

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:

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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**».

Entries for Assets Accounts

Assets Account	

Let us put that into words.

Dr

Cr

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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

Liabilities & Equity Account	

Let us put that into words.

Cr

Dr

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

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

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

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Task 2 – Key vocabulary

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

debit (Dr)

credit (Cr)

balance brought forward,
balance brought down

balance carried forward,
balance carried down

entry

balance

opening balance

closing balance