SECTION

# 6

# THE DOUBLE-ENTRY PRINCIPLE, DAYBOOKS, LEDGERS AND TRIAL BALANCE

# Financial Accounting
## Financial Data Analysis

# Introduction

In this section, we will look at financial data analysis and the fundamental principles that underpin it. You will be introduced to the important rules of double entry and how to accurately analyse and record financial transactions in the books of accounts. This will help you to understand how business transactions affect the accounting equation by demonstrating changes in the values of assets, capital and liabilities; as well as how to record business transactions into the various day books and ledgers, balance off accounts and prepare a trial balance. This knowledge is crucial for further financial reporting and connects with various aspects of business management and decision-making.

## At the end of this section, you will be able to

- Compute the value of assets, liabilities and capital using the accounting equation.
- Apply the double-entry principles/rules to record financial transactions in the ledgers.
- Analyse and record financial transactions in the various daybooks, post to the ledgers and extract a trial balance.

## Key Ideas:

1. Resources are materials, or capabilities (e.g. human, financial etc.) that are available to be utilised by a business to a achieve a set target or carry out operations.
2. Assets are things owned by the business that hold value.
3. Liabilities are what a business owes, so may be a debt or obligation to another person or organisation
4. Owners' equity or capital are the resources that belong to the owner and are supplied to the business.
5. Accounting equation is a formula that shows that the sum of a company's liabilities and owner's equity should be equal to its total assets meaning (Assets = Liabilities + Equity).
6. Transaction is an event or activity that involves the exchange of goods, services, or funds between two or more parties.
7. Ledger is a book or a digital record where the financial transactions of a business are recorded in detail.
8. The double-entry principle in accounting is a fundamental concept that requires every financial transaction to be recorded in at least two accounts: one as a debit and the other as a credit.

9.  Trial balance is a statement showing the closing balances of all accounts in the general ledger of a business at a point in time.

10. Daybook is a book in which daily financial transactions are initially recorded in the order in which events happen

11. Cashbook is used to record receipts and payments of cash within a business.

# THE ACCOUNTING EQUATION AND ITS IMPORTANCE

## Components of The Accounting Equation

Before we look at the accounting equation, it is important to understand the key terminologies.

### Asset

An asset is any resource owned or controlled by a business or an economic entity. It is anything that can be used to produce positive economic value. Assets represent the value of ownership that can be converted into cash.

### Capital

Capital (owners' equity) is the amount of resources supplied by the owners of a business entity.

### Liability

A liability can be a present obligation of a business arising from past events and can either be either financial or service based.

A liability can also be a company's obligation to pay money to other people or businesses in the future. It is the amount a business entity or company owes to other people.

### Activity 6.1

1.  Identify any business enterprise in your community and find out the resources that help the business to operate.

2.  Write down the resources you have identified on flash cards.

3.  Categorise the list of resources as either an asset, liability or capital.

4.  Share the results of your findings with a colleague for feedback.

You can use the table below to support your work.

| Resource | Category of Resource |
|---|---|
| Building | Asset |
|  |  |
|  |  |
|  |  |

If you are not able to get this information from a business in your community then choose an organisation to use as a case study and research their operation online.
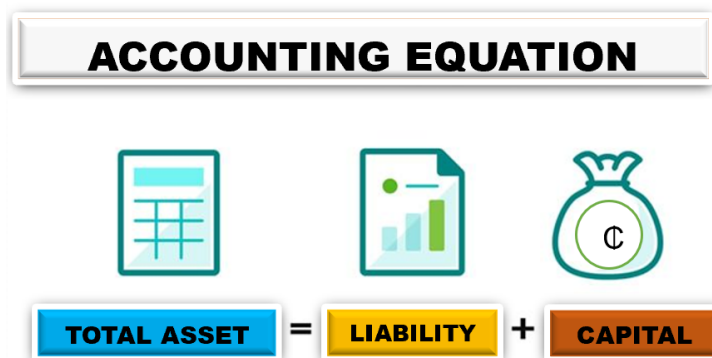
## The Accounting Equation



**Fig. 6.1:** The Accounting Equation

The accounting equation is a formula that shows that the sum of a company's liabilities and owners' equity should be equal to its assets. This equation provides a clear summary of how a business's assets are funded and is a way of demonstrating that credits and debits will be equal. This underpins the double entry principle of accounting.

The accounting equation can be rearranged to allow you to calculate one of the values if the other two are known. For example:

1.  **Assets = Capital + Liabilities**
2.  **Liability = Assets - Capital**
3.  **Capital = Assets – Liabilities**

Before a business starts its operations, it needs resources. These resources will either be supplied by its owners or other people. When the owner of a business or firm supplies all the resources, then the accounting equation is expressed as:

**Assets = Capital (Owner's equity)**

When all the resources needed by a business are supplied by people other than the owners, then the accounting equation is expressed as:

**Assets = Liabilities**

However,, the accounting equation is basically a formula that shows that the sum of a company's liabilities and owner's equity should be equal to its total assets:

**Assets = Capital + Liabilities**

## Activity 6.2

1. Study the table below which shows the end of year values of the capital, assets and liabilities of Mr. Apam who operates a cold store.
2. Use your knowledge of the accounting equation to determine the missing values.
3. Share your answers with a colleague.

| YEAR | CAPITAL | ASSETS | LIABILITIES |
|------|---------|--------|-------------|
| 2010 | GH¢3,800 | ? | GH¢2,200 |
| 2011 | ? | GH¢5,500 | GH¢3,000 |
| 2012 | GH¢4,500 | GH¢5,000 | ? |
| 2013 | GH¢5,100 | GH¢6,800 | ? |
| 2014 | ? | GH¢7,900 | GH¢2,000 |
| 2015 | ? | GH¢8,800 | GH¢1,300 |
| 2016 | GH¢7,700 | GH¢10,200 | ? |
| 2017 | GH¢7,900 | ? | GH¢4,800 |
| 2018 | ? | GH¢10,530 | GH¢2,100 |
| 2019 | GH¢9,000 | ? | GH¢1,900 |
| 2020 | GH¢9,700 | ? | GH¢1,400 |

## Importance of the Accounting Equation

1. **Fundamental principle:** The accounting equation is fundamental in accounting because it serves as a basis for the double entry principle. It ensures that every financial transaction is balanced across a company's assets and its liabilities.

2. **Decision making:** It provides insight into a company's financial position, supporting decision making processes such as budgeting, investment and strategic management.

3. **Financial analysis:** By keeping the equation in balance, it helps stakeholders such as investors, creditors and management to analyse the financial health and stability of a company.

4. **Error detection**: Any imbalance in the accounting equation indicates an error in recording, making it a valuable tool for identifying accounting mistakes.

5. **Accountability:** It facilitates transparency and accountability by clearly showing how assets are financed through equity and/or liabilities and how resources are allocated within the business.

### Activity 6.3

1. Write down **two** reasons why the accounting equation is important.
2. Share these with a colleague for feedback.

### Self-Assessment

Answer the following questions to support the review of your learning:

1. Discuss the items in the accounting equation, with examples.
2. Analyse the importance of the accounting equation.

## EFFECTS OF BUSINESS TRANSACTIONS ON THE ACCOUNTING EQUATION.

Whenever there is a business transaction, it affects the accounting equation and for that matter, the statement of financial position.

An illustration is shown below to break down the effect each transaction has on the three components of the equation.

| | Transaction | Effect on the components of the accounting equation | | |
|---|---|---|---|---|
| | | **Assets** | **Capital** | **Liabilities** |
| 1 | Started business with cash | Increase in assets (cash) | Increase in capital | |
| 2 | Bought machinery on credit from APC | Increase in asset (machine) | | Increase in liability to APC |
| 3 | Deposited cash at bank | Increase in asset (Bank) Decrease in asset (Cash) | | |

| | Transaction | Effect on the components of the accounting equation | | |
| --- | --- | --- | --- | --- |
| | | Assets | Capital | Liabilities |
| 4 | Bought motor van paying in cash | Increase in asset (motor van) Decrease in asset (Cash) | | |
| 5 | Owner takes money out of business bank account for his own use | Decrease in assets (bank) | Decrease in capital | |
| 6 | Owner pays suppliers from personal accounts | | Increase in capital | Decrease in liability (creditors) |
| 7 | Pays suppliers by cheque | Decrease in assets (bank) | | Decrease in liabilities (creditors) |
| 8 | Owner pays more personal money into the business bank accounts | Increase in assets (bank) | Increase in capital | |
| 9 | Withdraw cash from bank and placed it in cash box | Increase in asset (cash) Decrease in asset (bank) | | |
| 10 | Obtained loan from bank | Increase in asset (bank) | | Increase in liability (loan) |

In your class discuss the effects that transactions have on the different components of the accounting equation.

## Activity 6.4

**1.** Study the accounting transactions below.

The following transactions relate to Mr. Cachito, a sole trader for the month of March 2024

March  1st:    Started business with GH¢1,000.

2nd:    Bought goods worth GH¢520 on credit from Kiki Ventures

4th:    Contracted a loan of GH¢600 and deposited it in his bank account.

5th:    Bought a motor vehicle GH¢400, paying by cheque.

6th:    Cash purchases of GH¢270

7th:    Paid Kiki Ventures GH¢520 cash

8th:    Withdrew GH¢200 for private use from the bank.

9th:    Bought goods on credit from KB Enterprise for GH¢300.

2.  Prepare a table on poster cards to show the effect (increase or decrease) of the transactions on assets, capital and liabilities.

3.  Compare and discuss your answer with another colleague.

You may use the table format shown below for your work.

| | Transaction | Effect on the components of the accounting equation | | |
|---|---|---|---|---|
| | | Assets | Capital | Liabilities |
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | | | | |
| 8 | | | | |

## Self-Assessment

Identify the effect (increase or decrease) on assets, capital and liabilities, of the transactions listed below.

1.  Sold goods for GH¢3,550 and the money banked.
2.  A supplier was paid cash of GH¢1,000.
3.  One of the receivables gave a cheque for GH¢2,800.
4.  Bought office equipment, paying by cheque, for GH¢8,500.
5.  Bought goods on credit from Eunice to the total of GH¢5,000.
6.  Repaid Eunice by cash.

# THE LEDGER AND THE DOUBLE-ENTRY PRINCIPLE

## Ledger

A ledger is a book of **accounts\*** into which all summarised bookkeeping transactions are recorded. The ledger is mainly divided into two - personal and impersonal.

1.  Personal ledger

    This contains accounts that stand in the name of individuals, companies and partnerships. The personal ledger is subdivided into two – receivables and payables.

    a.  **Receivables**: These are the persons, companies or partnerships that owe the business. That is, the firm has sold goods to these people on credit, and they have not paid.

    b.  **Payables:** They are the persons, companies or partnerships to whom the business owes. That is, they are the suppliers of the firm. The firm has purchased goods from them on credit and has not paid.

2.  Impersonal ledger

    This contains all accounts that do not stand in the name of persons, companies and partnerships. The impersonal ledger is also divided into two - real and nominal accounts.

    a.  **Real accounts**: These contain transactions in property and material objects that are tangible. It includes the accounts of buildings, cars, cash, machines, etc.

    b.  **Nominal accounts:** These are used to record items of an intangible nature such as losses, expenses, income and gains. For example, rent and rates, salaries and wages, insurance, etc.

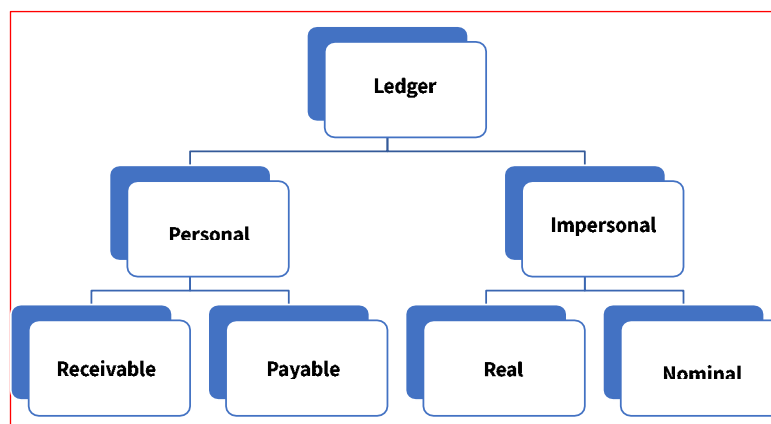    The diagram below shows the divisions of the ledger.



**Fig. 6.2:** The divisions of the ledger

*An **account** is a record of economic transactions undertaken by a business. For example, it is a record of electricity paid, rent paid, goods sold to a customer, cheque received, etc.

## Activity 6.5

1. In groups, discuss the meaning of ledgers.
2. Write down the types of ledgers you know and share with other groups in your class.

## Activity 6.6

Complete the table to identify which type of account (real, nominal or personal) each of the following transactions should be credited or debited to within a ledger.

|  | Personal | Real | Nominal |
|---|---|---|---|
| Purchased land for cash. |  |  |  |
| Hired a bulldozer and paid cash. |  |  |  |
| Allowances of workers paid by cash. |  |  |  |
| Postage bill paid by cash |  |  |  |
| Interest on investment received by cheque. |  |  |  |
| Received cheque from a debtor |  |  |  |
| Received dividend by cheque. |  |  |  |
| Purchase office machine on credit. |  |  |  |
| Paid electricity bill to VRA by cheque. |  |  |  |

# THE TRIAL BALANCE

A trial balance is a financial statement showing the closing balances of all accounts in the general ledger of a business at a point in time.

The trial balance has got two columns; a debit column and a credit column. The debit column shows all the debit balances, and the credit shows all credit balances in the different ledger accounts. The total of the two columns should be equal so the total of the debit column should be the same as the total of the credit column.

## Format

**NAME OF THE BUSINESS**

TRIAL BALANCE AS AT 31st DECEMBER, 20X1

| DETAILS | DR GH¢ | CR GH¢ |
|---|---|---|
| Capital | | xxx |
| Purchases | xxx | |
| Sales | | xxx |
| Rent & Rates | | |
| General Expenses | xxx | |
| Drawings | xxx | |
| Receivables | xxx | |
| Payables | | xxx |
| Motor Vehicle | xxx | |
| Furniture & Fittings | xxx | |
| Allowance for receivable | | xxx |
| Bank | xxx | |
| Cash | xxx | |
| Stationery | xxx | |
| Discount Allowed | xxx | |
| Discount Received | | xxx |
| **Total** | **XXX** | **XXX** |

# Uses of the Trial Balance

1. It tests the correctness of all entries made in the books of accounts.
2. It provides a summary of all the balances in the ledgers.
3. It ensures that the double entry principle has been correctly applied.

## Activity 6.8

1. Write the meaning of a trial balance on a sticky pad.
2. Exchange your response with a colleague.
3. Discuss the uses of trial balance with the colleague you exchanged your responses with.
4. Make notes on your discussion and share with the larger class.

## Activity 6.9

1. Create a table in which to record a trial balance using the example above as a guide. Speak with your teacher if you are unsure and they can provide you with a template.
2. Analyse the following transactions, open ledger accounts to record the transactions and extract a trial balance as of 31st July, 20X1.

   Sena started their business on 1st July, 20X1, with a capital of Gh¢162,000. The following transactions took place during this month:

| January | | GH¢ |
|---|---|---|
| 1: | Purchase of furniture by cash | 26,000 |
| 2: | Purchase of stationery by cash | 4,000 |
| 3: | Bought goods on credit from Eli | 52,000 |
| 5: | Bought goods for cash | 37,000 |
| 15: | Sold goods for cash | 62,000 |
| 18: | Sold goods to Selorm and co. on credit | 4,000 |
| 20: | Paid advertising expenses by cash | 4,000 |
| 25: | Paid Eli cash | 37,000 |
| 28: | Paid rent by cash | 5,000 |
| 31: | Paid salaries | 8,000 |

3. Share your answer with a colleague and be prepared to discuss with the rest of the class.

**Extension task 1**

Analyse the transactions you have recorded in each ledger and the across the trial balance. What does the trial balance tell you about the accuracy of recording for Sena's business over this period?

# THE DOUBLE-ENTRY PRINCIPLE

The double-entry principle is an accounting rule which states that every business transaction must be recorded twice. That means, for every debit entry, there must be a corresponding credit entry and for every credit entry, there must be a corresponding debit entry. The double-entry principle is often referred to as the 'Golden Rule of Accounting'. If accounts are balanced, then the sum total of both columns should be the same.

If at any point, the sum of debits of all accounts is not equal to the sum of corresponding credits, then an error has occurred.

**Double-entry system**

**Debit (receiving)**
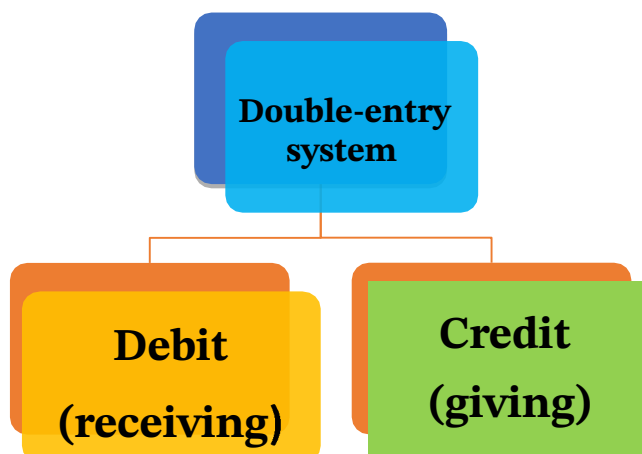
**Credit (giving)**

**Fig. 6.3:** The double-entry rule or principle

## Rules of Entry in the Ledger

An account is divided into two parts. The left part is called the **debit side** while the right part is called the **credit side.**

Below is a sample of a ledger (also known as a T – account)

**KUKUA's a/c**

| Debit side | | | Credit side | | |
|---|---|---|---|---|---|
| Date | Details | Amount - GH¢ | Date | Details | Amount - GH¢ |
| 01/07/20X1 | Sales | XXX | 01/08/20X1 | Cash | XXX |
| | | | | | |
| | | | | | |

A debit entry represents:

**1.**   an increase in the value of an asset

**2.**   an increase in an item of expenditure

**3.**   a decrease in the amount of liability

A credit entry represents:

**1.**   a decrease in the value of an asset

**2.**   an increase in an item of income

**3.**   an increase in the amount of liability

This can be broken down for each type of account within the ledger.

**For personal accounts, the rule is**

**DEBIT –** **The receiver of value credit – the giver of value**

For example, paid Ayamga by cheque:

Debit Ayamga's account, Credit bank account.

**For real accounts, the rule is**

**DEBIT –** **what comes into the business credit- what goes out of the business**

For example, purchase of a building by cheque:

Debit building account, Credit bank account.

**For nominal accounts, the rule is**

**DEBIT –** **all expenses and losses**

**CREDIT –** **all incomes and gains**

For example, discount received from Baba Co. Ltd:

Debit Baba Co. Ltd, Credit discount received account.

## Activity 6.7

1. Record the following business transactions in the appropriate accounts.
   a. Started business with GH¢2,000 cash.
   b. Purchased a cargo truck with GH¢500 cash.
   c. Bought furniture for GH¢120 cash.
   d. Purchased goods worth GH¢2,500 by cheque.
   e. Sold goods worth GH¢900 receiving cash.
2. Compare your answers with a colleague for feedback.

## Extension task 2

Answer the following questions to support the review of your learning in this section.

1. Explain the double entry principle.
2. Give two examples of **both** personal and impersonal ledgers.

3.  **PART OF ME** commenced business on 1st July, 20X2 with GH¢79,000 paid into the bank. During the month, they made the following transactions:

July 2: Bought goods by cheque GH¢35,000.

July 3: Withdrew cash of GH¢19,000 for office use.

July 6: Received cash loan of GH¢3,000 from Sweet.

July 10: Bought goods on credit for GH¢7,000 from Darling.

July 13: Rent of GH¢9,000 for business premises was paid by cheque.

July 16: Bought goods on credit from Love Ltd. For GH¢5,000.

July 18: Insurance premium of GH¢2,000 was paid by cheque.

July 21: Sold goods for GH¢11,000 receiving cheque in payment.

July 25: Paid Love Ltd. a cheque for GH¢5,000

July 26: Bought an equipment for GH¢3,000 from Tasty and Co. on credit.

July 27: Paid Darling a cheque of GH¢7,000.

July 28: Paid Tasty and Co., a cheque for GH¢3,000.

July 29: Sold goods for GH¢3,700 receiving a cheque in payment.

July 30: Wages and salaries of GH¢8,000 was paid in cash.

Enter these transactions in ledger accounts and extract a trial balance as of 30th July, 20X2. Refer to the format of the example given above to support your working.

Does the trial balance show that the accounts are balanced?

# DAYBOOKS

A daybook is a book in which daily financial transactions are first recorded in the order in which events happens. The daybook, also known as book of original entry or prime book, captures important information about each transaction including the date, description and amount involved. It serves as a source document for the recordings in the ledgers.

## Types of Day Books

### 1.  Sales Day Book:

The sales daybook, also known as sales journal is used to record all credit sale transactions made by a business. The source document used for recording transactions in the sales day book is the sales invoice.

The table below shows the format of a sales daybook or journal and outlines the information to be recorded in each column.

| S/N | Date | Particulars | Ledger Folio | Invoice number | Amount – GH¢ Details | Net amount |
|-----|------|-------------|--------------|----------------|----------------------|------------|
| 1 | Date of sale | Name of customer and details of goods sold | Reference number | | Detailed calculations | Net amount of the invoice |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |

## 2.   Purchases Day Book:

The purchases daybook, also known as purchases journal is used to record all credit purchase transactions made by the business.  The source document used for recording transactions in the purchases day book is the purchase invoice.

The table below shows the format of a purchases daybook or journal and outlines the information to be recorded in each column.

| S/N | Date | Particulars | Ledger Folio | Invoice number | Amount – GH¢ Details | Net amount |
|-----|------|-------------|--------------|----------------|----------------------|------------|
| 1 | Date of purchase | Name of supplier and details of goods sold | Reference number | | Detailed calculations | Net amount of the invoice |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |

## 3.   Return Inwards Day Book:

The return inwards day book is also known as the sales returns journal. It is used to record the goods which are returned to a business by a customer. The source document used for recording transactions in the sales return (return inwards) day book is the credit note.

The table below shows the format of a return inwards day book or sales return journal and outlines the information to be recorded in each column.

| S/N | Date | Particulars | Ledger Folio | Credit note number | Amount – GH¢ | |
|---|---|---|---|---|---|---|
| | | | | | Details | Net amount |
| 1 | *Date of sale* | *Name of customer who return the goods* | *Reference number* | | *Detailed calculations* | *Net amount of the invoice* |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |

## 4.    Return Outwards Day Book:

The return outwards day book is also known as the purchases returns journal. It is used record the goods which are returned to a supplier by the business. The source document used for recording transactions in the purchase return (return outwards) day book is the debit note.

The table below shows the format of a return outwards day book or purchases return journal and outlines the information to be recorded in each column.

| S/N | Date | Particulars | Ledger Folio | Debit note number | Amount – GH¢ | |
|---|---|---|---|---|---|---|
| | | | | | Details | Net amount |
| 1 | *Date of purchase* | *Name of supplier to whom goods are returned to* | *Reference number* | | *Detailed calculations* | *Net amount of the invoice* |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |

## Discounts

Customers are sometimes given discount when they buy goods from suppliers.

A **discount** is a reduction in the price of a product or service. It can be given for various reasons and is used as a sales plan. The amount of discount will affect how you record figures in both daybook and cashbooks (covered in the next section).

# Types of Discounts

1. **Trade discount is o**ffered by suppliers to customers for purchasing in bulk or due to long-term business relationships. It's usually deducted from the list price before invoicing.

2. **Cash discount is g**iven to customers who pay their bills early. It is a way to encourage prompt payment

## Activity 6.10

1. Study the format of sales, return inwards, purchases and return outwards daybooks.
2. Identify and write down the headings for the each of the columns that must be included in each book.

| Number | Name of column heading |
|--------|------------------------|
| *1* | *Net amount* |
| | |

## Activity 6.11

a. Create a template for each of the following:
   - Sales daybook
   - Sales return book.
   - Purchases daybook
   - Purchase return book
b. NaCCA Company Limited deals in general merchandise. Listed below are the transactions for the month of May, 20X1.

May 1: Sold goods to Joshua ¢10,000 less 10% trade discount.

May 4: Purchased from Kofi the following:
   150 iron rods at ¢30 each, 100 filters at ¢25 each, invoice subject to 15% trade discount.

May 6: Purchased from Anaman Ltd. 10 bottles of gin at ¢35each.

May 7: Returned 40 iron rods purchased on 4th May, to Kofi.

May 9: Sold the following to Mary: 250 bags of cement at ¢20each, less 20% trade discount, 200 tins of targets at ¢15 per ton.

May 18: Mary returned 30 bags of cement bought on the 9th of May.

May 20: Sold to Jude: 80 iron rods at ¢50 each. 110 bags of cement at ¢16 each 250 Filters at ¢35 each, invoice subject to 15% trade discount.

May 21: Jude was allowed 25% reduction on the total invoice price for goods damaged in transit.

May 30: Purchased from Faustina: 120 bags of cement at ¢15 each, 50 gallons of oil paint at ¢20 each, 300 metal sheets at ¢18 each.

Using the templates you created in part a, record each of these transactions in the relevant journal.

Be prepared to share your results in a discussion with your classmates.

# GENERAL JOURNAL

The General Journal is used to record any transaction which does not pass through a book of prime entry. This is a book in which entries are made before they are posted into the ledgers.

Example of transactions which are recorded through the general journal are correction of errors and records of non-cash transactions.

The table below shows the format of a general ledger.

| Date | Particulars/ Details of transaction | Debit GH¢ | Credit GH¢ |
|------|-------------------------------------|-----------|------------|
|      |                                     |           |            |
|      |                                     |           |            |
|      |                                     |           |            |
|      |                                     |           |            |

### Activity 6.12

1. In groups discuss the uses and purpose of the general journal.
2. Share your responses with another group.

## Activity 6.13

OSEI, a sole trader, did not keep proper books of account. 1st March, 20X4 their assets and liabilities were as follows:

|  | GH¢ |
|---|---|
| Cash in hand | 150,000 |
| Furniture and fitting | 450,000 |
| **Debtors** | |
| Okai | 110,000 |
| Tuffour | 95,000 |
| Stock | 125,000 |
| Plant and machinery | 380,000 |
| Bank overdraft | 60,000 |
| **Creditor** | |
| Dzifa | 50,000 |
| Gbando | 30,000 |
| Land and building | 450,000 |

Record each of these transactions within a general ledger using the following headings:

• Date

• Particulars/details of transaction

• Debit GH¢

• Credit GH¢

## Extension task 3

Answer the following questions to support the review of your learning.

1. Differentiate between a sales return daybook and a purchases return daybook.

2. Explain the purpose of two other types of daybooks.

3. The following are the transactions of Agya, a trader, for the month of May, 20X6.

   May 1: Sold goods to Aku GH¢ 20,000 less 10% trade discount.

   May 4: Purchased the following from Onipa:
      200 iron rods at GH¢20 each
      100 fillers at GH¢30 each; invoice subject to 10% trade discount

May 6: Purchased from Baba Ali, 10 bottles of Gin at GH¢30 each.

May 7: Returned 60 of the iron rods purchased on the 4<sup>th</sup> to Onipa.

May 18: Sold the following to Lumba.

    300 bags of cement at GH¢15 each, less 5% trade discount

    150 tins of target at GH¢10 per tin

May 19: Lumba returned 10 bags of cement bought on the 18<sup>th.</sup>

May 20: Sold to Amankwah,

    80 iron rods at GH¢50 each

    110 bags of cement at GH¢16 each

    250 fillers at GH¢35 each; invoice subject to 15% trade discount

May 21: Purchased from Ayomi

    100 bags of cement at GH¢15 each

    50 gallons of oil paint at GH¢9 each

    300 fillers at GH¢18 each

**Write up the following books to record these transactions:**

**i.** Sales daybook

**ii.** Purchases daybook

**iii.** Return inwards journal

**iv.** Return outwards journal

# CASH BOOK

A cash book is used to record details of cash, bank and discount transactions. It is used to record the receipts and payments of cash in a business. The source documents for the recording of transactions in the cash book are receipts, pay-in slips, cheques, etc.

The four types of cash books are:

1. Single column
2. Double column
3. Three or triple column
4. Petty cash book

Transactions that are entered on both sides of the cashbook, in the cash and bank column, are known as contra entries.  Essentially this is where two entries offset each other – a contra entry does not affect a business's financial position.

# Single column cash book

A single column cash book has only one column has only one amount column on each of the debit and credit sides. It is either a cash column only **or** a bank column only. All receipts are entered on the debit side and all payments are entered on the credit side.

**Format of a single column cash book:**

| Debit | | | | Credit | | | |
|---|---|---|---|---|---|---|---|
| Date | Details | Ledger Folio | Amount GH¢ | Date | Details | Ledger Folio | Amount GH¢ |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

# Double column cash book

The double-column cash book (also known as a two-column cash book) has two columns on both the debit and the credit sides. One to record cash transactions and the other to record bank transactions.

**Format of a double column cash book:**

| Debit | | | | | Credit | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Date | Details | Ledger Folio | Cash GH¢ | Bank GH¢ | Date | Details | Ledger Folio | Cash GH¢ | Bank GH¢ |
| | | | | | | | | | |
| | | | | | | | | | |

**Activity 6.14**

1. Research the meaning of a cashbook in the context of business accounting using the internet or a business dictionary.
2. Write down the types of cashbooks.
3. Outline the uses of each type of cashbook.
4. Identify the difference between the single column and double column cashbook.
5. Make a poster presentation of your responses and share with your colleague for feedback.

## Activity 6.15

1. In groups create a template for a double column cashbook.
2. Use this template to record the following transactions of FRANSMART Ltd. that took place in May 20X5

    May 1: Started business with cash GH¢13,000.
    "      2: Andy lent GH¢5,000 to FRANSMART Ltd. paid by cheque
    "      5: Deposited GH¢5,000 cash into the bank
    "      6: Paid rent by cash GH¢1,000
    "      8: Cash sales GH¢1,900
    "      9: Paid Paul GH¢1,000 by cheque
    "      10: Cash purchases of GH¢1,500
    "      14: Cash sales to Amponsah, GH¢1,950 paid into the bank account
    "      16: Cash sales paid directly into the bank GH¢1,350
    "      18: Paid Bentil GH¢2,500 by cheque
    "      20: Paid wages GH¢3,600 by cheque
    "      22: Paid Andy (loan) GH¢5,000 by cheque
    "      24: Cash sales GH¢1,000
    "      25: Paid motor expenses with cash GH¢1,200
    "      27: Purchased goods from Gyimah GH¢3,000
    "      29: Paid advertising by cash GH¢1,600
    "      30: Paid Gyimah his amount due with cash
    "      31: Withdrew cash of GH¢500 from the bank for business use

3. In groups present your answers to the class using a flip chart.

## Extension task 4

Answer the following questions to support the review of your learning.

Mr. Chapman started business on June 1, 20X5 with capital of GH¢16,000 cash.

    June 2. Opened a bank account with GH¢7,500.
    June 2. Bought goods costing GH¢4,500 with cheque.
    June 3. Purchased shop fittings on credit from Datsmile Furniture at GH¢4,000.
    June 5. Bought van by cheque GH¢2,000.
    June 8. Purchased goods worth GH¢1,000 by cash.
    June 17. Paid rent of GH¢1,000 by cash
    June 18. Cash sales made GH¢35,500.
    June 20. Sent GH¢12,000 cash to the bank.

June 22. Withdrew GH¢1,500 from the bank for personal use.

June 25. Paid motor expenses of GH¢1,000

June 28. Sales sent to the bank GH¢15,000.

Prepare a double column cash book of Mr. Chapman for the month of June 20X5.

# THREE OR TRIPLE COLUMN

A three-column cash book is one in which there are three columns on both the debit and credit side. The first column is used to record cash transactions, the second column is used to record transactions through the bank and the third column is used to record discounts received and allowed.

**Discount Received**

Discounts received are a reduction on the original price of a product or service, usually given by a supplier. For example, if you buy something worth Gh¢100 and get a 10% discount, you only pay Gh¢90.

**Discount Allowed**

Discount allowed are when the supplier of goods or a service grants a payment discount to a customer. This is a reduction in the amount a customer has to pay.

**Format of a triple column cashbook**

| Debit | | | | | | Credit | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Date | Details | Ledger Folio | Cash GH¢ | Bank GH¢ | Discount allowed GH¢ | Date | Details | Ledger Folio | Cash GH¢ | Bank GH¢ | Discount received GH¢ |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |

**Activity 6.16**

1. Identify the differences between a two-column cashbook and a three-column cash book.
2. List the column headings of a three-column cash book.
3. Describe what is recorded in each of the columns.

(you can use the table below to support your response)

| s/n | Column heading | Description |
|---|---|---|
| *A* | *Date* | *This column records the date on which the transaction takes place. It helps in keeping track of when each transaction occurred, providing a sequential order to the entries.* |
| B | | |
| C | | |
| D | | |
| E | | |
| F | | |

## Activity 6.17

1. Create a template for a three-column cashbook.
2. Study the following transactions and using the template you have created, prepare a three-column cash book for the month of June.

   On June 1, you started with the following balances:
   Cash: GH¢5,000
   Bank: GH¢10,000

   **During June, the following transactions occur:**

   June 3: Sold goods for GH¢2,000, for which you receive GH¢1,000 in cash and the rest by bank transfer.

   June 5: Paid GH¢500 by cheque to a supplier.

   June 10: Received GH¢200 cash discount for early payment to a creditor.

   June 12: Paid rent of GH¢1,000 in cash.

   June 15: A customer pays you GH¢3,000 by bank transfer and you allow discount of GH¢50.

   June 20: Withdrew GH¢2,000 from the bank for office use.

   June 25: Paid salaries of GH¢1,500 in cash.

   June 30: Received GH¢500 cash from a customer, allowing a discount of GH¢20.
3. Compare your answer with a friend and be prepared to share your example as part of a wider class discussion.

**Extension task 5**

Analyse the transactions you have entered into the cashbook. How does your financial position change from the start to the end of the month?

# PETTY CASH BOOK

A petty cashbook is a small ledger to record minor expenses like postage, stationery and refreshments. The person who manages the petty cashbook and handles these small expenses is known as the petty cashier.

At the start of a period, a fixed amount of money is given to the petty cashier to cover petty expenses. This fixed amount is called an imprest or cash float. The petty cashier uses this money to pay for small expenses of the business. All expenditures are recorded in the petty cashbook to keep track of where the money is going.

At the end of a period, the petty cashier is given back the money spent on these petty expenses. The fund always maintains the same fixed amount, ensuring control and easy tracking of petty expenses. This is known as the imprest system.

The individual expenses in the petty cash column are posted to the correct accounts in the general ledger to complete the double entry.

**Example format of a petty cashbook**

| Receipt | Date | Details | Folio | Total | Postage | Stationery | Traveling | Cleaning | Ledger |
|---------|------|---------|-------|-------|---------|------------|-----------|----------|--------|
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

**Activity 16.3**

1. Identify the uses of the petty cashbook.
2. List expenses that are recorded in a petty cashbook.
3. In pairs, discuss the imprest, or float, system.

## Activity 16.4

1. Create a template for a petty cashbook.
2. Study the following transactions and, using the template you have created, record each one in the petty cashbook.

   VIRA operates a petty cash system with a float of GH¢2,000. Reimbursement is made at the end of every fortnight (i.e. 15th and at the end of each month).

   The transactions below took place in the month of November, 20X3.

   **20X3**

   November 1:    Petty cashier was given her first imprest.

   |  |  | **GH¢** |
   |---|---|---:|
   | November 2: | Postage | 150 |
   | November 3: | Wages | 100 |
   | November 5: | Cleaning | 200 |
   | November 5: | Stationery | 100 |
   | November 7: | Postage | 150 |
   | November 8: | Electricity | 100 |
   | November 10: | Postage | 200 |
   | November 12: | Cleaning | 100 |
   | November 13: | Postage | 150 |
   | November 14: | Paid for wages | 300 |
   | November 16: | Electricity | 100 |
   | November 18: | Cleaning | 50 |
   | November 20: | Stationery | 100 |
   | November 20: | Postage | 100 |
   | November 21: | Wages | 250 |
   | November 24: | Wages | 100 |
   | November 25: | Cleaning | 100 |
   | November 26: | Stationery | 200 |
   | November 27: | Electricity | 100 |
   | November 27: | Stationery | 150 |
   | November 30: | Cleaning | 50 |

Be prepared to share your answer with a group, or as part of a larger class discussion.

## Extension task 5

Answer the following questions to support the review of your learning.

MR. WISE operates petty cash on the imprest system with a float of GH¢100,000. Reimbursement is made such that cash on hand does not fall below GH¢12,000. Below is summary of petty cash transactions for the period to April 30th 20X2.

| 20X2 | | | GH¢ |
|---|---|---|---|
| April | 1: | Receive reimbursement by cheque from cashier | 83,500 |
| '' | 2: | Paid wages | 34,000 |
| '' | 4: | Paid rent and rate | 15,000 |
| '' | 5: | Paid wages and salaries | 30,000 |
| '' | 8: | Paid electricity expenses | 8,600 |
| '' | 9: | Paid for taxi | 3,000 |
| '' | 10: | Paid for taxi | 4,000 |
| '' | 10: | Paid for wages | 18,000 |
| '' | 11: | Paid for rent and rate | 5,439 |
| '' | 11: | Paid for wage | 22,000 |
| '' | 11: | Paid Eno, a creditor, in full less 10% cash discount | 18,000 |
| '' | 12: | Paid for taxi | 10,000 |
| '' | 14: | Paid for electricity expense | 2,500 |
| '' | 15: | Paid Afia, a creditor | 4,000 |
| '' | 18: | Paid for taxi | 3,535 |
| '' | 18: | Paid for rent and rate | 18,350 |
| '' | 24: | Paid wages and salaries | 48,000 |
| '' | 30: | Paid for taxi | 13,683 |

You are required to

a. Create a template for a petty cash book and record these transactions.
b. Show how you would enter the results in the nominal ledger.

# Review Questions

1. Discuss the role of assets, liability and capital in the accounting equation.

2. Evaluate the importance of the accounting equation.

3. **a.** Analyse the effect of business transactions on capital, assets and liabilities.

   **b.** Give three examples of types of transaction and describe the effects they have on capital, assets and liabilities.

4. Describe how a cashbook differs from the general ledger.

5. You are managing your own business and on a particular day, you perform two financial activities:
   **a.** You withdraw cash from the bank to use in the business for everyday expenses.

   **b.** You deposit cash from the business into the bank.

   Explain how these activities are recorded in your accounting books and why they are considered "Contra Entries."

6. Your cousin provided you with the following transactions from her business operations.

   Jan 1: Started business by depositing GH¢5,000 at the bank.

   Jan 3: Purchased goods with cheque for GH¢2,000.

   Jan 5: Sold goods for cash GH¢3,000.

   Jan 7: Paid rent with cheque for GH¢500.

   Jan 10: Received GH¢1,200 cash from debtor.

   Prepare a simple two-column cashbook for your cousin using the information they have provided.

7. Imagine you are running a small retail business and use a three-column cashbook to track your daily transactions. One of the columns is labelled "discount."
   Explain why you use this discount column and how it helps you manage your business finances.

8. You are running a small business, and you give one of your employees Gh¢200 at the start of each month to handle minor expenses like buying office supplies or paying for small repairs. At the end of the month, they provide receipts showing they spent Gh¢150, so you give them another Gh¢150 to bring the total back to Gh¢200 for the next month.
   What is this system called and why is it an effective way to manage small expenses?

9. Aunty Esi has given you the following information.

   April 1:   Cash purchases GH¢2,000
      "   5:   Cash sales GH¢1,900
      "   9:   Paid rent GH¢1,000 by cash
      "  14:  Credit purchases from K K Fosu GH¢2,500
      "  21:  Credit sales to Yaw GH¢1,950
      "  28:  Paid electricity Gh¢1,500 by cheque
      "  30:  Bought furniture Gh¢3,500 paying by cheque

   Prepare a general journal using the information she has provided you.

10. You are managing a small business, and you use two different types of daybooks to keep track of your daily transactions. One daybook records sales and the other records purchases.

   Explain how each of these daybooks is used and why they are important for managing your business finances.

# EXTENDED READING

- Boadi, R. O. (2021). *Essentials of Accounting*. Tema: National Publishing. (**Read pages 20-35**)

- Ofori, D., & Boateng, R. (2019). *Introduction to Accounting Systems.* Takoradi, Ghana: Silver Line Publishing. (**Read pages 92-130**)

- Owusu-Ansah, K. (2020). *Financial Accounting for Beginners.* Cape Coast: University Press. (**Read pages 15-30**)

- Quartey, S. K. (2020)**.** *Accounting Techniques: A Practical Approach.* Cape Coast, Ghana: Wisdom Press. (**Read pages 70-105**)

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1. ACCA Manual:(2005) Accounting Framework, AT Foulk Lynch,2005.

2. ICAG (2019), Study Text - Financial Accounting.

3. NaCCa (2023), Business Studies Curriculum.

4. Oduro E. (2011), *Financial Accounting for Senior High Schools and Tertiary Institutions in West Africa* (3rd Edition), Accra: Terror Publications.

5. Wood, F (1993) *Business Accounting*, London: Pitman Publishing

# GLOSSARY

| | |
|---|---|
| **Accounting equation** | is a formula that shows that the sum of a company's liabilities and owner's equity should be equal to its total assets meaning (Assets = Liabilities + Equity). |
| **Assets** | are things owned by the business that hold value. |
| **Bookkeeping** | is the process of systematically recording and organising financial transactions to maintain accurate financial records. |
| **Cashbook** | is used to record receipts and payments of cash within a business. |
| **Daybook** | is a book in which daily financial transactions are initially recorded in the order in which events happen. |
| **Drawings** | refers to the money or assets withdrawn from a business by the owner for personal use. |
| **Ledger** | is a book or a digital record where the financial transactions of a business are recorded in detail. |
| **Liabilities** | are what a business owes, so may be a debt or obligation to another person or organisation. |
| **Owners' equity or capital** | are the resources that belong to the owner and are supplied to the business. |
| **Resources** | are materials, or capabilities (e.g. human, financial etc.) that are available to be utilised by a business to a achieve a set target or carry out operations. |
| **Source Document** | is the original record that provides evidence of a financial transaction. Examples include invoices, receipts, checks and purchase orders. |
| **The double-entry principle** | in accounting is a fundamental concept that requires every financial transaction to be recorded in at least two accounts: one as a debit and the other as a credit. |
| **Transaction** | is an event or activity that involves the exchange of goods, services, or funds between two or more parties. |
| **Transaction** | is any event or activity that has a financial impact on a business and is recorded in its books of accounts. |
| **Trial balance** | is a statement showing the closing balances of all accounts in the general ledger of a business at a point in time. |

# ACKNOWLEDGEMENTS