

# AccountAble™

## An introduction to double entry concepts

**Balance** is not an original English word. The original Latin phrase was 'libra bilanx' which means 'a scale with two pans'. From this phrase, the word 'bilanx' passed into French as 'balance'. From there, it was adapted into English almost 700 years ago.

Today, 'balance' has two meanings. 'weighing instrument'. For difference between debit and credit



The general meaning is that of a accountants, it means 'surplus' or figures.

Accountants use this word in many see whether the debit and credit **Sheet** shows the *balances* of accounts on a *sheet* of paper. When an accountant calculates the difference between debit and credit figures, it is called **balancing the accounts**.

ways. **Trial Balance** means trying to amounts are balanced. A **Balance Sheet** shows the *balances* of accounts on a *sheet* of paper. When an accountant calculates the difference between debit and credit figures, it is called **balancing the accounts**.

Double entry accounting is based on the Balance (⚖️) shown above. When you place an amount on one side, the balance tilts to that side. To make it even, you have to place the same amount on the other side also. You end up making two entries for each transaction. That is why this type of accounting is called **Double Entry System of Accounting**.

If you understand this properly, you will have less difficulty in dealing with accountants. The following story about Shankar tries to explain this idea. It uses a physical Balance (⚖️) as a symbol.

## Shankar's Accounting Troubles

In the beginning of the year, accountants start with some previous balances. These are called *opening balances*. Shankar started with three opening balances(⚖️): Cash, Bank and Trust Fund. There was also a Total ⚖️ in the last column. Each ⚖️ had two sides: left and right.

### The Opening Balances

1. At the beginning of the year, Cash ⚖️ and Bank ⚖️ were tilted to Left. Trust Fund ⚖️ was tilted to right. All the figures on left sides were added up and shown on Left side of Total ⚖️. Similarly, total of figures on right sides was shown on Right side of Total ⚖️.

Cash				Bank	Trust Fund	Total
1,000				5,000	6,000	6,000 6,000

### A Cheque is Received

2. Then Shankar received a cheque of 10,000 for a grant. He deposited the cheque at the Bank. Then, in his account books, he put it on the left side of the Bank ⚖️.

Cash				Bank	Trust Fund	Total
1,000				5,000 10,000	6,000	6,000 6,000 10,000

This created a problem. He found

that the Left Side of the Total ⚖️ had become heavier. What could he do?

3. A temporary solution was needed. Shankar decided to bring in another ⚖️. He called it the Grants

Cash	Grants			Bank	Trust Fund	Total
1,000				5,000	6,000	6,000 6,000
	10,000			10,000		10,000 10,000

⚖️. He then put a balancing entry of Rs.10,000 on the Right Side of the Grants ⚖️.

4. Shankar had now become bored with this paper-work. He decided to go out and do some real work. He picked up his motorcycle and went into the field.

**The Purchase of Petrol**

5. On the way, the motorcycle started sputtering. Shankar found that the petrol had finished. He went to a petrol pump and purchased petrol for Rs.100. He put the cash-memo in his pocket.

6. Through the day Shankar visited several villages. He met many people and told them about the People’s Rally planned for 31st October. Shankar also visited the two NFE Centers to see how the children were getting along.

7. Coming back to the office late at night, Shankar read the news-paper and letters. Then Shankar locked up the office and went home.

8. When Shankar reached the office in the morning, he remembered that he had paid Rs.100 for the petrol. He took out Rs.100 from the

Cash	Grants		Bank	Trust Fund	Total
1,000			5,000	6,000	6,000 6,000
	10,000		10,000		10,000 10,000
100					100 100

cash box. Then he put this amount on the Right Side of the Cash :

9. Again Shankar found that the Total  had tilted to the right.

**Another Balance is Needed**

10. Shankar did some thinking. By paying money to the Petrol Pump, he had reduced the cash available. That much was clear because Shankar now had only Rs.900 in the Cash Box. Where should he put the balancing entry? Could he put it on the Left side of the Grants ? After all, the Grant  should also reduce by Rs.100. But Shankar was not sure.

11. Shankar decided to bring in another  for the time being. Shankar called this the Expenses . He then put the 100

Cash	Grants	Expenses	Bank	Trust Fund	Total
1,000			5,000	6,000	6,000 6,000
	10,000		10,000		10,000 10,000
100		100			100 100

rupees on the left side of the Expenses .

12. Shankar was quite happy with the result. He decided to spend the rest of the day in the office. He had to reply to some letters and also write a report of the work done.

**Raju’s Salary is now Paid**

13. In the afternoon, Raju came to the office. His salary had not been paid last month because he had gone home to get married. They exchanged gossip and talked about the work. Then Shankar opened the cash box and paid him Rs.900.

Cash	Grants	Expenses	Bank	Trust Fund	Total
1,000			5,000	6,000	6,000 6,000
	10,000		10,000		10,000 10,000
100		100			100 100
900		900			900 900

14. Following the same rule, Shankar made two entries. The result looked like this:

15. Shankar leaned back and looked at his handiwork. It

looked quite nice. Shankar felt he was becoming quite good at accounts. But the Cash Box was empty and so was the lantern. Shankar filled up the lantern from the Kerosene tin. For the Cash he would have to go to bank the next day.

**Some Cash is Withdrawn**

16. Next day Shankar reached the town early. Before going to the bank Shankar met one of his journalist friends and told her about the Rally. She was very interested and promised to attend. Then Shankar went to the bank and took out Rs.2,000 by cheque.

17. After spending some more time in the town, Shankar went to the field. In the evening Shankar came back to the office and started his balancing game

Cash	Grants	Expenses	Bank	Trust Fund	Total
1,000			5,000	6,000	6,000
	10,000		10,000		10,000
100		100			100
900		900			900
2,000			2,000		2,000

again. He put Rs.2,000 on the Left Side of the Cash. He also put the same amount on the Right Side of the Bank. This time there was no confusion – the Total did not tilt to the Left or the Right:

**The Heavier Columns**

18. Shankar now wanted to check out his work. He decided to total up all the columns and find out which were heavier. The result looked like this:

Cash	Grants	Expenses	Bank	Trust Fund	Total
1,000			5,000	6,000	6,000
	10,000		10,000		10,000
100		100			100
900		900			900
2,000			2,000		2,000
<b>3,000</b>	<b>1,000</b>	<b>1,000</b>	<b>15,000</b>	<b>2,000</b>	<b>19,000</b>
					<b>19,000</b>

**A Trial Balance is Made**

Trial Balance		
Name of	Left Side	Right Side
Cash	2,000	
Grants		10,000
Expenses	1,000	
Bank	13,000	
Trust Fund		6,000
<b>Total</b>	<b>16,000</b>	<b>16,000</b>

19. Taking a piece of paper, Shankar calculated the differences in each. Shankar noted these differences on another paper.

20. Since Shankar was *Trying to Balance*, Shankar called the new paper ‘Trial Balance’.

21. Happily for him, both the sides showed the same Totals. This meant that the Trial Balance was tallied.

**An Accountant’s View**

Shankar used Balances in the story. Accountants call these ‘Accounts’. They also use special books to make their entries. All entries related to Cash are made in a special book called ‘Cash Book’.

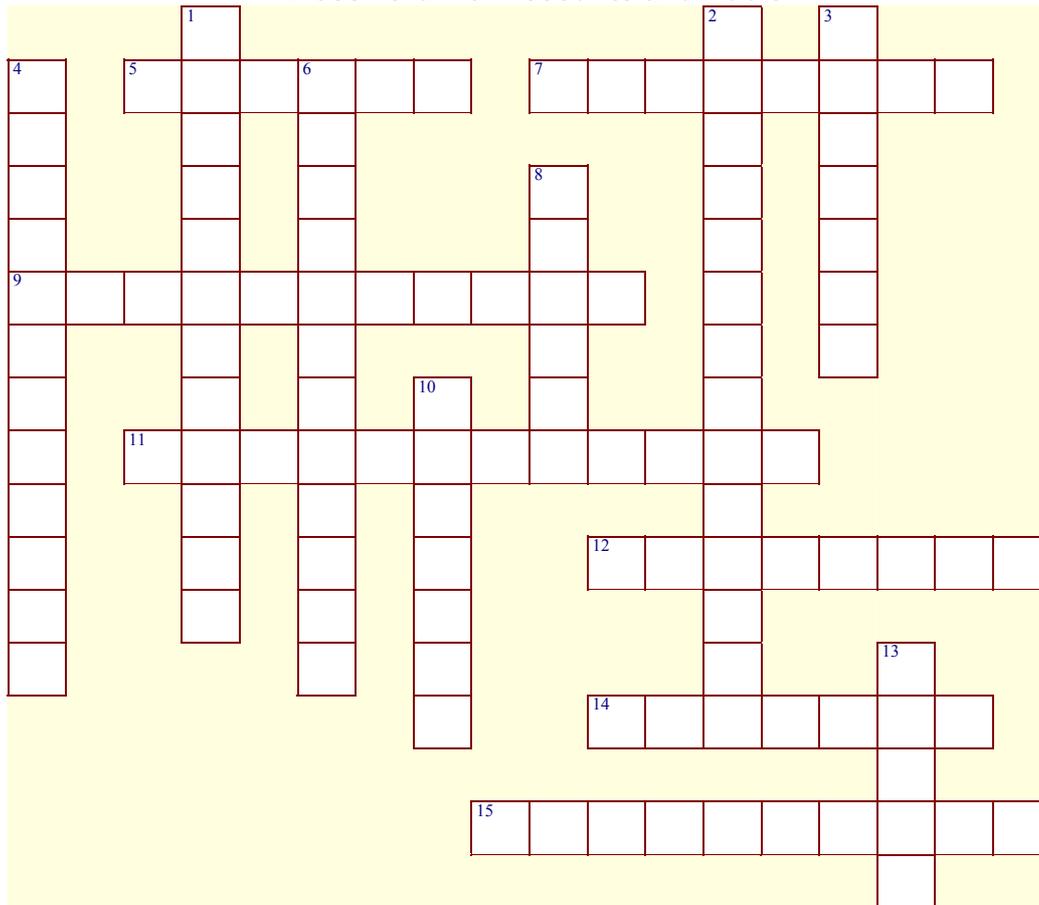
Some people use one of the columns in the cash book to record bank transactions. Others open a Bank Account in the ‘Ledger’.

For each of the entries in the Cash Book, double entry is completed by posting these into a Ledger. In the ledger, separate accounts are opened for each type of expense. An account is also opened for Grant Received. The Ledger may also have accounts for Fixed Assets.

At the end of each month or year, accountants prepare a Trial Balance. This helps them find mistakes. The Final Accounts (Balance Sheet, Income & Expenditure Account) are prepared from this. NGO’s also prepare another statement called Receipts & Payments Account. This gives a summary of all cash and bank transactions during the year.



**Crossword # 3: Accounts and Audit**



**CLUES**

A	C	R	O	S	S
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- 5. A good job – put it on your right (6)
- 7. Once upon a time, they did their job by simply hearing you out (8)
- 9. A system of accounting based on Newton’s Third Law of motion (6,5)
- 11. Only this is left at the end of the year (7,5)
- 12. This is where you make the first entry (4,4)
- 14. What some accountants are passionate about (7)
- 15. What most managers are interested in! (6,4)

- 2. A Balance Sheet wearing this may look very smart (6,8)
- 3. There should be one of this for each item of expenditure (7)
- 4. Some of these assets move around quite a lot (5,6)
- 6. Accountants may crave appreciation but all they get is this (12)
- 8. Many NGO’s would like to have this; but if it dies, refer to section 302 of IPC (6)
- 10. This may sound like something cruel, but it is merely a basis of accounting (7)
- 13. Always on the left side (5)

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Your comments, questions and suggestions on this circular are welcome. Send these to:

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- 1. Something that will often not balance at the first try (5,7)