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Topic 4

Ledger and trial balance

After studying this chapter, you should be able to:

- explain the double entry system,
- explain what the effect of transactions on the accounting equation are,
- record transactions in the general ledger;
- balance the ledger accounts;
- distinguish between balance sheet accounts and nominal accounts.

4.1 Introduction

Every transaction involves two different accounts in the general ledger. An account is used to record transactions that increase or decrease a particular asset, liability or owner's equity item.

You must know the following **five rules** to understand how the ledger accounts are completed. You must apply these rules to determine which account is debited and which account is credited.

- Assets increase on the debit side and decrease on the credit side.
- Expenses increase on the debit side and decreases on the credit side.
- Income increases on the credit side and decreases on the debit side.
- Liabilities increase on the credit side and decreases on the debit side.
- Equity increases on the credit side and decreases on the debit side.

***Assets and expenses* increase on debit side.**	***Liabilities and income increase on the credit side***

General ledger accounts are done in T-format. The debit side is on the left-hand side of the account and the credit side on the right-hand side of the account.

General ledger

Dr	**Assets**	**Cr**	**Dr**	**Liabilities**	**Cr**
Balance +				Balance	+
Dr	**Expenses**	**Cr**	**Dr**	**Income**	**Cr**
Balance +				Balance	+
-			**Owner's equity**		**+**
Dr	**Drawings**	**Cr**	**Dr**	**Capital**	**Cr**
Balance +				Balance	+
Dr	**Expenses**	**Cr**	**Dr**	**Income**	**Cr**
Balance +				Balance	+

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Use the word ALICE to remember which accounts increase on the debit side and which accounts increase on the credit side.

The first letter of the word (A - assets) and the last letter of the word (E – expenses) increases on the debit side of the ledger account.

Increase on debit side

A L I C E

Increase on credit side

The letters in the middle of the word (L – liabilities), (I – income) and (C – capital) increases on the credit side of the ledger account.

Owner's equity is affected by the capital, drawings, income and expense account.

- When any of these four accounts are debited, owner's equity is reduced.
- When any of these four accounts are credited, owner's equity is increased.

4.2 General ledger account

General ledger accounts are done in T-form. The debit side is on the left-hand side of the account while the credit side is on the right-hand side of the account.

Belinda Stores (a) **General ledger**							
Balance sheet accounts section (b)							
Dr/Debit (c)			**(e) Bank**			**(f) B1**	**(d) Cr/Credit**
Date	Details/Contra account	Fol	Amount	Date	Details/Contra account	Fol	Amount

The following information must appear in the T-account in the general ledger:

(a) Name of the business and general ledger to indicate you are completing the general ledger accounts of Belinda Stores.

(b) The general ledger is divided in two sections:
Balance sheet accounts section – includes equity, assets and liabilities accounts.
Nominal accounts section – includes income and expenses.
The balance sheet accounts section is completed and then the nominal accounts section.

(c) Debit – on the left-hand side of the account.

(d) Credit – on the right-hand side of the account.

(e) Name of the account.

(f) The account-number. B1 indicates the account is in the balance sheet accounts section.
N1 indicates the account is in the nominal accounts section.

4.3 The double entry system

Because each transaction affects two accounts, two entries must be recorded for each transaction. One entry is recorded on the debit side of an account and the other entry is recorded on the credit side of another account.
It is obvious that if we add all the debit entries, the total must correspond with the total of all the credit entries.

To complete a double entry, you must:

- Determine the effect of the transaction on the accounting equation.

- Identify the accounts which will have the desired effect on the equation.
- Determine which account must be debited and which account must be credited.
- Indicate the contra ledger account by showing the name of the in the detail column.
- Ensure that the amount debited is equal to the amount credited.
- Show the date on which the transaction took place.

Question 1

What is the double entry system?

Question 2

How do you determine whether the account must be debited or credited?

	Debit side	Credit side
Assets		
Expense		
Liabilities		
Income		
Capital		
Drawings		

Example 1

The information was obtained from the accounting records of White Hairdresser for June 2024:

June 1 Issued a receipt for R20 000✶ to Dan White, the owner, for his capital contribution.
3 Issued an EFT for R4 000❖ to Quality Equipment for equipment purchased.
6 Issued an EFT for R3 200◎ to Hair Supplies for consumable stores.
8 Services rendered according to the cash register roll, R780.⌘

White Hairdresser **General ledger**							
Balance sheet accounts section							
Dr/Debit			**Capital**			**B1**	**Cr/Credit**
Date	**Details/Contra account**	**Fol**	**Amount**	**Date**	**Details/Contra account**	**Fol**	**Amount**
				Jun 1	Bank✶		20 000
			Equipment			**B2**	
Jun 3	Bank❖		4 000				
			Bank			**B3**	
Jun 1	Capital✶		20 000	Jun 3	Equipment❖		4 000
8	Services rendered⌘		780	6	Consumable stores◎		3 200
Nominal accounts section							
			Services rendered			**N1**	
				Jun 8	Bank⌘		780
			Consumable stores			**N2**	
Jun 6	Bank◎		3 200				

You must determine which account must be debited and which account must be credited.

✶ Money received in the business will increase the money in the bank. Bank is an asset. Assets increase on the debit side. Capital is credited because equity increases on the credit side.

- The word on the debit side "capital" of the bank account indicates that the double entry is completed in the capital account on the credit side.

- The word on the credit side "bank" of the capital account indicates that the double entry is completed on the debit side of the bank account.

❖ Money is paid out of the bank. Bank is an asset. Assets decrease on the credit side. Equipment is an asset. Assets increase on the debit side.
  - The word "equipment" on the credit side of the bank indicates that the double entry is completed on the debit side of the equipment account.
  - The word "bank" on the debit side of the equipment account indicates that the double entry is completed on the credit side of the bank account.

Example 2

The information was obtained from the accounting records of Belinda Stores for May 2024:

1. The owner deposited R5 000 in the bank as capital contribution.
2. Bought cleaning materials with an EFT for R900.
3. Withdraw R60 to purchase stationery.
4. Paid R480 with an EFT to P. Steyn for a chair purchased.
5. Paid the telephone account with an EFT, R120.
6. Bought cleaning materials and paid R400 with an EFT.
7. Issued an invoice for R200 to K. Koen for services rendered.
8. Issued an EFT for R90 to pay the owner's personal telephone account.
9. Issued an EFT for R990 for a desk purchased from P Steyn.
10. Issued an EFT for R670 to pay the rent.

Belinda Stores General ledger							
Balance sheet accounts section							
Dr/Debit (Equity)				**Capital**		**B1**	**C r/Credit**
				May 1	Bank		5 000
				Drawings		**B2**	
May 8	Bank		90				
				Equipment		**B3**	
May 4	Bank		480				
9	Bank		990				
				Bank		**B4**	
May 1	Capital		5 000	May 2	Cleaning materials		900
7	Services rendered		200	3	Stationery		60
				4	Equipment		480
				5	Telephone		120
				6	Cleaning materials		400
				8	Drawings		90
				9	Equipment		990
				11	Rent		670
				Cleaning materials		**N1**	
May 2	Bank		900				
6	Bank		400				
				Stationery		**N2**	
May 3	Bank		60				
				Telephone		**N3**	
May 5	Bank		120				
				Services rendered		**N4**	
				May 7	Bank		200
				Rent		**N5**	
May 11	Bank		670				

Example 3

Trade discount on bulk purchases

On 1 May 2024 Mamelodi Fashions purchased material for, R8 000. Received 10% trade discount.

Normal price	=	8 000	=	8 000
Trade discount	=	8 000 x 10%	=	(800)
Cash purchase price	=		=	7 200

Deduct the trade discount from the purchase price. Complete an entry for R7 200 because that is the purchase price the business will pay. Trade discount is not recorded.

Mamelodi Fashions
General ledger

(Asset)			**Bank**				
				May 1	Consumable stores		7 200

(Expense)			**Consumable stores**				
May 1	Bank		7 200				

Example 4

Cash discount on cash purchases

On 1 May 2024 Mamelodi Fashions purchased material for R4 000. Received 5% cash discount.

Normal price	=	4 000	=	4 000
Cash discount	=	4 000 x 5%	=	(200)
Cash purchase price	=		=	3 800

Deduct the cash discount. Complete an entry for R3 800, because that is the purchase price that the business will pay. Cash discount is not recorded.

Mamelodi Stores
General ledger

(Asset)			**Bank**				
				May 1	Consumable stores		3 800

(Expense)			**Consumable stores**				
May 1	Bank		3 800				

Question 3

Why is there no entry for cash discount and trade discount?

4.4 Source documents

For every transaction a source document is involved.

The following documents are examples of source documents used:

- A bank deposit slip is used when money is deposited in the bank.
- A cash register roll or cash invoice is used for cash sales.
- A receipt is issued as proof of payment when money is received.
- An EFT is used when payments are made. A bank statement is used to record payments.
- A bank statement is used when an EFT is made for receipts and payments.

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Question 4

Name the source document used for the following transactions:

Withdraw cash at the ATM.	
Receive R1 299 from the Florist for the monthly rent.	
EFT to pay electricity	
Cash sales	
Money deposited in the bank	

Question 5

The information was obtained from the records of Norman Plumbers for May 2024:

Transactions

1. Issued a receipt for R20 000 to the owner for his capital contribution.
2. Use an EFT to purchase plumbing material, R4 000 less 20% trade discount.
3. Issued a receipt for R1 060 to Protea Florist for rent for part of the building.
4. Paid the telephone account with an EFT to Telkom, R210.
8. Services rendered, R5 700 to P Venter.
9. Issued an EFT for equipment purchased, R1 500 less 10% cash discount.
10. Use an EFT for R200 for the personal use of the owner.
15. Use an EFT to withdraw money to pay wages, R840.
18. According to the cash register roll services were rendered for R6 500.
24. Issued an EFT for R890 to SANLAM for the monthly payment on insurance.

Prepare the accounts in the general ledger of Norman Plumbers.

Norman Plumbers							
General ledger							
Dr/Debit (Equity)			**Capital**			**B1**	**Cr/Credit**
(Equity)			**Drawings**			**B2**	
(Asset)			**Equipment**			**B3**	
(Asset)			**Bank**			**B4**	
(Expense)			**Plumbing parts**			**N1**	
(Expense)			**Insurance**			**N2**	
(Income)			**Services rendered**			**N3**	
(Expense)			**Telephone**			**N4**	
(Expense)			**Wages**			**N5**	
(Income)			**Rent income**			**N6**	

Question 6

The information was obtained from the records of Monica Hairdresser for May 2024.

Transactions

1. Issued a receipt for R24 000 to Monica Louw, the owner, for her capital contribution.
2. Services rendered to W Matopa, R1 200.
3. Use an EFT to purchase equipment from Mbethe Stores for R3 000 less 20% trade discount.
4. Use an EFT for R3 700 to purchase consumable stores.
5. Paid the water and electricity with an EFT, R480.
6. Use an EFT to withdraw money to pay wages, R180.
7. Received R1 830 cash from Rose Florists for rent of part of the building.
8. EFT for R3 200 to Maila Dealers for consumable stores purchased.
19. Services rendered according to the cash register roll, R3 100.
20. The owner used an EFT to withdraw money for his personal use, R300.
24. Transfer money with an EFT for the purchase of consumable stores R1 500 less 20% trade discount.

Prepare the entries in the ledger accounts in the general ledger of Monica Hairdresser.

Monica Hairdresser							
General ledger							
Dr/Debit	**(Equity)**			**Capital**		**B1**	**Cr/Credit**
(Equity)				**Drawings**		**B2**	
(Asset)				**Equipment**		**B3**	
(Asset)				**Bank**		**B4**	
(Expense)				**Consumable stores**		**N1**	
(Expense)				**Water and electricity**		**N2**	
(Income)				**Services rendered**		**N3**	
(Expense)				**Wages**		**N4**	
(Income)				**Rent income**		**N5**	

4.5 Balancing the general ledger accounts

4.5.1 Amounts written on both the debit and credit side of an account

To determine a balance in the general ledger, the total of the smaller side (R7 000) must be subtracted from the bigger total on the other side. (R30 130)✶

The difference between the debit and credit side is the balance of the account. (R30 130 – R7 000 = R23 130)❖ When the balance is written on the side with the smaller amount, the totals on both sides will be the same.✶

These totals must be written on the same line on both sides of the account. The balance is brought down below the total on the opposite side of the account as a contra entry.⌘

If the total on the debit side is higher than the credit side, the account has a debit balance, but the balance is first written on the credit side to balance the account (above the total) before it is brought down on the debit side (below the total).

If the credit side is bigger than the debit side, the account has a credit balance, but the balance is first written on the debit side to balance the account (above the total) before it is brought down on the credit side (below the total).

Monica Hairdresser
General ledger

(Asset)			**Bank**				**B4**
May 1	Capital		24 000	May 4	Consumable stores		3 700
8	Rent income		1 830	5	Water and electricity		480
20	Services rendered		3 100	6	Mbethe Stores		1 200
26	W Matoba		1 200	7	Wages		180
				21	Drawings		300
				24	Consumable stores		1 140
				31	Balance❖	c/d	23 130
			✶30 130				✶30 130
Jun 1	Balance	b/d	⌘23 130				

4.5.2 The same amount on both the debit and credit side of an account

When the same amount is written on both the debit and credit sides of an account, a double line may be drawn under these two amounts as it is not necessary to total the account.

Monica Hairdresser
General ledger

(Asset)			**P Brown**				**B4**
May 1	Services rendered		2 000	May 4	Bank		2 000

4.5.3 The total of several amounts on both sides of an account

When the total of several amounts on the debit side corresponds with the total of the amounts on the credit side, the totals must be written in the same line on both sides of the account.

Monica Hairdresser
General ledger

(Asset)			**P Brown**				**B4**
May 1	Services rendered		2 000	May 24	Bank		3 800
10	Services rendered		1 800				
			3 800				3 800

4.5.4 Only one amount in an account

When only one amount is written on one side of the account, double lines should not be drawn under the amount.

Monica Hairdresser
General ledger

(Asset)			**P Brown**				**B4**
May 1	Services rendered		2 000				

4.5.5 Amounts only on one side of an account

When all the amounts are written on one side of the account, the amounts must be added. The total must be written down but should not be followed by a double line.

Monica Hairdresser
General ledger

(Asset)			**P Brown**				**B4**
May 1	Services rendered		2 000				
8	Services rendered		600				
16	Services rendered		1 800				
			4 400				

4.6 Grouping of ledger accounts

The general ledger is grouped into two sections, namely the balance sheet accounts section and the nominal accounts section. The equity accounts (capital and drawings), asset accounts and liabilities accounts are recorded in the balance accounts section while the income and expenses accounts are recorded in the nominal accounts section.

4.7 Trial balance

According to the double entry principle every transaction will have dual effect on the accounting equation. After a transaction was completed on the debit side and the credit side of another account the accounting equation must remain in equilibrium. The total of the debit balances must equal the total of the credit balances on the general ledger accounts. The listing which is prepared to show the debit and credit balances in the general ledger at a specified date is called a trial balance.

A trial balance is completed at the end of the month to determine whether any mistakes were made. All the balances in the general ledger accounts are recorded in the trial balance. Balances on the debit side of the ledger accounts are entered on the debit side of the trial balance, Balances on the credit side of the ledger accounts are entered on the credit side of the trial balance. If a double entry was completed for each transaction and no mistakes were made in the posting of the amounts, the totals of the debit side and credit side of the trial balance are the same.

The trial balance begin with the balance sheet accounts section and then continue with the nominal accounts section. The general ledger accounts are listed on the trial balance in the same sequence as they appear in the general ledger.

Using the trial balance, you can determine if the double entry system was used for all the entries. If the total of the debit column and credit column in the trial balance is the same, you know that the double entry system was correctly used. If the total of the debit column and credit column in the trial balance is **not** the same, a mistake occurred, and the double entry system was **not** correctly used.

When the trial balance does not balance, you must investigate to determine where mistakes were made. The following is possible mistakes in the general ledger:

- A double entry was not completed.
- Both entries were recorded on the same side of the ledger.
- Errors in amounts posted.
- Transfer errors from the journals to the ledger.
- Transfer errors from the ledger to the trial balance.

Question 7

What is the purpose of the trial balance?

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Question 8

How is a trial balance prepared?

Example 5

The following information was obtained from the accounting records of Menlyn Electricians.

Menlyn Electricians
General ledger
Balance sheet accounts section

				Capital				**B1**	
					June	1	Bank	CRJ	20 000
				Deposit: Electricity				**B2**	
June	2	Bank	CPJ	400					
				Equipment				**B3**	
June	8	Bank	CPJ	1 400					
				Bank				**B4**	
June	30	Total receipts	CRJ	32 000	June	30	Total payments	CPJ	16 350
							Balance	c/d	15 650
				32 000					32 000
July	1	Balance	b/d	✶15 650					
Nominal accounts section									
				Services rendered				**N1**	
					June	30	Bank	CRJ	12 000
				Rent expense				**N2**	
June	11	Bank	CPJ	830					
				Service parts				**N3**	
June	30	Bank	CPJ	11 800					
				Wages				**N4**	
June	30	Bank	CPJ	1 560					
				Telephone				**N5**	
June	19	Bank	CPJ	280					
				Postage				**N6**	
June	19	Bank	CPJ	80					

When all the double entries were completed, the total on the debit and credit side of the trial balance will be equal. Balances on the credit side of the ledger is recorded in the credit column of the trial balance. Balances on the debit side of the ledger is recorded in the debit column of the trial balance. When a balance must be calculated in the account because there is debit and credit entries in the account, the balance brought down on the debit side below the total will be recorded on the debit side in the trial balance.✶

Complete the trial balance on 30 June 2024.

Menlyn Electricians Trial balance on 30 June 2024			
		Debit	**Credit**
Balance sheet accounts section			
Capital	B1		20 000
Deposit: Electricity	B2	400	
Equipment	B3	1 400	
Bank	B4	✶15 650	
Nominal accounts section			
Services rendered	N1		12 000
Rent expense	N2	830	
Service parts	N3	11 800	
Wages	N4	1 560	
Telephone	N5	280	
Postage	N6	80	
		32 000	32 000

Question 9

The information was obtained from the accounting records of Menlyn Hairdresser. The following balances appeared in the general ledger of Menlyn Hairdresser.

Capital	B1	40 000
Petty cash	B2	800
Equipment	B3	2 800
Bank	B4	31 300
Services rendered	N1	24 000
Rent expense	N2	1 630
Service parts	N3	23 600
Wages	N4	3 120
Telephone	N5	590
Postage	N6	160

Complete the trial balance on 30 June 2024.

Menlyn Hairdresser Trial balance on 30 June 2024			
Balance sheet accounts section		**Debit**	**Credit**
Capital	B1		
Petty cash	B2		
Equipment	B3		
Bank	B4		
Nominal accounts section			
Services rendered	N1		
Rent expense	N2		
Service parts	N3		
Wages	N4		
Telephone	N5		
Postage	N6		

Question 10

The information was obtained from the accounting records of Menlyn Garden Services. The following balances appeared in the general ledger of Menlyn Garden Services.

Capital	?	Current income	530 000
Drawings	134 980	Material cost	6 300
Equipment	150 000	Wages	96 000
Vehicles	240 000	Telephone	8 350
Bank (credit)	42 000	Stationery	470
Cash float	600	Vehicle expense	40 000

Petty cash	800	Insurance	2 600
Commission income	40 000	Consumable stores	1 240

NB: Remember to split the balance sheet accounts section and nominal accounts section. Decide whether the account has a debit or credit balance to record the balances on the correct side.

Assets and expenses increase on the debit side and have debit balances.
Liabilities and income increase on the credit side and have credit balances.
Equity increases on the credit side. Capital will increase on the credit side. Drawings reduce equity and will have a debit balance.

To determine the capital balance, you must determine the total on the debit side of the trial balance. Subtract the amounts on the credit side to determine the capital balance.

Menlyn Garden Services **Trial balance on 30 June 2024**			
Balance sheet accounts section		**Debit**	**Credit**
Capital	B1		
Drawings	B2		
Equipment	B3		
Vehicles	B4		
Bank	B5		
Cash float	B6		
Petty cash	B7		
Nominal accounts section			
Commission income	N1		
Current income	N2		
Material cost	N3		
Wages	N4		
Telephone	N5		
Stationery	N6		
Vehicle expenses	N7		
Insurance	N8		
Consumable stores	N9		

Question 11

The information was obtained from the owner of Oscar Plumbing Services. He has no knowledge of accounting and recorded the balances that appeared in the general ledger. According to the bank statement received on 30 June 2024 he has favourable balance of R12 780 in his bank account.

Oscar Plumbing Services **Trial balance on 30 June 2024**			
		Debit	**Credit**
Balance sheet accounts section			
Capital	B1		68 500
Drawings	B2	?	
Equipment	B3	150 000	
Vehicles	B4	240 000	
Bank	B5	?	
Loan: ABSA	B6	60 000	
Petty cash	B7		800
Nominal accounts section			
Rent income	N1	4 600	
Current income	N2		530 000
Material cost	N3	6 300	
Wages	N4	96 000	
Telephone	N5		8 350
Vehicle expenses	N6	44 600	
Consumable stores	N7		1 710

Correct the trial balance on 30 June 2024 recording the balances on the correct side of the trial balance. He takes money for his personal use when he needs money but never record the amounts taken. The balancing figure in the trial balance will indicate the amount he took for his own use.

Oscar Plumbing Services Trial balance on 30 June 2024			
		Debit	**Credit**
Balance sheet accounts section			
Capital	B1		
Drawings	B2		
Equipment	B3		
Vehicles	B4		
Bank	B5		
Loan: ABSA	B6		
Petty cash	B7		
Nominal accounts section			
Rent income	N1		
Current income	N2		
Material cost	N3		
Wages	N4		
Telephone	N5		
Stationery	N6		
Consumable stores	N7		

Example 6

The following information for May 2024 was extracted from the records of Molefi Fashions.

1 S. Molefi deposited R80 000 in the bank as capital contribution.
2 Transfer R25 880 with and EFT to Alpha Agents for a building purchased.
3 Issued EFT's for the following payments:

Deposit for water and electricity	210⓿
Equipment	1 525❶
Stationery	182❷
Advertising	120❸
Consumable stores	3 200❹

5 Issued cash register roll for services rendered, R670. ❺
10 S. Molefi increased his capital by depositing R2 300❼ in the bank account of the business.
11 Protea Florist rents part of the building❽ Issued a receipt for R240 for rent..
Services rendered for cash, R300❾.
13 Issued an EFT to Office Equipment as payment for equipment, R382.
15 Issued a cash invoice for services rendered, R110.🔔
18 Sub-let a portion of the building and received rent from Quick Agents, R95✆.
20 Transfer R32🖰 with an EFT for receipt books printed by Eastlynn Printers.
29 Withdraw money with an EFT to pay wages, R103✍.

Complete the following in the accounting records of Molefi Enterprises:

1. Prepare the double entries for the transactions in the general ledger.
2. Prepare a trial balance on 31 May 2024.

Molefi Fashions General ledger							
Balance sheet accounts section							
			Capital				**B1**
				May 1	Bank		80 000
				10	Bank		2 300❼
							❖82 300

Buildings							**B2**
May 3	Bank		❖25 880				
Equipment							**B3**
May 2	Bank		1 525❶				
13	Bank		382✐				
			❖1 907				
Bank							**B4**
May 1	Capital		80 000	May 2	Buildings		25 880
5	Services rendered		670❺	3	Deposit: water and electricity		210❿
10	Capital		2 300❼		Equipment		1 525❶
11	Rent income		240❽		Stationery		182❷
	Services rendered		300❾		Advertising		120❸
15	Services rendered		110🔔		Consumable stores		3 200❹
18	Rent income		95☽	13	Equipment		382
				20	Stationery		32🖰
				29	Wages		103✍
				31	Balance	c/d	52 081
			83 715				83 715
Jun 1	Balance	b/d	❖52 081				
Deposit: water and electricity							**B5**
May 3	Bank		❖210❿				
Nominal accounts section							
Rent income							**N1**
				May 11	Bank		240❽
				18	Bank		95☽
							❖335
Stationery							**N2**
May 3	Bank		182❷				
20	Bank		32🖰				
			❖214				
Advertising							**N3**
May 3	Bank		❖120❸				
Consumable Stores							**N4**
May 3	Bank		❖ 3 200❹				
Services rendered							**N5**
				May 5	Bank		670❺
				11	Bank		300❾
				15	Bank		110🔔
							❖1 080
Wages							**N6**
May 29	Bank		❖103✍				

❖ All the amounts marked will be recorded in the trial balance on the same side as the balances in the general ledger. A balance on the debit side is recorded on the debit side and a balance on the credit side is recorded on the credit side of the trial balance.

Molefi Fashions
Trial balance on 31 May 2024

Details	Fol	Debit	Credit
Balance sheet accounts section			
Capital	B1		82 300
Buildings	B2	25 880	
Equipment	B3	1 907	
Bank	B4	52 876	
Deposit: Water and electricity	B5	210	

Nominal accounts section			
Rent income	N1		335
Stationery	N2	214	
Advertising	N3	120	
Consumable stores	N4	3 200	
Services rendered	N5		1 080
Wages	N6	103	
		83 713	83 715

SUMMARY			
Debit	**ASSETS**		**Credit**
+			-
Debit	**EQUITY**		**Credit**
-			+
Debit	**LIABILITIES**		**Credit**
-			+
Debit	**EXPENSES**		**Credit**
+			
Debit	**INCOME**		**Credit**
			+

Question 12

The following information was obtained from the accounting records of Storm Plumbers.

Transactions

1. Services rendered to J. Maja, R800.
2. Issued an EFT to Sekelo Stores for plumbing material R8 000 less 20% trade discount.
3. Direct deposit in the bank account of Storm Plumbers for R760 from Mouton Electricians for the rent for the month.
4. Use an EFT to buy stationery for R86.
5. Use an EFT for R6 600 for equipment purchased.
6. The owner withdrew R300 for his personal use.
7. The owner deposited R20 000 to increase his capital contribution.
8. Use an EFT to transfer R180 to the City Council to pay electricity.

14. The owner issued an EFT for R150 as a donation on behalf of the business to the school.
17. Services rendered according to cash register roll, R3 600.
20. Paid R3 800 to GWA Suppliers with an EFT for plumbing material purchased.
21. Pay R600 with an EFT to Old Mutual for the monthly insurance premium.
26. Purchased cleaning material for R810 from Patel Stores.
27. Services rendered according to cash register roll, R14 300.
28. Withdraw R2 800 to pay wages.

Prepare the entries in the ledger accounts in the general ledger of Storm Plumbers.

Storm Plumbers							
General ledger							
Balance sheet accounts section							
Dr			**Capital**				**B1**
			Drawings				**B2**
			Equipment				**B3**
			Bank				**B4**
Nominal accounts section							
			Rent income				**N1**
			Stationery				**N2**
			Donation				**N3**
			Plumbing material				**N4**
			Services rendered				**N5**
			Insurance				**N6**
			Cleaning material				**N7**
			Electricity				**N8**
			Wages				**N9**

Storm Plumbers Trial balance at 31 May 2024			
Details	**Fol**	**Debit**	**Credit**
Balance sheet accounts section			
Capital	B1		
Drawings	B2		
Equipment	B3		
Bank	B4		
Nominal accounts section			
Rent income	N1		
Stationery	N2		
Donation	N3		
Plumbing material	N4		
Services rendered	N5		
Insurance	N6		
Cleaning material	N7		
Electricity	N8		
Wages	N9		

4.8 Opening accounts with balances given

When the opening balances of the ledger accounts are provided the accounts must be opened with these balances. If the account has a balance in the debit column of the trial balance, the account will be debited with this amount. If the account has a balance in the credit column of the trial balance, the account will be credited with this amount. These balances are brought down on the first day of the month. The transactions for the month are then recorded in the accounts that already have a balance. If no account exists for a specific entry, a new account must be opened.

Example 7

The following information was obtained from the accounting records of Hlopi Electricians:

Hlopi Electricians Trial balance at 31 August 2024			
Details	**Fol**	**Debit**	**Credit**
Balance sheet accounts section			
Capital	B1		28 700
Land and buildings	B2	22 100	
Equipment	B3	3 886	
Bank	B5	1 234	
Nominal accounts section			
Services rendered	N1		1 200
Electrical supplies	N2	2 660	
Stationery	N3	20	
		29 900	29 900

Transactions for September 2024:

2 Bought equipment from P. Partners for R385⓿.
3 Total of duplicate cash invoices issued for services rendered, R1 500.❶
5 Services supplied for cash to L. Letaba, R320❻.
6 Paid for advertisements in The Pretoria News with an EFT, R36❽.
11 Cash purchases of electrical supplies, R490❾.
14 Direct deposit in the bank account for R150❿ from L. Mekana for premises let to him.
16 Services rendered for cash to J. Mabila, R1 800.

17 Transfer R800☎ for electrical supplies purchased from Manzini Stores.
28 Paid by EFT as follows:
R40🕷 to the Telkom for telephone;
R50🏆 to the City Council for electricity used.
29 Services rendered for cash, R322.🎖
30 Salaries paid by EFT, R381🔈.

1. Open the ledger accounts with the balances provided in the trial balance.
2. Record the transactions given in the accounts and balance the accounts.
3. Prepare a trial balance on 30 September 2024.

Hlopi Electricians							
General ledger							
Balance sheet accounts section							
			Capital				**B1**
				Sep 1	Balance	b/d	28 700
			Land and buildings				**B2**
Sep 1	Balance	b/d	12 100				
			Equipment				**B3**
Sep 1	Balance	b/d	3 886				
2	P Partners		385⓿				
			4 271				
			Bank				**B4**
Sep 1	Balance	b/d	🛡1 234	Sep 2	Equipment		385
3	Services rendered		1 500❶	6	Advertisements		36❽
5	Services rendered		320❻	11	Electrical supplies		490❾
14	Rent income		150❿	17	Electrical supplies		800☎
16	Services rendered		1 800✎	28	Telephone		40🕷
29	Services rendered		322🎖		Electricity		50🏆
				30	Salaries		381🔈
					Balance	c/d	3 144
			5 326				5 326
Oct 1	Balance	c/d	3 144				
Nominal accounts section							
			Services rendered				**N1**
				Sep 1	Balance	b/d	1 200
				3	Bank		1 500❶
				5	Bank		320❻
				16	Bank		1 800✎
				29	Bank		322🎖
							5 142
			Electrical supplies				**N2**
Sep 1	Balance	b/d	2 660				
11	Bank		490❾				
17	Bank		800☎				
			3 950				
			Stationery				**N3**
Sep 1	Balance	b/d	20				
			Advertisements				**N4**
Sep 6	Bank		36❽				
			Rent income				**N5**
				Sep 14	Bank		150❿
			Telephone				**N6**

Sep 28	Bank		40				
Electricity							**N7**
Sep 28	Bank		50				
Salaries and wages							**N8**
Sep 30	Bank		381				

Hlopi Electricians
Trial balance as at 30 September 2024

Details	**Fol**	**Debit**	**Credit**
Financial position accounts section			
Capital	B1		28 700
Land and buildings	B2	22 100	
Equipment	B3	4 271	
Bank	B4	3 144	
Nominal accounts section			
Services rendered	N1		5 142
Electrical supplies	N2	3 950	
Stationery	N3	20	
Advertisements	N4	36	
Rent income	N5		150
Telephone	N6	40	
Water and electricity	N7	50	
Salaries and wages	N8	381	
		33 992	33 992

Questions

1. What is the double-entry concept?
2. Name the source document issued when the owner deposits money in the bank?
3. Which source document is used as proof of payment when money is received?
4. Which source document is used when money is paid out?
5. Why do we distinguish between the rent income account and rent expenses account?
6. When will an asset account be debited, and when will it be credited?
7. When will a liability account be debited, and when will it be debited?
8. Why will an expense account be debited?
9. Why will an income account be credited?
10. How will balances in the ledger be recorded in the trial balance?
11. What is the purpose of the trial balance?
12. Name three reasons why the totals in the trial balance are not equal.

Solutions

1. Each entry affects two accounts. One entry is recorded on the debit side and the double entry on the credit side of a ledger account.
2. Receipt or bank deposit slip.
3. Receipt.
4. Bank statement.
5. A separate account is opened for income and expenses because income and expenses are disclosed separately in the income statement.
6. An asset account is debited when the asset increases while the asset account is credited when the asset decreases.
7. A liability is credited when the liability increases while the liability is debited when the liability decrease.
8. Expenses increase on the debit side and decrease on the credit side.
9. An income increases on the credit side and decrease on the debit side.
10. Debit balances in the ledger accounts are recorded on the debit side of the trial balance while credit balances in the ledger accounts are recorded on the credit side of the trial balance.
11. To determine whether a double entry had been completed for each entry because the debit total and credit total of the trial balance will be equal when the entries on the debit and credit side is equal.
12. - Did not complete a double entry for each transaction.
    - Incorrect entry when two entries were completed on the debit side.
    - Adding mistake in the trial balance.
    - Balance of a ledger account incorrectly calculated.
    - Balance in the ledger incorrectly transferred to the wrong side of the trial balance.
    - Amount in the ledger incorrectly transferred to the trial balance.

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Terms and concepts

Balance brought down:	The balance is brought down in an account after the account was totalled. The amount must agree with the balance carried down above the total but recorded on the opposite side of the account after it was totalled.
Balance carried down:	The same amount as the balance brought down, recorded on the opposite side of the account before it is totalled. Both sides of the account add up to the same total.
Balance sheet accounts:	These are ledger accounts where balances in respect of assets, liabilities and owner's equity are brought down to the next accounting period.
Balancing of accounts:	The difference between the debit side and the credit side of an account is determined.
Bank statement:	A statement received from the bank with a summary of all the transactions of the business in the books of the bank.
Capital:	The account of the owner's equity in a sole trader, or that part of the owner's equity originally invested in the business plus profits.
Contra account:	The account in which the corresponding entry is recorded to complete the double entry.
Credit:	An entry on the right-hand side of an account which increases a liability account or an equity account or decreases an asset account.
Credit balance:	The balance of an account where the total value of all credit entries exceeds the total of the debit entries.
Credit card:	When a credit card is used, the business receives the money on the same day from the bank. The person using the credit card owes the money to the bank.
Debit:	An entry on the left-hand side of an account which increases an asset or decreases an equity account or liability account.
Debit card:	A debit card is linked to the bank account. When payments are made with a debit card the money is paid directly from the bank account of the person/business using the debit card to the bank account of the person/business receiving the money.
Debit balance:	The balance of an account where the total value of all debit entries exceeds the total of the credit entries.
Direct deposit:	Money is paid directly into the bank account of the person/business at the bank.

Double-entry concept:	The principle according to which the monetary value of each transaction is entered as a debit entry and as a credit entry in the ledger accounts to make it possible to check the correctness of the entries.
Drawings:	Money, goods, or any other assets withdrawn by the owner for his own use.
Electronic fund transfer:	The amount is transferred electronically out of the bank account of the person/business to the bank account of the person/business receiving the money.
Ledger:	The general name given for a collection of accounts in a business.
Ledger account:	A page in the general ledger where the monetary values of transactions are entered with debit entries on the left-hand side and credit entries on the right-hand side. It is called a T-account.
Nominal accounts:	The income and expenditure accounts in which income and expenses are accumulated on an annual basis. They are closed off annually to the final accounts.
Transaction:	Any entry which is recorded in the firm's records in financial terms at any time.