \$11 300 on the debit side; **B1** balance b/d \$63 300 (follows through); **B1** dates.

Common mistakes

- **Reversing the account.** Examiners regularly see a supplier's account written as if it were a customer's, with purchases on the debit side, or "sales" and "sales returns" used in a supplier's account. Decide first whether the person is a customer or a supplier.
- **Recording trade discount.** Only the net amount goes in the ledger. Examiners report many candidates entering gross amounts or a separate "trade discount" line.
- **Forgetting the cash discount.** When a payment is "in full settlement" or "less 3%", the discount must go in the account too, or the account will not clear.
- **Vague details.** "Payment for rent", "credit purchases" or "purchase ledger" earn nothing; the details must be the exact name of the other account ("Rent", "Purchases", or the supplier's name). If a payment was in cash, write "Cash", not "Bank".
- **Missing dates or abbreviations.** Every entry needs a date. Write "Balance b/d" and "Balance c/d", not just "b/d".
- **Treating a dishonoured cheque as an irrecoverable debt.** The customer simply owes the money again: debit customer, credit bank.
- **Goods for own use at selling price.** Drawings of goods are at cost (plus carriage inwards), credited to purchases.
- **Putting cash sales, credit purchases or cash purchases in the wrong account.** Cash transactions never pass through a customer's or supplier's personal account, and credit transactions never go in the cash book.
- **Posting individual items to a nominal account** instead of the journal total, or leaving out the purchases made by bank transfer.
- **Counting one return twice** (the debit note and the credit note describe the same goods).

How to get the marks

- **Multiple choice** gives one mark for the letter. Write your own debit and credit (or your own T-account) **before** looking at the options, then find the match.
- **Ledger accounts** earn a mark for each correct entry: right side, right amount, right details. A separate mark is often given for the dates, so date every line, including the balances.

- **Balancing:** totals on the same line on both sides, "Balance c/d" on the last day of the period, "Balance b/d" on the first day of the next. The closing balance is usually a follow-through mark: if an earlier entry is wrong but you balance correctly, you still get it.
- **Details:** the name of the other account, spelt out. For a customer or supplier, the person's name.
- **"Prepare the account ... as it would appear in the books of X":** work in X's books; the other person's account in X's books is the mirror image of X's account in theirs.
- **"State" or "Name the section heading"** needs a short exact answer, such as "Current assets" or "Bank overdraft".
- You never need folio columns or a running-balance column.

Quick check

1. State the account debited and the account credited in a trader's books: (a) the owner pays \$2000 of his own money into the business bank account; (b) goods bought on credit from Zara, \$300; (c) a cheque for \$150 from Omar, a credit customer, is dishonoured; (d) rent of \$400 paid in cash; (e) the owner takes goods costing \$60 for his own use.
2. Name the ledger in which each account is kept: (a) Zara (a credit supplier); (b) rent; (c) Omar (a credit customer); (d) motor vehicles.
3. A customer's account has debit entries: balance b/d \$300, sales \$560, sales \$240; and credit entries: bank \$294, discount allowed \$6, sales returns \$80. Find the balance and say what it means.
4. Sim's purchases ledger shows a debit balance of \$45 on a supplier's account. What does it mean, and how is it shown in the statement of financial position?
5. At the year end, the rent received account has a credit total of \$4800. Give the transfer entry and say how it affects the income statement.

Answers

1. (a) Debit bank, credit capital. (b) Debit purchases, credit Zara. (c) Debit Omar, credit bank. (d) Debit rent, credit cash. (e) Debit drawings, credit purchases.
2. (a) Purchases ledger. (b) Nominal (general) ledger. (c) Sales ledger. (d) Nominal (general) ledger.
3. Debit side $300 + 560 + 240 = 1100$; credit side $294 + 6 + 80 = 380$. Balance c/d on the credit side $= 1100 - 380 = 720$, brought down as a debit balance of \$720: the customer owes the trader \$720 (a trade receivable, current asset).
4. Sim has paid the supplier \$45 more than she owed (or paid in advance). It is a current asset, like a prepayment, not a trade payable.
5. Debit rent received \$4800, credit income statement \$4800. It is added to gross profit as other income.

Past questions to try

- 0452/22/O/N/24 Q1: a customer's account after a cash book, with a cash discount and returns.
- 0452/23/M/J/23 Q1: a supplier's account with payments, discount received and purchases.
- 0452/22/F/M/24 Q4: inventory and capital accounts with year-end transfers.
- 0452/13/O/N/22 Q7: recording a dishonoured cheque.