

# 1.4. Accounts and Transactions

As the balance sheet is a snapshot of the assets as well as liabilities and equity of a company at a specific date, there has to be a way to show the transactions regularly, meaning if there are revenues, payments, new liabilities, etc.

As mentioned above, these transactions have to be monitored constantly. One option would be to change the balance sheet every single time there is a movement. As one can imagine this is far too complicated. Therefore, the other option is more attractive: The balance sheet has to be split into single positions that can be used for the transactions. These positions are called **accounts**. Let us find a definition for this new term:

An account is a double-sided calculation.

The relevant increases and decreases

are placed on the two separate sides.

Therefore, the two sides have different names:

the left side is always called «DEBIT»

whereas the right side is called «CREDIT».

As the balance sheet is double-sided as well, we distinguish between the company's assets or liabilities and equity. Therefore, one has to apply different entry-rules regarding the accounts that are either part of the assets or the liabilities and equity.

Generally, the «**balance brought down**» in an assets account is on the «debit side» (Dr), whereas the «balance brought down» in a liabilities and equity account is on the other side, the «credit side» (Cr). Therefore, the relevant increases are on the same side as the balance brought down, and the decreases on the other. What results in each account at the end of the period is the account balance, which is also called «**balance carried down**».

## Dr and Cr – Abbreviations

Most sources say that Dr and Cr stem from the Latin verbs from «**debere**» and «**credere**», respectively, which Luca Pacioli originally used.

Some think that Dr stands for «**debit record**» and Cr stands for «**credit record**», which may be a modern way of explaining the «r» in «Dr».

## Entries for Assets Accounts

Dr	Assets Account	Cr
Balance b/d		-
+		(decrease)
(increase)		Balance c/d

Let us put that into words.

Dr	Balance b/d plus increases
Cr	Decreases plus balance c/d
→	Debit = Credit

### Abbreviations

#### Balance b/d

= Balance brought down

= Balance brought forward

#### Balance c/d

= Balance carried down

= Balance carried forward

## Entries for Liabilities and Equity Accounts

Dr	Liabilities & Equity Account	Cr
-		Balance b/d
(decrease)		+
Balance c/d		(increase)

Let us put that into words.

Cr	Balance b/d plus increases
Dr	Decreases plus balance c/d
→	Debit = Credit

### Task 1

A bicycle manufacturing company uses the following account for the transactions regarding the open **accounts receivable**.

Let us try to keep the account regarding the following transactions:

#### Accounts receivable

Date	Transactions	Debit	Credit	Balance
1/4	Balance b/d, £20,000	20,000		20,000
5/4	Bill for FastBike Ltd., £3,600	3,600		23,600
8/4	Bank payments of one of the clients, £10,000		10,000	13,600
12/4	Bill for Freewheel Ltd., £5,000	5,000		18,600
18/4	Credit voucher for Freewheel Ltd., £500		500	18,100
28/4	Bank payment from Freewheel Ltd., the remainder is: 4,500 ?		4,500	13,600
29/4	Partial payment to bank from FastBike Ltd., £3,000		3,000	10,600
30/4	Balance c/d		10,600	
	Debit = Credit	28,600	28,600	
1/5	Balance b/d	10,600		10,600

**A** What might be reasons why Freewheel Ltd. got a credit voucher on 18/4?

→ A credit voucher for a product which has been returned

→ A discount granted to Freewheel Ltd.

**B** What happens to the balance c/d remaining on 30/4?

→ It is the balance b/d on 1/5

## Task 2 – Key vocabulary

Please write the German expression on the line on the right.

debit (Dr)

Soll

credit (Cr)

Haben

balance brought forward,  
balance brought down

Anfangsbestand

balance carried forward,  
balance carried down

Schlussbestand

entry

Buchung

balance

Saldo

opening balance

Eröffnungsbilanz

closing balance

Schlussbilanz