



# What is double entry bookkeeping?

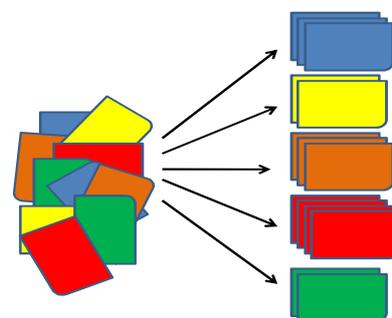
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Here we explain in simple plain language, what double entry bookkeeping is, why it's important. It also gives pointers in how to decide if your organisation can implement double entry bookkeeping using simple 'analysis cashbooks' or whether you need to use a full 'general ledger' system.

## 1 Organising transactions – like sorting the mail

Bookkeeping is basically sorting and organising financial transactions in a systematic way.

Imagine your office messenger collects mail from the post office, brings it back to the office and sorts it into pigeon holes according to the names on the envelopes.



Juliet	Sam
Ibrahim	Mukasa

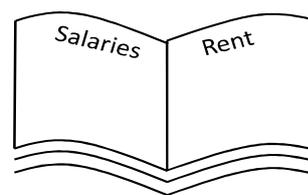
The same thing happens with financial transactions: every financial transaction is allocated to a financial pigeon hole called an 'account'. Imagine your different payment vouchers and receipts being filed in pigeon holes according to the type of money coming in (receipts) or the type of money going out (payments).

Receipts	
Grants	Bank interest
Donations	Rental income

Payments	
Salaries	Rent
Electricity	Travel

## 2 The general ledger

The equivalent of pigeon holes in an accounting system is called a 'general ledger'. In a manual system this is a big book, with a page for each account. The details of any salary payments are written onto the salary page. The details of any rent payments are written onto the rent page etc.



The index page for this book is called the 'Chart of Accounts', which lists the names of all the pages in the book



In a computerised accounting software package, it is exactly the same principle, but with a virtual page on the screen. If you find the 'Chart of Accounts (index)' in the computerised package and select, for instance, 'Salaries' account, it takes you to the screen representing the salaries page. Often, each account will have a code number, as well as a description, eg '2300 Salaries'.

## 3 Single entry bookkeeping

Before understanding double entry, let's first understand single entry!

The motto for single entry bookkeeping is **'Each transaction goes to a financial account'**.

Picture a simple cashbook listing your payments and receipts. Here is an example with just a few payments, but imagine there were 100 or more.

PAYMENTS			
Date	Description	Account	Amount
04-Jan	Office rent	2010	3,000.00
10-Jan	Materials: shovels	2200	1,500.00
15-Jan	Electricity	2535	500.00
25-Jan	Salaries	2300	2,000.00
	<b>Totals for the month</b>		<b>7,000.00</b>

When it comes to the end of the month, you have to prepare a report summarising what you spent on different budget lines, and the only way to do that is to add up all the amounts that relate to the same account, then repeat the process for each account. It is both time consuming, and prone to making errors.

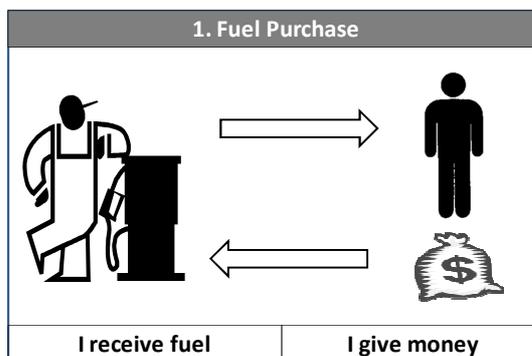
(Note: It is possible to do single entry in an Excel spreadsheet safely and quickly using advanced formulae such as the *sumif* function. Mango's Accounting Pack, which is user friendly and available free from Mango's Guide, has been created on that basis.)

## 4 Double entry bookkeeping – one transaction, two parts

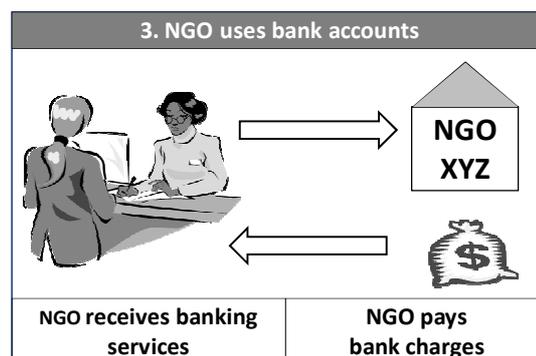
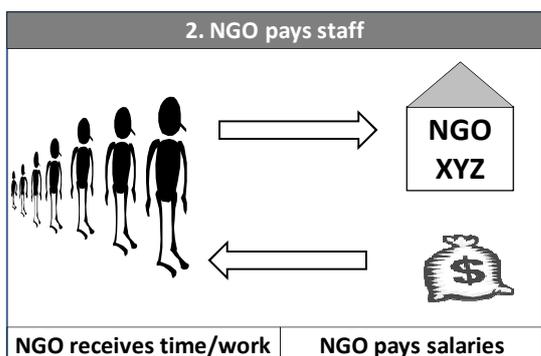
If the motto for single entry is 'each financial transaction goes to a financial account', the motto for double entry is '**each financial transaction goes to two different financial accounts.**'

All financial transactions involve two sides – so there is an exchange of resources.

Consider a fuel purchase. I give (pay) cash and I receive fuel.



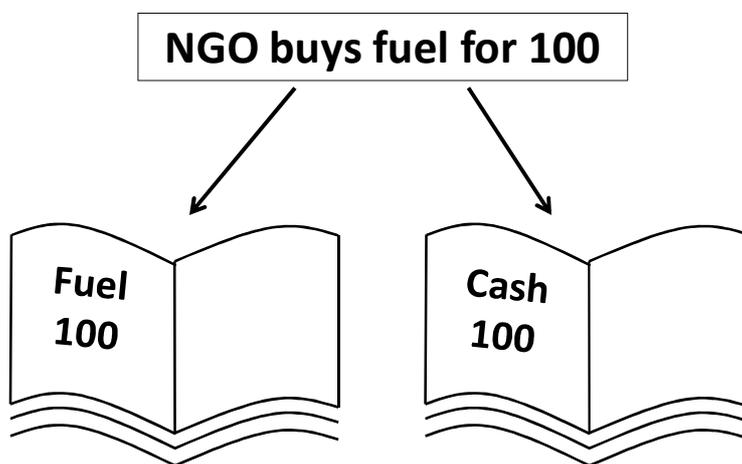
Consider also the following three transactions: paying staff salaries, having bank charges deducted from your bank statements and selling a car.



Notice how, for each transaction, the NGO gives (or pays) something, and receives something.

For each transaction I have, there are two parts to it: I **give** something and I **receive** something. In the double entry system, each part of the transaction is entered into a different page in the general ledger.

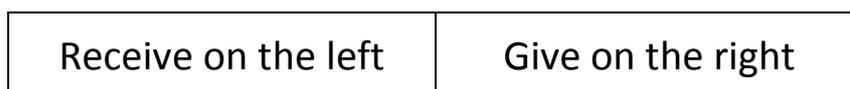
So for the fuel purchase, the 'giving cash' part goes on the **Cash** page and the 'receiving fuel' part goes on the **Fuel** page.



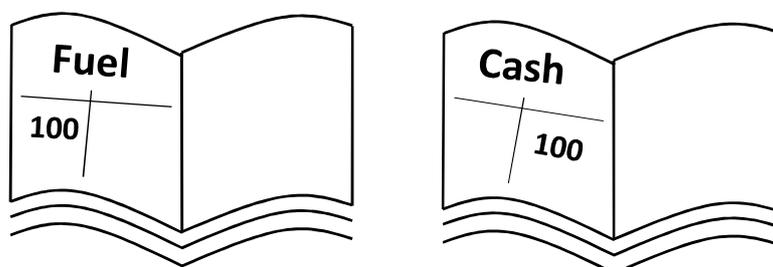
[Same book open on two different pages]

### 5 One page, two sides

That's not all. Each page of the ledger has two sides, a left side and a right side. The left side of the page is for recording when the NGO receives something. The right side of page is for when the NGO gives or pays something.



In the above example, the NGO receives fuel (left hand side of the fuel page), and gives out cash (right hand side of the cash page).



Key rule for double entry: **For every transaction entered into the books, the amount on the left and the right must be the same.** Here that means: 100 on left (fuel received) = 100 on right (cash paid).

## 6 Why is double entry so important?

Why has double entry become the system used all over the world, in cultures as diverse as China, Ethiopia, the Arab world and Europe?

When many transactions have been entered and you need to prepare a report, rather than manually adding down the list (as described in single entry), you can turn to each page and note the totals. That is very **quick and easy**.

You can be confident that there are no errors by writing down the balances from every page, according to whether it is a left balance or a right balance. If the totals on the left are equal to the totals on the right, you can be confident that there have been no errors. That is very **safe and accurate**.

## 7 Debits and Credits

**Myth buster:** you don't need to know these words to understand double entry!

The jargon words for the left and right side of the page, for the giving and receiving parts of a transaction, are **Debit** (shortened to **Dr**) and **Credit** (shortened to **Cr**). A debit represents 'receiving something' and is always on the left. A credit represents 'paying something' and is always on the right. The fuel purchase transaction above could also be written as:

Dr Fuel 100

Cr Cash 100

A good way to remember this (especially you are in the Commonwealth!) is:

Drive on the left	Crash on the right.
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## 8 General ledger index page

When we introduced the idea of accounts (remember the idea of using 'pigeon holes'), we mentioned two types of accounts: receipts (for income) and payments (for expenditure). In fact there are three other types as well, making five types of accounts in all.

- Income
- Expenditure
- Assets (things we own, such as cash, cars etc)
- Liabilities (what we owe, eg to tax authorities)
- Accumulated funds (net worth of NGO built up since it began)

In our fuel purchase example above, payment was made from an asset account (**Cr cash**), and what we received was recorded as expenditure (**Dr Fuel**).

## 9 Bank statements are backwards



**HANG ON!** Surely 'Credit cash' means 'increase cash', ie 'receive cash'? When I receive money onto my bank account, my statement puts it on the credit side. But you've just told me that receiving is on the debit side! How can that be?

The bank statement is produced by the bank's accounting system and shows the transactions as recorded from the bank's point of view, not yours. When you deposit funds onto your bank account, the bank receives your cash, and allocates (gives) it to your customer account (recognising that the bank now owes you money). That is:

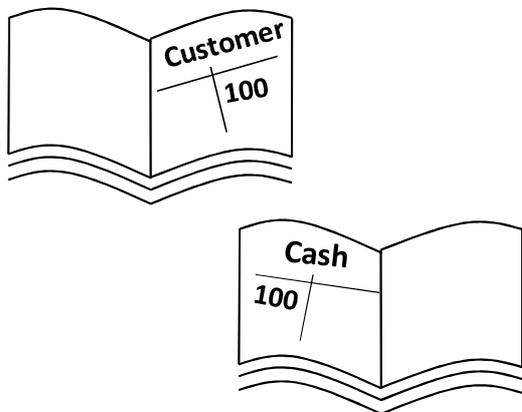
Dr (Receive) Cash (asset)

Cr (Give) Customer account (liability)

So, in the bank's accounting records, a receipt or deposit onto your account is shown as a credit. The bank's records are a mirror image of your own records.

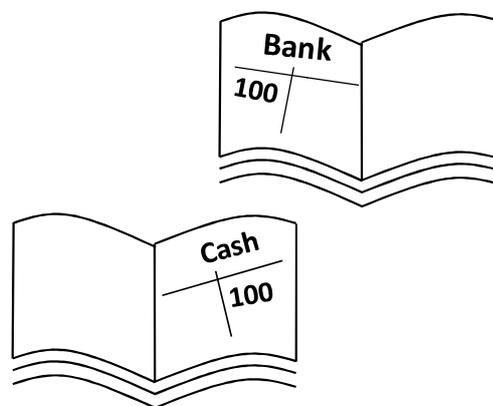
### Transaction: Depositing 100 cash at the bank

#### In the Bank's books...



- The bank receives (Debit) 100 cash
- The funds are allocated (given = Credit) to your customer account 100

#### In the NGO's books...



- Your cashbox pays out (Credit) 100 cash
- Your bank account receives (Debit) 100

## 10 Cash accounting and double entry

For simple cash accounting, where you only record payments and receipts, you can achieve double entry control by using an analysis cashbook.

	A	B	C	D	E	F	G	H	I
1	PAYMENTS								
2					Analysis columns				
3	Date	Description	Code	Amount	Salaries	Electricity	Travel	Phone	Drugs
4	01-Feb	Salaries	2300	500	500				
5	04-Feb	Electricity	2900	250		250			
6	08-Feb	Fuel	2500	670			670		
7	17-Feb	Drugs	2600	1,000					1,000
8	24-Feb	Car hire	2500	230			230		
9	28-Feb	Phone bill	2800	680				680	
10	TOTAL			3,330	500	250	900	680	1,000

Every payment is entered once into column D and again into one of the analysis columns.

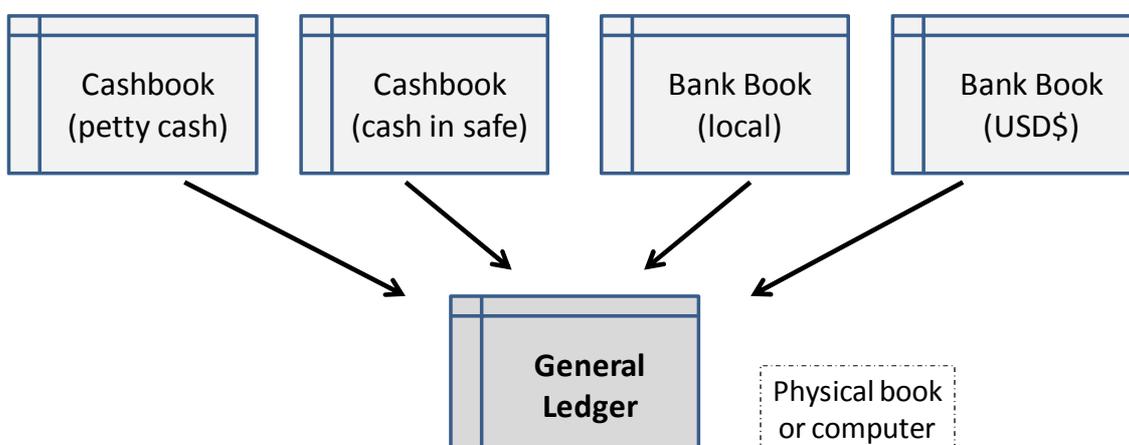
Since everything recorded here is a payment, Column D is equivalent to just the Credit side of the cash page in the ledger.

When you pay, you receive something in return (staff time, power, drugs etc), so Columns E to I represent just the Debit sides of each expenditure page.

How can you check if you have done your double entry correctly? See if all the credits (total in column D, ie 3,300) is equal to the total of all the debits (columns E to I, ie 500+250+900 etc).

## 11 When do I need a ledger?

If your accounting needs are simple, then keep your accounting systems as simple as possible. However, it may be that a simple analysis cashbook is not enough for your organisation and you need to use full double entry accounting, captured in a general ledger (either manual or on computer).



Here are five questions to ask yourself:

**1. Do you have very many transactions and many donors?**

If so, you are probably better off using a computerised accounting package. See Mangos' guide for help in this area.

**2. Do you have many bank accounts and cash floats?**

If so, then you may need to transfer the monthly totals from your cashbooks into a ledger book so that all the transactions are summarised in one place.

**3. Do you need to track amounts owed by debtors or owed to creditors?**

For example, you may have creditors if you:

- Pay taxes after the month end
- Have a loan or overdraft
- Buy goods or services on credit
- Have salary or social security arrears

For example, you may have debtors if you:

- Give staff advances or floats that they spend and account for
- Make payments in advance (eg rent)
- Give loans to staff or anyone else
- Sell on credit

It is possible to track debtors and creditors without using a ledger, but this is single entry bookkeeping.

**4. Do you have non-cash transactions?**

If you have non-cash transactions, these cannot be recorded in a cashbook and should go into a ledger. For example:

- Receiving donations in kind
- Receiving in-kind contributions from community members (such as bricks or labour).

**5. Is it your policy to capitalise your assets?**

Do you show cars, computers etc as assets on your balance sheet? or as capital expenditure in your income and expenditure statement? If it is on the balance sheet, then this is best done using a ledger. You can and should maintain a separate fixed asset register, but on its own, this is single entry bookkeeping.

If you decide that your accounting needs are complex enough that you do need to operate a double entry ledger, then consider getting some training or employing a qualified bookkeeper or accountant.