	and that shown on the statement.	made to the buyer. • Amount owed by the credit buyer.
Credit note	A document issued by a seller to a buyer for goods returned by the buyer or to correct an overcharge on the invoice.	• Particulars of the seller and buyer • Details of goods returned e.g. quantity, price, value, VAT
Debit note	• A document sent by a buyer to a seller in respect of goods returned or over payment made. • It is also sent to correct an under charge on the invoice (as a supplementary invoice). • It is a formal request for the seller to issue a credit note. • A debit note might be issued to adjust an invoice already issued.	• Particulars of the seller and buyer • Details of goods returned/
Remittance advice	• A document sent to the seller with a payment, showing the invoices paid and credit notes offset. • It helps the seller to identify invoices paid and those outstanding. • It confirms the amount paid so that any discrepancies can be investigated.	• Amount paid • Method of payment • Invoice number, account number, date
Receipt	• A document issued by the seller to the buyer, acknowledging money received. • It is also called [illegible]	• Particulars of the seller and buyer • Details of payment received
Bank statement	• A document issued by the bank to a customer showing transactions on the customer's bank account during the period. • It is used to reconcile the balance in the cash book and the balance on the bank statement, to check that there are no errors or fraud.	• Particulars of the bank, buyer and account. • Balances at the beginning of the period. • Dates and amount of withdraws. • Dates and amounts of deposits. • Balances at the end of the period.

Read about other documents like the:

- Payment voucher
- Petty cash voucher
- Cheque
- Cheque counterfoil
- Pay-in slip (Banking slip)

NB The formats of the documents vary in different entities. See sample documents in various

A ledger account in a computerized system may simply be a list of an opening balance, debit entries, credit entries and a closing balance. Consider the example of a statement for a bank account from an Automated Teller Machine (ATM).

Classification of ledger accounts and the debit and credit rules

There are two types of classification of accounts.

Modern classification

Today, accounts are classified according to the five elements of financial statements as follows:

- **Asset accounts** include machine account, furniture account, office equipment account, motor vehicle account, inventory account, receivables accounts, bank account, and cash account.
- **Equity accounts** include the capital account.
- **Liability accounts** include payables accounts and bank loan account.
- **Income accounts** include the sales account, interest income account and rent income.
- **Expense accounts** include salary account, electricity account and rent expense account.

In addition to the five types of accounts, there is a drawings account that reduces equity. Below are the accounts types and their debit and credit rules.

Assets

Debit	Credit
Increase	Decrease
Normal balance	

Equity

Debit	Credit
Decrease	Increase
	Normal balance

Liabilities

Debit	Credit
Decrease	Increase
	Normal balance

Expenses

Debit	Credit
Increase	Decrease
Normal balance	

Income

Debit	Credit
Decrease	Increase
	Normal balance

Drawings

Debit	Credit
Increase	Decrease
Normal balance	

The following explanations assist one in understanding the debit and credit rules above:

- Whether an account is debited or credited depends on the type of account and the nature of transaction.

- Payment of cash for rent: Debit Rent account
  Credit Cash account

- Receipt of cash for rent: Debit Cash account
  Credit Rent income

- Payment of rent by cheque: Debit Rent account
  Credit Bank account

- Withdrawal of cash for personal use by the owner: Debit Drawings account
  Credit Cash account

- Receipt of interest income from the bank: Debit Bank account
  Credit Interest income account

- Deposit of cash in the bank: Debit Bank Account
  Credit Cash Account

- Withdrawal of cash by cheque for the business: Debit Cash Account
  Credit Bank Account

Example 4

Record the following transactions in the ledger accounts for Babu.

Bought goods for cash at Shs 600,000.

Paid Shs 150,000 cash for rent.

Sold goods for cash at Shs 400,000.

Bought a bicycle for the business [illegible] at Shs [illegible]00,000.

Bought goods for [illegible] 00,000.

S[illegible] Shs 100,000.

T[illegible] bought personal airti[illegible]

Double entry for credit purchases, credit sales, payment to creditors and receipt of money from debtors

These are transactions where goods and services are sold but payment or receipt of money is made at a later date. Source documents include sales invoices, purchase invoices and receipts.

- Purchase of inventory on credit: Debit Purchases account
  Credit Trade accounts payable

- Payment of cash to a credit supplier: Debit Trade accounts payable
  Credit Cash account

- Payment of a credit supplier by cheque: Debit Trade accounts payable
  Credit Bank account