

Accounting Foundations

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2 Real and Nominal Accounts

The accounts we have met so far, Cash, Bank, Capital, Vehicle, Premises, Machinery, Computer Equipment, Office Furniture, Machinery, Premises, A Bell (creditor), ... are all *real accounts*. Real accounts represent assets and liabilities.

But *nominal accounts* represent neither an asset nor a liability. Such accounts might be named Purchases (of goods for resale), Sales (of those same goods), Rent, Rates, Wages, Light and Heat. Nominal accounts represent expenses and income from the sale of goods and services.

Example 2.1

1 June We purchase goods for resale for £500 and pay cash.

DR	Cash	CR
	£	£
	1 Jun	Purchases
		500

To meet the double entry requirement we record a debit in the Purchases account.

DR	Purchases	CR
	£	£
1 Jun	500	
Cash		

The Cash account is the real account and the cash paid for the goods is recorded as a credit (since cash in the account is reduced). The Purchases account is the nominal account and the cash paid for the goods is recorded in this account as a debit.

2 June We purchase £1,000 of goods for resale on credit from E Den. The real account is the creditor E Den.

DR	E Den	CR
	£	£
	2 Jun	Purchases
		1,000

Purchases is the nominal account.

DR		Purchases	CR
		£	£
1 Jun	Cash	500	
2 Jun	E Den	1,000	

Any purchase of goods for resale will be credited to either Cash, Bank or a Creditor, and will always be debited to a Purchases account.

June 3 Next, we have two sales, one for £800 cash, one on credit to F Fluent for £1,400. We first debit both real accounts.

DR		Cash	CR
		£	£
1 Jun	Capital	60,000	2 Jun Purchases 500
3 Jun	Sales	800	

DR		F Fluent	CR
		£	£
3 Jun	Sales	1,400	

Then we credit the Sales account.

DR		Sales	CR
		£	£
			3 Jun Cash 800
			3 Jun F Fluent 1,400

All sales involve a debit entry in either Cash, Bank or a Debtor's account, and a credit entry in the Sales account.

June 4 Finally, we pay wages £100 cash, and rent £150 cash.

DR		Cash	CR
		£	£
1 Jun	Capital	60,000	2 Jun Purchases 500
3 Jun	Sales	800	4 Jun Wages 100
			4 Jun Rent 150

DR		Wages	CR
		£	£
4 Jun	Cash	100	

DR		Rent	CR
		£	£
4 Jun	Cash	150	

Wages and Rent are both nominal accounts.

In general we use a separate nominal account for each kind of expense. Usually, in the ledger, we separate the real accounts from the nominal accounts.

Exercise 2.1

1. Post the transactions shown below to G Wizz's accounts. Remember to separate the real accounts from the nominal accounts.

- May 1 G Wizz starts a business selling books with £100,000 cash.
- May 2 Buys premises for £60,000 cash.
- May 3 Buys shop fittings for £5,000 cash.
- May 4 Pays £20,000 cash into a business bank account.
- May 5 Purchases books for £6,000 - pays by cheque.
- May 7 Pays rates by cheque - £420.
- May 9 Purchases office furniture for £2,000 - pays by cheque.
- May 12 Sells books for £1,880 cash.
- May 14 Purchases books for £8,400 on credit from H Otell.
- May 16 Pays insurance premium of £180 by cheque.
- May 17 Pays wages of £860 in cash.
- May 19 Purchases books for £1,600 from I Deal on credit.
- May 20 Sells books for £4,200 cash.
- May 21 Sells books for £8,200 on credit to J Me.
Buys more office furniture for £1,600 - pays by cheque.
- May 22 Pays wages of £980 in cash.
Pays £130 cash for stationery.
Pays £280 electricity bill by cheque.
- May 27 Sells books for £4,800 cash.
Sells books to K Nine for £3,300 on credit.
- May 28 Pays cheque for £4,200 to H Otell in part settlement of his account.
Receives cheque for £2,600 from J Me in part settlement of her account.
- May 31 Sells all remaining books in stock for £1,660 cash.

2. Post the transactions shown below to L Der's accounts. Remember to keep the real accounts separate from the nominal accounts.

- Jun 1 Starts business with £160,000 cash
- Jun 2 Purchases warehouse for £80,000 cash.
- Jun 3 Purchases bicycles for resale for £14,000 on credit from M Pty.
- Jun 4 Pays £60,000 cash into a bank current account, and £10,000 cash into a bank deposit account.
- Jun 6 Sells some cycles for £4,800 cash.
- Jun 7 Pays rates of £1,240 by cheque.
- Jun 10 Buys vehicle for £7,000. Pays by cheque.
- Jun 12 Pays vehicle insurance £300 by cheque.
Pays vehicle tax £170 by cheque.
Purchases petrol for £36.00. Pays cash.
- Jun 16 Pays wages £620 cash.

- Jun 18 Purchases tools for £800, pays by cheque.
- Jun 20 Sells some cycles for £4,800 to N Nuff on credit.
- Jun 22 Purchases more cycles for £6,000 from M Pty on credit.
- Jun 24 Pays telephone bill, £160 by cheque.
- Jun 27 Pays wages in cash, £560.
- Jun 28 Sells all remaining cycles in stock for £15,000 to O Pinion on credit.
- Jun 30 Pays general expenses of £1,600 in cash.

3. Write up the accounts for P Knutt from the information shown below.

- Jul 1 P Knutt starts business as a painter and decorator with £4,000 cash.
- Jul 2 Purchases ladders for £140. Pays cash.
- Jul 4 Purchases brushes, plastic sheeting, and other equipment for £80 cash.
- Jul 6 Pays insurance premiums, £120 cash.
- Jul 7 Pays £3,000 cash into a business bank account.
- Jul 10 Purchases paint and wallpaper for Job #1 for £180 on credit from Q Beck.
- Jul 16 Completes Job #1 and receives £400 from customer (cash).
- Jul 18 Pays assistant's wages, £80 cash.
- Jul 20 Purchases materials for Job #2 for £320 - pays by cheque.
- Jul 26 Completes Job #2 and issues bill for £1,080 to customer, R Right, for payment in 30 days time.
- Jul 27 Purchases vehicle for £1,600 - pays by cheque.
- Jul 29 Pays account of Q Beck in full by cheque.

Hint. You might like to consider money received from customers as Sales, and money paid for materials such as paint and wallpaper as Purchases.

We have seen how transactions are posted to both real and nominal accounts **Next**, we look at the trial balance.

Bibliography

HARRISON W *Stage One Financial Accounting* Northwick Publishers 1986 pp 27..37