



Leeds Enterprise Advisory Programme

www.leedsenterprise.co.uk
leapinformation@yahoo.co.uk

One of the Companies asked the following questions:

"I now think I understand how the sheet works, but I can't work out what CR and DR mean! On all the sheets CR refers to money going out (costs, cash - bank transfers etc.) and to money coming in, except for the ETB sheet, where they are reversed. Is this a mistake, or is there something I don't understand?"

I am also having difficulty with the ETB sheet in general. For example, what Trial Balance DR column refer to? It would be very helpful if I could get some sort of summary about what each column means in the sheet.

The figure of money I have for cash in the accounts is negative. This seems to be because I have recorded a large transfer of cash to bank, because that is what I did with the share money. But the share capital that I received is not counted as cash, its simply placed into the profit and loss records. It doesn't make any difference to the figures, but I am obviously not in the possession of a negative amount of cash.

Is there any way to sort this?"

The answers from the expert Ashley Carr.

As long as the purchase, sales and cashbook sheets are entered correctly, then the ETB (other than closing stock) takes care of itself.

It is accountancy convention that DR stands for Debit, and CR stands for Credit.

To say a CR refers to money going out and a DR refers to money coming in, is a bit misleading, as for all accountancy transactions, there is a DR and a CR entry for each one (double-entry bookkeeping).

For example, if you make a payment from your bank of £20 for stationery, then the stationery account in the profit and loss account will be debited with £20 and the bank will be credited with £20. This is because the debit entry in the P&L is an expense and the credit entry against the bank is a liability (to the bank).

Nothing is reversed on the ETB, the figures in the ETB are simply mapped from the cashbook totals (the spreadsheet does this automatically), so a DR balance in the cashbook is a DR balance in the ETB, and a CR balance in the cashbook is a CR balance in the ETB. The trial balance is a list of all the balances and is **extended** to either the P&L account **or** the balance sheet (hence ETB). The balance sheet shows the assets and liabilities of a company, whereas the P&L account records income and expenditure as a result of the company trading. If the company were to trade for a second year, then the balance sheet balances would be carried forward to the following year, whereas P&L items are written off in the year of taking place.

The following summary will hopefully help in the understanding of what DR and CR mean on the ETB.

Trial balance:	DR	= expense in P&L or asset on balance sheet
	CR	= income in P&L or liability on balance sheet

Profit and Loss:	DR	= expense
	CR	= income

Balance Sheet:	DR	= asset
	CR	= liability

Unlike a bank balance, that can either be shown as an asset or a liability on a balance sheet, depending on whether the balance is positive or overdrawn respectively, cash always has to have a debit balance. You cannot have a balance of -£5 in your cashbox. You start of with a cash balance of zero and through the selling of shares and other receipts you build up a debit balance (shown as an asset on the balance sheet). Any cash to bank transfers will be recorded by crediting your cash balance and debiting your bank balance, all you are doing is decreasing the asset of cash and increasing the asset of bank. Obviously, you cannot transfer more cash than you have got and therefore your cash balance can never show a credit balance. A negative balance indicates that the double-entry has been entered incorrectly somewhere in the cashbook, but should be easy to identify.

Cash to bank transfers do not require any analysis, as this will have been already completed when the cash was received in the first place.

Share capital has nothing to do with the profit and loss account whatsoever, as the double- entry for the sale of shares is debit cash or bank (assets) and credit share capital (a liability to the shareholders).

The DR and CR columns in the cashbook are colour co-ordinated to help with the double-entry bookkeeping.