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Accounting Problems and Solutions - Why We Still Need To Understand Double-Entry Bookkeeping

By [Philip Ramage](#)

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"Why do we need to worry about the ins and outs, and the whys and wherefores of double-entry bookkeeping, the computer takes care of all that boring stuff", I heard a junior colleague of mine ask recently. "Goodness me, look how short-sighted you are", I replied. True, the computer program should be able to take care of the majority of day-to-day routine transactions, but situations frequently arise when anyone in an organisation, of whatever size, from a financial director to a junior data-input clerk, may require to show they have, at least, a basic understanding of the principles of double-entry bookkeeping; a system that evolved in Italy, late in the 15th century and which is still the basis of all accounting and bookkeeping software available today, from the most simple, to the most sophisticated.

Here are a few reasons why:

* Not every enterprise has a computer. Many small operations try to make do either without regular record keeping, or make a mess of trying to maintain a manual system. Either of these scenarios can lead to:

I. Huge accountancy bills at the end of the Financial Year

II. Missing out on the opportunity of being able to maximise ones profitability and, just as importantly, enjoy a positive cash flow, by analysing the data flowing from a properly maintained system.

It is still perfectly acceptable for any small business to keep a manual set of books. However the most important thing is...If you are going to do it, do it right.

That means that every successful small businessman or woman must have a basic knowledge of double-entry bookkeeping.

* Any person who sets-up a computerised system must have an extremely good knowledge of double-entry bookkeeping. Accounting errors made at this early

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stage, can, and will, lead to disastrous outcomes later on; for example:

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- I. Classifying an asset account as a liability account
- II. Mucking up the input of opening balances by not knowing which accounts should start with a debit balance and which should start with a credit balance
- III. Not ensuring that subsidiary ledgers balance with the main ledger

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Examples of the effects of these errors could be:

- I. Losing control of debtors
- II. Losing control of creditors
- III. Getting the computer to produce inaccurate reports, which, because they were computer generated, everybody from the managing director down would assume to be the gospel truth.

* Senior accountants must have a knowledge of "what should be where" to enable him or her to correctly analyse computer output, before preparing reports for the management. Some specific circumstances are:

- I. Being able to consolidate reports of individual parts of the business into a single report reflecting the performance of the enterprise as a whole
- II. Being able to produce Financial Accounts at the end of the Financial

Year, that actually "balance".

III. Being able to confidently discuss matters of concern with auditors, and, if necessary, be able to support the enterprise's position in any dispute with auditors

* Junior accountants must have the knowledge to be able to input journal entries correctly to, for example:

- I. Correct obvious posting errors
- II. Charge Depreciation
- III. Make, and possibly reverse accruals
- IV. Enter and reverse prepayments.

The list could go on forever.

* Finally computer operators would be able to do their job much more effectively and accurately if they had an understanding of what the computer was doing "behind the scenes", rather than blindly following a manual.

These are just some of the reasons why, even in today's technological society, a knowledge of the concepts of double-entry bookkeeping is as important to all people who work in the field of finance as it ever was before the advent of computers.

To sum up, the conception that computerisation has spelled the beginning of the end of the art of double-entry bookkeeping is a misconception. Do you agree?

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