

- Real accounts الحسابات الحقيقية
- Nominal accounts الحسابات الاسمية

(1) Personal accounts الحسابات الشخصية

Personal accounts are defined by personal names including all types of economic entities such as corporations, Firms , universities... etc.

- (a) Ali's account (A/c).
- (b) Al-Muthana university (A / c).
- (c) Customers of credit sales (debtors).
- (d) Suppliers of credit purchases (creditors) .

(2) Real accounts الحسابات الحقيقية

Real accounts are the assets accounts either tangible or intangible assets (أصول ملموسة أو غير ملموسة).

Examples: Cash, Building, furniture, land.

(3) Nominal accounts الحسابات الاسمية

Nominal accounts are the accounts of revenues, gains, expenses, losses. At the end of the accounting period nominal accounts are closed in final accounts (الحسابات الختامية) : Trading account (حساب المتاجرة) , profit and loss account(حساب أرباح وخسائر) or income statement (قائمة الدخل).

Examples:

- (1) Sales (A/c).
- (2) Purchases (A/c).
- (3) Utilities (A/c).
- (4) Rent (A/c).

(5) Losses from selling a fixed asset (A/c).

For application of the accounting purposes (profit or loss, financial position, financial reports etc.), it would be daily recording the transactions in the accounting books with its monetary value and by systematic and chronological manner.

These accounting procedures are incurred by using the two following systems:

- 1) Single Entry System
- 2) Double entry system

C- SINGLE ENTRY SYSTEM نظام القيد المفرد

Single entry system may be defined as a system which does not strictly conform to the double entry system of bookkeeping. As a general rule under the single entry practice only the personal aspects of the transactions are recorded and the nominal and real aspects are omitted altogether. As the name implies, the single entry system does not take into account the double affect of every transaction. The ledger contains only the personal accounts of debtors and creditors, all impersonal accounts such as purchases, sales, wages, carriage, rent etc., are not recorded. Thus the system does not consider the two fold aspect of every transaction. In short single entry system may be called a mix of double entry, single entry and no entry.

1- Definition and Explanation of Single Entry System:

تعريف وتوضيح نظام القيد المفرد

(1) Definition of Single Entry System تعريف نظام القيد المفرد

A system of accounting in which each transaction is recorded only once. In this system, separate records showing amounts due and amounts owed are kept on customers, creditors, and cash.

(2) Explanation of Single Entry System توضيح نظام القيد المفرد

(a) The books used السجلات المستخدمة

- Cash Movement Book (سجل حركة النقد): it contains the transactions of receipts and payments.

- Debtors Book (سجل المدينين): an account is opened for each client or customer, and recorded in this account the sales on credit deducted the amounts paid and returned by him.
- Creditors Book (سجل الدائنين): an account is opened for each supplier (creditors), and recorded in this account the purchases on credit deducted the amounts paid to him.

(b) Summary of Single Entry System ملخص نظام القيد المفرد

At the end of each period shows the following:

- 1- Balance of cash: balance of cash at the end of the period (Beginning balance 1/1 + receipts – payments).
- 2- Balance of debtors: Balance of clients at the end of the period (Beginning balance 1/1 + transactions on credit – Amounts received).
- 3- Balance of creditors: Balance of suppliers at the end of financial period (Beginning balance 1/1 + transactions on credit – amounts paid).

The next steps must follow to know how the profit and loss of enterprise is determined:

- (1) Prepare a statement of assets by overall physical inventory, because the enterprise do not kept the systematic records, cash, bank, furniture, equipment, and building.
- (2) Prepare a statement of debtors (clients): this statement is extracted from the debtors' records.

(3) Prepare a statement of creditors (suppliers): this statement is prepared by help of the supplier's record (liability for others)

(4) Make the total of assets

$$\text{Total Point (1) + Total Point (2)}$$

These two totals represent together the total worth of enterprise's property.

(5) Determine the total of creditors or suppliers' statement, point three, that means the total of accrued liabilities (creditors) on enterprise.

(6) Determine the difference between the total of Point (4) and the total of Point (5). This difference represents the capital at the end of the financial period.

$$\text{Capital 31/12} = \text{Point (4)} - \text{Point (5)}$$

(7) The difference between capital (31/12) and capital (1 /1) represents the profit or loss of the enterprise.

$$\text{Profit or loss} = \text{Capital 31/12} - \text{Capital 1/1}$$

Note: The financial period different from enterprise to another, it can be three months, six months, one year (usually).

Exercise (1)

- September 1, 2011 Ahmed started his business by capital IQD 10000 (in thousands IQD).
- December 31, 2011 an inventory made for the assets and liabilities as follow:

Assets	IQD	Liabilities	IQD
Cash	3000	Creditors	6500
Debtors	5500	Loans	5000
Goods	9000		
Furniture	4500		
Equipments	2000		
Machines	14500		

Required: determine the profit or loss of the enterprise.

Solution:

Total Assets = $3000+5500+9000+4500+2000+14500= 38500$ IQD

Total liabilities = $6500 + 5000 = 11500$ IQD

Capital 31/12 = $38500 - 11500 = 27000$ IQD

Profit or loss = capital 31/12 – capital 1/1

$$27000 - 10000 = 17000 \text{ IQD}$$

Note: The additions to capital or deductions from capital during the financial period, and the drawings per personal use, either cash or goods, must consider for determination the real result (profit or loss) as follow:

(1) Increase of capital – additions + drawings = Real profit

(2) Decrease of capital + additions – Drawings = Real loss

The above equations can be explained by the following equations:

$$\text{Real Profit} = \text{Capital } 31/12 - (\text{Capital } 1/1 + \text{Additions} - \text{Drawings})$$

$$\text{Real Profit} = \text{Capital } 31/12 - \text{Capital } 1/1 - \text{Additions} + \text{Drawings}$$

$$\text{Real Loss} = \text{Capital } 1/1 - (\text{Capital } 31/12 - \text{Additions} + \text{Drawings})$$

$$\text{Real Loss} = \text{Capital } 1/1 - \text{Capital } 31/12 + \text{Additions} - \text{Drawings}$$

Exercise (2)

- October 1, 2011 Amjed started his business by cash IQD 50000 (in thousands IQD).
- December 31, 2011 he made an inventory of the assets and liabilities as follow :

Assets	IQD	Liabilities	IQD
Cash	15000	Creditors	15000
Bank	10000	Loans	25000

Goods	30000		
Furniture	5000		
Cars	20000		
Equipments	25000		

Additional information: The Additions and drawings through the period were as follow:

- Additions IQD 10000
- Drawings IQD 5000

Required: Compute the profit or loss of the enterprise.

Solution:

Total Assets = 15000 + 10000 + 30000 + 5000 + 20000 + 25000 = 105000 IQD

Total liabilities = 15000 + 25000 = 40000 IQD

Capital 31/12 = Total Assets - Total liabilities

Capital 31/12 = 105000 – 40000 = 65000 IQD

Increase of capital = Capital 31/12 – Capital 1/1

Increase of capital = 65000 – 50000 = 15000 IQD

Real Profit = Increase of capital – Additions + Drawings

Real Profit = 15000 – 10000 + 5000

Real Profit = 10000 IQD

Or, we can use the following equation:

Real Profit = Capital 31/12 – (Capital 1/1 + Additions – Drawings)

Real Profit = Capital 31/12 – Capital 1/1 – Additions + Drawings

Real Profit = 65000 – 50000 – 10000 + 5000 = 10000 IQD

2- Defects/Limitations/Disadvantages of Single Entry System:

The limitations or defects or disadvantages of single entry system may be summed up as follows:

(1) Limitations of single entry system محددات نظام القيد المفرد

We can see that the single entry system not practice in the great and middle projects which require the results of their performance because of the following reasons:

- 1) The single entry system not usually uses “systematic records “.
- 2) The records of assets (fixed assets, current asset, liabilities, expenses, losses, revenues and gains) do not exist in the single entry system.
- 3) It is difficult to know accurately and quickly the results of profits and losses of the projects by using this system.
- 4) It is difficult to know accurately at any time we want know the financial position of the project by using this system because the inventory overall process spent more time and efforts.
- 5) The single entry system not corresponds with the generally accepted accounting principle.
- 6) The application of single entry system due to some problems while we determine the taxes ,selling or liquidation of the project ,demand of the loan because of not using the systematic records which are necessary to get the real situation of financial position and revaluation of assets for example .

(2) Disadvantages of Single Entry System عيوب نظام القيد المفرد

The disadvantages of single entry system may be summed up as follows:

- (1) Under this system only partial and incomplete record is maintained because two aspects of transactions are generally ignored.
- (2) As the two aspects of every transaction are not recorded, a trial balance cannot be drawn up to test the arithmetical accuracy of the records.
- (3) A nominal accounts are not maintained, a profit and loss account cannot be prepared for want of information regarding the various income and expenditures.
- (4) As no real accounts are maintained, the preparation of balance sheet is not possible.

D- DOUBLE ENTRY SYSTEM نظام القيد المزدوج

Double- Entry accounting is an accounting system in which each transaction affects and is recorded in two or more accounts with equal the debits and credits.

Double - Entry system considers that each account related with the transaction should be affected, separately, either increases or decreases.

In order to identify the debit accounts and credit accounts, there are two approaches:

1-Traditional approach المدخل التقليدي

The traditional approach is based on the concept of "Personification" (الشخصنة). It deals with the accounts receiving benefit is debit and the account which issues benefit is credit, in other words:" **The Debit is the receiver and the credit is the giver**". (المدين هو الآخذ والدائن هو العاطي)

The followings are the main principles of double entry system:-

- Every transaction has two sides.
- One account is the receiver of benefit.
- Other account is the given of benefit.

2- Modern approach المدخل الحديث

This approach of double entry for identifying the debit account and credit account according to the following rules concerning the components (elements) of **accounting equation (Balance sheet equation)** المعادلة المحاسبية:

$$\text{Assets} = \text{Liabilities} + \text{owner's equity}$$

Assets represent uses (applications) of funds while equities (liabilities and owner's equity) represent sources of funds. For every use of fund there is a source of fund.

E- ACCOUNTING EQUATION

المعادلة المحاسبية

Owner's equity is defined as the difference between the total of business assets and liabilities. The definition of owner's equity can be stated in the following equation:-

$$\text{Assets} - \text{Liabilities} = \text{Owner's Equity (capital)}$$

Expenses decrease owner's equity and revenue increase owner's equity. Thus profit increase capital and loss decrease capital. The owner's equity can be represented in the following equation:-

$$\text{Owner's Equity} = \text{Total of Assets} - \text{Creditors (Current Liabilities)}$$

Owner's Equity can also be expressed as proprietor's funds.

Proprietor's funds = (Fixed assets+ Stock+ Liquid Assets) – (Current Liabilities).

Or:

Owner's Equity= Capital + Retained earnings + Reserves and Surplus.

The same can be expressed in terms of an equation:-

$$\mathbf{C = A - L}$$

Where:-

C = capital, A = Assets, L = Liabilities

Thus

$$\mathbf{C + L = A}$$

$$\mathbf{A = C + L}$$

The above equations can further be explained as follows:-

$$\mathbf{Assets + Expenses = Capital + Liabilities + Revenue}$$

F- GENERAL RULES OF RECORDING

قواعد عامة للتسجيل

1- General Rules of Accounting Equation

قواعد عامة للمعادلة المحاسبية

(1) Assets

- (1) All assets accounts normally have debit balances.
- (2) An increase in an asset is recorded on the left (debit) side of the account.
- (3) A decrease in an asset is recorded on the right (credit) side of the account.

Any Asset Account

Debit (Dr.) مدين	Credit (Cr.) دائن
Increase زيادة	Decrease نقصان

(2) All liabilities and Owner's Equity

- (1) All liability and owner's equity accounts have credit balance.
- (2) An increase in a liability or an owner's equity is recorded on the right (credit) side of the account.
- (3) A decrease in a liability or an owner's equity is recorded on left (debit) side of the account.