Accounting records you should keep

The minimum accounting records that will enable a small business to measure its financial operation, as well as comply with the requirements of the law, include the following:

Sales journal

This records the value of each sales invoice and from this information the owner of the business is able to analyse the sales by product or by territory etc. The totals of this journal are posted or transferred to the appropriate accounts in the general ledger. The details of the debtors, or customers, are posted to the debtors account in the debtor's ledger.

Purchases journal

This journal records the amount of each supplier's invoice or monthly statement and once again the expenditure is broken up into the various types. The totals are posted to the appropriate accounts in the general ledger while the details of the suppliers are posted to the supplier's accounts in the creditors ledger.

Cash receipt book

This book records all income received in cash. It is usually broken up into columns to show the various types of income that have been banked into the bank account. The totals are posted to the respective accounts in the general ledger while the entries for the cash received is also recorded in the debtors ledger where money has been received from people to whom we have sold goods or provided services. Although it is called a cash book, it is in fact the book in which you record all your business transactions, whether they are by cash, cheque or credit card.

Entries on the receipt side of the cash book are recorded from your receipts, invoices, or bank deposit book, each individual receipt recorded separately and the total is entered in the bank column when the receipts are banked.

Cash payments book

This book records all outgoing cash. There are a number of columns into which each payment is analysed to show the type of expenditure. Totals are posted to the appropriate accounts in the general ledger while the payment to each creditor is also recorded in the supplier's accounts in the creditors ledger.

Entries for the payments section of your cash book are obtained from credit card dockets and the cheque butts from your cheque book. The cheque butts should be entered into the payments book in the order in which you wrote them out. Make sure that, at the very least, a receipt or a tax invoice or statement is obtained for any payment you make.

It is essential that all payments are made by cheque were possible, and minor purchases, such as postage stamps and parking that do not warrant a cheque, should be recorded under a petty cash system.

General journal

This journal is used to record all other transactions other than those that are recorded in the sales journal and purchases journal and cash book, cash receipts and cash payments book. It also records non-cash transactions, such as depreciation, not shown in the other journals.

General ledger

This ledger is a summary of all the transactions contained in all the books of prime entry (that is, the sales journal, purchases journal, cash receipts book, cash payments book and general journal).

The general ledger is normally shown in segments for assets, liabilities, income and expenses as shown in the diagram. After all the transactions have been posted to this ledger a trial balance (which is a list of all the balances of the accounts) is prepared. It is from this trial balance that we are able to complete the Trading Account, Profit and Loss Account and Balance Sheets of the business.

Debtors ledger

This ledger records for each customer to whom we sell goods the value of the sales made or the services provided and the amounts received in payment as well as the amounts that are still owing by the customer.

Creditors ledger

This ledger records the value of all the goods and services received from each supplied and also the amounts paid the supplier and the amounts that we still owe.

Why double entry?

For every transaction that is recorded there are two entries always required. This is because any change in one account automatically results in a change in another account. (for example, if a customer purchases goods from you and pays cash for it then the balance in your cash receipts journal increases and at the same time your account for stocks is decreased). Both changes must be recorded.

The means by which these are recorded is by way of debit and credit entries. In double entry, accounting for each transaction means that the total debit amount must equal the total credit amount (that is, they must balance and at any time be equal) If for any reason these amounts are not equal, a transaction has been recorded incorrectly and checks should be carried out.

Further information

The following fact sheets provide further information on these issues:

- Balance sheet ratios
- Business records you should keep
- Business sale contract
- Control against fraud
- Control liquidity
- Control your business records
- Control your debt
- Dealing with fraud in your business
- Financial analysis overview
- The importance of record keeping