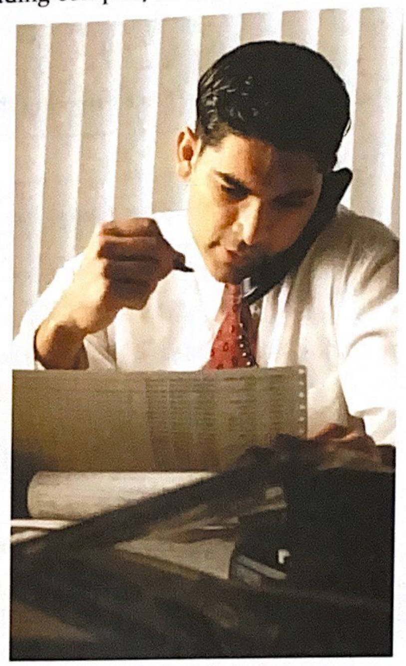
4 Bookkeeping

A Double-entry bookkeeping

Zaheer Younis works in the accounting department of a trading company:



'I began my career as a bookkeeper. **Bookkeepers** record the company's daily **transactions**: sales, purchases, debts, expenses, and so on. Each type of transaction is recorded in a separate **account** – the cash account, the liabilities account, and so on. **Double-entry bookkeeping** is a system that records two aspects of every transaction. Every transaction is both a **debit** – a deduction – in one account and a corresponding **credit** – an addition – in another. For example, if a company buys some **raw materials** – the substances and components used to make products – that it will pay for a month later, it debits its purchases account and credits the supplier's account. If the company sells an item on credit, it credits the sales account, and debits the customer's account. As this means the level of the company's **stock** – goods ready for sale – is reduced, it debits the stock account. There is a corresponding increase in its **debtors** – customers who owe money for goods or services purchased – and the debtors or accounts payable account is credited. Each account records debits on the left and credits on the right. If the bookkeepers do their work correctly, the total debits always equal the total credits.'

BrE: debtors; AmE: accounts receivable
BrE: creditors; AmE: accounts payable
BrE: stock; AmE: inventory

B Day books and ledgers

'For accounts with a large number of transactions, like purchases and sales, companies often record the transactions in **day books** or **journals**, and then put a daily or weekly summary in the main double-entry records.

In Britain, they call the main books of account **nominal ledgers**. **Creditors** – suppliers to whom the company owes money for purchases made on credit – are recorded in a **bought ledger**. They still use these names, even though these days all the information is on a computer.'

Note: In Britain the terms **debtors** and **creditors** can refer to people or companies that owe or are owed money, or to the sums of money in an account or balance sheet.

C Balancing the books

'At the end of an **accounting period**, for example a year, bookkeepers prepare a **trial balance** which transfers the debit and credit balances of different accounts onto one page. As always, the total debits should equal the total credits. The accountants can then use these balances to prepare the organization's financial statements.'

4.1 Match the words in the box with the definitions below. Look at A and B opposite to help you.

credit	ledger	debit
creditors	stock	debtors

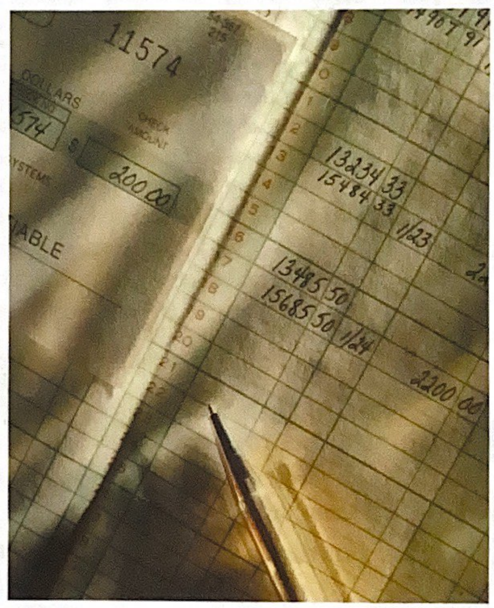
1 an amount entered on the left-hand side of an account, recording money paid out
2 a book of accounts
3 customers who owe money for goods or services not yet paid for
4 an amount entered on the right-hand side of an account, recording a payment received
5 goods stored ready for sale
6 suppliers who are owed money for purchases not yet paid for

4.2 Complete the sentences. Look at A, B and C opposite to help you.

1 .... shows where money comes from and where it goes: it is always transferred from one .... to another one. Every event is entered twice – once as a credit and once as a ....
2 Most businesses record very frequent or numerous transactions in .... or ....
3 The main account books are called .... , and the book relating to creditors is called the ....
4 In order to prepare financial statements, companies do a .... which copies all the debit and credit balances of different accounts onto a single page.

4.3 Complete the sentences using 'debit' or 'credit'. Look at A opposite to help you.

1 If you buy new assets, you .... the cash or capital account.
2 If you pay some bills, you .... the liabilities account.
3 If you buy materials from a supplier on 60 days' credit, you .... the purchases account and .... the supplier's account.
4 If you sell something to a customer who will pay 30 days later, you .... the sales account and .... the customer's account.



Over to you

What qualities does a good bookkeeper need? Would you like to work as a bookkeeper? If not, which type of accounting do you think is the most interesting, and why?