

The double-entry system for expenses and revenues

In order to calculate the new capital it will be necessary for the accountant to calculate profits or losses. Normally the final account outlining the firm's Net Profit/Loss is calculated once a year because of the time required to gather all the necessary information. However, some businesses calculate it every six months.

The accountants will need to gather the information on the firm's expenses and revenues for the time period in question so that the profit or loss can be calculated. To serve this purpose a separate account is opened for each type of expense and each type of revenue. For instance there may be accounts as follows:

- *Rent Account* - Expense
- *Wages Account* - Expense
- *Salaries Account* - Expense
- *Telephone Account* - Expense
- *Rent Receivable Account* - Revenue
- *Postages Account* - Expense
- *Stationary Account* - Expense
- *Insurance Account* - Expense
- *Motor Expenses Account*
- *General Expenses Account*

Notes

- 1- *Expenses* are defined as the day to day costs of running a business.
- 2- *Revenues* are the sources of incoming money that arrive mainly from sales in most firms.
- 3- Infrequent or small items of expense are usually put into a '*Sundry Expenses Account*' or a '*General Expenses Account*'.
- 4- All Expenses are debited (Dr) on the left-hand side of 'T' account.
- 5- All Revenues are credited (Cr) on the right-hand side of the 'T' account.

Example

June 1 Paid for postage stamps by cash \$50

June 2 Paid electricity by cheque \$229

June 3 Received rent in cash \$138

June 4 Paid insurance by cheque \$142

Dr	Cash Account		Cr
	\$		\$
June 3	Rent Received	138	June 1
			Postages 50

Dr	Bank Account		Cr
	\$		\$
			June 2
			Electricity 229
			June 4
			Insurance 142

Dr	Electricity Account		Cr
	\$		\$
June 2	Bank	229	

Dr		Insurance Account		Cr	
		\$		\$	
June 4	Bank	142			

Dr		Postages Account		Cr	
		\$		\$	
June 1	Cash	50			

Dr		Rent Receivable Account		Cr	
		\$		\$	
			June 3	Cash	138

