Basic Accounting

Supplement for Using Simply Accounting Version 8.0 for Windows

by

M. Purbhoo and D. Purbhoo

Basic Accounting

Contents:

ACCOUNTING THEORY

Basic Accounting

Accounting is a systematic method (it follows rules) of recording the economic transactions of a business so that the information can be used by both insiders (owners and managers) and outsiders (investors, suppliers and creditors) to make financial decisions.

Business information is generally summarized in two statements, the Balance Sheet and the Income Statement. The Balance Sheet summarizes the financial position or company's wealth at a given point in time, providing a static picture. The Income Statement shows the changes in net worth (over a given period) that result from conducting the business or how much the business has earned, thus providing a dynamic picture.

Balance Sheet

The Balance Sheet and Income Statement are divided into sections, and each section is divided into accounts. Similar items are grouped together under a single account name for each section. Different kinds of items are separated into different accounts. It is important to know not only how much the business owns, but also whether this amount consists of bank deposits, investments, inventory, or buildings and equipment. These differences determine how readily the business has access to its wealth and, therefore, its ability to repay its creditors. Similarly, it is significant whether the liabilities consist of bank loans, money owed to suppliers and long term notes, bonds and mortgages. These differences can be reflected by using different accounts. Descriptive account names help to provide a more detailed financial picture of the business.

The Balance Sheet has three sections of accounts — assets, liabilities and equity.

Assets: Assets are the economic resources of a company. They are owned by the company, and have cash value or can be converted to cash. Bank accounts, receivables (money owed to the business by customers), supplies, inventory, equipment, buildings and land are typical assets for most businesses. Assets are always recorded at their historic cost, not at the current market value, because historic costs are invariant and indisputable. Their order on the balance sheet represents liquidity, that is, how easily the asset can be converted to cash. Cash is most liquid and therefore appears first. Fixed assets such as plant, equipment and land appear at the end of the asset list.

Liabilities: Liabilities are the debts of the business, the money owed to various creditors, or payables. They include bank loans, mortgages, and payables to vendors that supply goods and services to the business or to various government agencies for tax liabilities. Current liabilities, those that are due within the next year, are listed before long term liabilities.

Equity: Equity is defined as residual ownership — what's left from the assets after all creditors have been paid — Assets minus Liabilities. Equity includes capital contributed by the owners, plus any amounts of surplus income from doing business, or less any losses from previous business periods. Assets are equal to the liabilities plus equity, the sources of the assets. This is the basic accounting equation (amounts are taken from the Balance Sheet that follows):

Assets	=	Liabilities	+	Equity
(511 734.90)	=	(278 668.00)	+	(233 066.90)

The following is a typical example of a Balance Sheet.

Overview Company
Balance Sheet as at 04-30-2001

ASSETS		**LIABILITIES**		
Current Assets		Current Liabilities		
Cash in Bank	76 245.90	Bank Loan		39 840.00
Accounts Receivable	806.00	Accounts Payable		21 445.40
Construction Materials	1 600.00	Vacation Payable		673.24
Office Supplies	108.00	EI Payable	1 401.67	
Total Current Assets	78 759.90	CPP Payable	1 065.24	
Inventory Assets		Income Tax Payable	4 273.25	
Base Materials	4 875.00	Receiver General Payable		6 740.16
Cobble Pavestones	8 560.00	EHT Payable		197.35
Edging Stone Blocks	1 500.00	CSB Plan Payable		700.00
Patio Stone Blocks	5 860.00	WCB Payable		1 416.85
Paver Slabs	3 860.00	PST Payable		4 976.00
Stone Slabs	11 920.00	GST Collected on Sales	4 354.00	
Wall Building Blocks	8 900.00	GST Paid on Purchases	–1 575.00	
Total Inventory Assets	45 475.00	GST Owing (Refund)		2 779.00
Plant & Equipment		Total Current Liabilities		78 768.00
Computers & Peripherals	5 000.00	Long Term Liabilities		
Construction Equipment	78 500.00	Mortgage Payable		199 900.00
Delivery Truck	51 000.00	Total Long Term Liabilities		199 900.00
Furniture & Fixtures	3 000.00			
Warehouse	150 000.00	**TOTAL LIABILITIES**		278 668.00
Yard	100 000.00			
Total Plant & Equipment	387 500.00	**OWNER'S EQUITY**		
		R. S., Capital		219 670.00
		R. S., Drawings		–2 000.00
		Current Earnings		15 396.90
		TOTAL EQUITY		233 066.90
TOTAL ASSETS	511 734.90	**LIABILITIES AND EQUITY**		511 734.90

Notice that each section of the Balance Sheet can be further divided into subgroups of accounts, such as Current Assets, Inventory Assets, etc. Consider how much more you learn about a company from this detailed Balance Sheet compared with the single summary amounts for each section in the accounting equation above the statement. These divisions aid in analyzing the financial performance of a business.

Income Statement

The Income Statement contains two sections that can be subdivided. Again, the detailed account names provide a fuller portrait of the business activity.

Revenues and Expenses: Revenues are sources of income, such as revenue from the sale of merchandise, revenue from providing services or consulting, revenue from interest on bank deposits or investments, and so on. Expenses are the costs incurred in generating revenue or in doing business. These may include interest charges on loans or mortgages, the costs of supplies or merchandise that is sold, maintenance of equipment and property, rent, utilities, depreciation of equipment, losses from theft or from customers failing to pay, labour costs, payroll benefits, advertising, and so on.

Net Income (Loss): Expenses are subtracted from revenue to determine the net income. If revenue exceeds expenses, the company has earned a profit. If expenses exceed revenue, the business will show a net loss. Thus, the income statement shows the economic performance of the company. The following statement is a typical example:

Overview Company
Income Statement 01-04-01 to 04-30-01

REVENUE	
Revenue from Sales	15 800.00
Revenue from Contracting	47 500.00
Sales Returns & Allowances	-1 100.00
Other Revenue	268.00
TOTAL REVENUE	62 468.00
EXPENSE	
Advertising & Promotion	400.00
Bank Charges	32.00
Construction Materials Used	2 200.00
Cost of Goods Sold	17 070.00
Delivery Expense	216.00
Freight Expense	250.00
Hydro Expense	200.00
Interest Expense	2 140.00
Legal Expenses	200.00
Repairs & Maintenance	500.00
Telephone Expense	86.40
Wages	20 812.24
EI Expense	817.64
CPP Expense	532.62
WCB Expense	1 416.85
EHT Expense	197.35
TOTAL EXPENSE	47 071.10
NET INCOME	15 396.90

Debits and Credits

In a manual accounting approach, assets are generally displayed on the left side of the balance sheet. Liabilities and Equity are traditionally presented on the right side of a balance sheet. This presentation is important because it relates to the use of debits and credits. Debit means left and credit means right. Thus, a debit entry is a left-side entry and a credit entry is a right-side entry. The sides refer to the balance sheet placement of accounts. Assets, on the left side of the Balance Sheet, normally have a debit or left-side balance. Furthermore, an increase in assets is represented by a debit entry. Liability and equity accounts on the right side of the Balance Sheet normally have a credit balance and increases to these accounts are recorded with credit entries. The Income Statement accounts, expenses and revenues, are really subsections of the Equity section of the

Balance Sheet. Revenues increase equity and are credit balance accounts just like the equity accounts. Expenses decrease equity; therefore, they are debit balance accounts – the opposite of equity accounts.

Journal Entries

The daily operation of a business includes many kinds of transactions — sales, purchases, payment for expenses, receipt of cash, etc. These transactions that affect the financial profile of the business are recorded in journal entries. The recording of each transaction includes what accounts (items) are affected, by how much, and in what direction. Each transaction affects at least two accounts — one account is debited (left-side entry) and another account is credited (right-side entry). The debit and credit parts of a journal entry must be equal, to keep the accounting equation in balance. This system of recording is therefore named double entry accounting. (The earliest known written description of double entry accounting dates back to Pacioli in the early 1100s and had been in use for at least 150 years before that.) Thus, journal entries record the changes to accounts that result from economic transactions. The account changes are then posted to ledgers that reflect the summary of these transactions and the balances in each account.

Ledgers

Account balances are recorded in Ledgers. Each account has its own ledger page that records only the increases and decreases to that account. The current balance is also part of the ledger record. Ledgers are updated as a separate step from recording the transaction in the journal. There are separate ledgers for:

- accounts — General Ledger for accounts in the Balance Sheet and Income Statement
- customers — each customer ledger page records individual sale and receipt amounts for that customer along with the current balance owing
- vendors or suppliers — each vendor ledger page records the individual purchases and payments for that vendor together with the amount owing
- inventory ledger — each page records the increases and decreases for a single inventory asset resulting from sales, purchases, losses, etc.
- payroll — each employee is on a separate ledger page

The General (accounts) Ledger is the main ledger and the others are subsidiary ledgers that link to the General Ledger through one or more control accounts. For example, the Accounts Receivable account in the General Ledger shows the total owed by all customers while the individual customer ledger pages show how much each customer owes. The total of all customer ledger balances must equal the Accounts Receivable balance in the General Ledger.

As an example, consider the changes that result when a business collects $5 350 for selling merchandise. Clearly this is a revenue-producing transaction and cash is received. Since cash is an asset and it increases, this part is a debit entry. The balancing part is an increase in revenue – a credit account that, therefore, has a credit entry.

The business also collected GST at 7 percent on the sale transaction. Thus, although the amount of cash received was $5 350, revenue was only $5 000. Since the tax must be passed on to the

Receiver General, it is not counted as part of revenue. The remaining amount, $350, is the tax collected. Until the tax is remitted, it is owing to the Receiver General — a liability increase — so it must have a credit entry to keep the debits and credits in balance. The journal entry now looks like this:

Cash in Bank (Debit)	$5 350	
Revenue from Sales (Credit)		$5 000
GST Collected on Sales (Credit)		$350

Because the sale involved inventory merchandise, there is another component to the transaction. Inventory assets that cost $3 000 were sold or reduced. This credit entry must be matched by a debit entry, the expense or cost associated with the goods. Since they are no longer held as assets by the business, the cost of purchasing the inventory can now be recorded as an expense as shown. Again, debits equal credits.

Cost of Goods Sold (Debit)	$3 000	
Stone Slabs (Inventory) (Credit)		$3 000

The final component of the journal entry is the explanation of the transaction; that is, when it took place and what happened. This makes it possible to trace the journal entry back to its original source document.

	Debits	**Credits**
05/31/98 Invoice #4522, Sold stone slabs to Marchbanks		
Cash in Bank (Debit)	$5 350	
Cost of Goods Sold (Debit)	$3 000	
Revenue from Sales (Credit)		$5 000
GST Collected on Sales (Credit)		$350
Stone Slabs (Inventory) (Credit)		$3 000
Total	$8 350	$8 350

The Ledger updates would include the following entries (DR and CR are commonly-used abbreviations for Debits and Credits, respectively):

General (Accounts) Ledger: Cash in Bank Account

Date	**Particulars**	**Debit**	**Credit**	**Balance**
05/31	Balance forward			10 000 (DR)
05/31	Sale of stone slabs	5 350		15 350 (DR)

Similar entries would appear on the ledger pages for the other four accounts: Cost of Goods Sold, Revenue from Sales, GST Collected on Sales, and Stone Slabs (Inventory Assets).

Customers (Receivables) Ledger: Marchbanks Account

Date	**Particulars**	**Debit**	**Credit**	**Balance**
05/31	Balance forward			0 (DR)
05/31	Sale of stone slabs	5 350		5 350 (DR)
05/31	Cash receipt with sale		5 350	0 (DR)

Inventory Ledger: Stone Slabs

Date	Particulars	Debit	Credit	Balance
05/31	Balance forward			11 920 (DR)
05/31	Sale to Marchbanks		3 000	8 920 (DR)

The chart that follows summarizes how accounts change in transactions:

SECTION	Normal Balance (Side)	Increase	Decrease
ASSETS:	debit balance (left side of Balance Sheet)	requires debit entry	requires credit entry
LIABILITY:	credit balance (right side of Balance Sheet)	requires credit entry	requires debit entry
EQUITY:	credit balance (right side of Balance Sheet)	requires credit entry	requires debit entry
REVENUE:	credit balance (increases in revenue increase equity)	requires credit entry	requires debit entry
EXPENSE:	debit balance (increases in expenses decrease equity)	requires debit entry	requires credit entry

Trial Balance

After all the journal transactions have been entered for a work session and the ledgers are updated, a Trial Balance should be prepared to check that the debit and credit entries are equal. The Trial Balance shows the balances in all General Ledger accounts as either debit or credit amounts. The totals for the debits and credits columns should be equal if the transactions have been entered correctly. (Of course the Trial Balance may be in balance but incorrect if transactions were posted to the wrong accounts, or if incorrect amounts were entered.)

Contra Accounts

In the description of account balances, debits and credits, left and right referred to normal accounts of each type. There is, however, a group of accounts that are opposite to the normal accounts. These are the contra accounts. Contra means opposite or against. Thus, these accounts have their balance on the opposite side and they reduce the total of a section. On the Balance Sheet and Income Statement, they appear as negative amounts. In the Trial Balance, they appear in the opposite column.

For example, contra asset accounts have a credit balance instead of a debit balance. They are grouped with the assets because of a logical association. Accumulated Depreciation, for example, is an amount that shows how much an asset has declined in value as a result of time and use. The original value of the asset is recorded separately on the Balance Sheet. Allowance for Uncollectable Accounts is logically associated with Accounts Receivable, but it shows what part of the Receivables amount may never be collected. Unearned Revenue reflects money that has been collected from a customer as an advance or deposit for work that is not yet completed. If the work is never completed, the amount would be returned to the customer so it represents a reduction in the amount owed by customers.

Contra liability accounts have a debit balance instead of a credit balance. GST Paid on Purchases is a contra liability because it reduces the GST liability and remittance (GST Collected on Sales). Refer to Appendix C in the text.

Contra equity accounts have a debit balance. The Drawings account, for example, shows how much the owner has withdrawn from the business. Thus it reduces the total capital or equity in the business.

Contra revenue accounts also have a debit balance. For example, Sales Discounts show how much the revenue from sales is reduced by discounts allowed to customers.

And finally, contra expense accounts have a credit balance. Purchase Discounts are logically grouped with other expense accounts because they reduce the costs of doing business.

In journal entries, contra assets are increased by crediting, and decreased by debiting the accounts. Contra liabilities are increased with debit entries, etc.

Entries in Simply Accounting journals are somewhat different for contra accounts. In the General Journal, contra accounts have debit and credit entries reversed from the normal accounts. In Sales and Purchases Journal entries, contra account transactions are entered as negative amounts by adding a minus sign to the amount.

Audit Trail

Accuracy is very important in accounting. Accountants are not permitted to change any entries already recorded. There is a specific procedure that must be followed for correcting mistakes — making a reversing entry. As the name suggests, reversing entries reverse or undo a previous journal entry. The original entry is repeated, using the same accounts and amounts but with all debit and credit entries reversed. Thus, the reversing entry cancels the previous one and restores the account balances to their pre-transaction amounts. An appropriate descriptive comment such as “Reversing sales invoice #4522” should accompany the reversing entry. The correct journal entry can then be completed again with an appropriate comment.

The reason for this approach is simple. Periodically, the books for a business are examined by independent inspectors or auditors to ensure that all cash and assets can be properly accounted for. The auditors must be able to retrace all the steps taken by the accountant. If an accountant has erased or changed entries, the inspector cannot determine if the changes were made honestly, or if there was an attempt to defraud the business. Audits for small businesses may be conducted by Revenue Canada for income tax purposes or by independent auditing firms for corporations that report to shareholders and other investors. This is why it is so important to include source document numbers in journal entries — they establish a paper trail that the auditor or accountant can follow to find and correct mistakes.

Generally Accepted Accounting Principles (GAAP)

The requirements for accurate financial records are outlined in federal and provincial tax laws. In addition, the basic rules for good accounting practice are summarized in a set of guidelines known as the Generally Accepted Accounting Principles.

1. **Business Entity Concept (Accounting Entity)**

A business is separate from its owner. It has certain rights and responsibilities that are separate from the owner. For example, the business must file its own income tax return and pay its debts. The owner must file his or her own income tax return that is separate from the business return. The property or assets that a business owns must be recorded separately from the property that the owner of the business has.

2. **Going-Concern Assumption**

When a business is started, it is expected to last or continue operations for some time. It does not plan to go bankrupt or to dissolve immediately. It expects to be able to carry out its commitments to its customers or clients, either to provide goods or services. The business often continues, even when the ownership changes.

When you buy a radio from a store and find that it doesn't work, you expect to be able to return it or exchange it (unless you bought it in a bankruptcy or liquidation sale). You expect the store to still be there when you return the next day, or even the next month.

3. **Time Period Principle**

Even though a business is expected to continue operations for a long time (Going-Concern Assumption), it must report frequently and at regular time periods on its status and changes for various reasons such as annual statements to shareholders, income statements for income tax purposes and for normal business decisions, etc. This need for reporting changes regularly creates the need to measure various parts of the business at different periods of time (monthly, quarterly or yearly). For assets, therefore, it is necessary to know how long they can be expected to last so that their value can be stated at these different times.

4. **Monetary Principle**

In order for a business to report on its status and progress, we need to be able to measure the things that it owns and the things that it does. It has been decided that *money* will be used to provide this information — dollars in Canada, yen in Japan, etc. Thus, all assets are recorded on the balance sheet in dollar values, whileincome and expenses are reported in dollars on the income statement. This principle also assumes that the dollar is stable — it is worth as much now as it was 20 years ago, and will be 20 years from now. Of course, with inflation, this is not true; but for now, we have not found a better way to provide information about the business. We could measure everything in chickens, but that might create some other problems!

5. **Objectivity Principle**

All estimates and measurements in the business must be fair and reasonable. Whenever possible, they should be based on fact so that they are not biased. This is why historical costs are preferred for determining the value of assets. Fair market value is often used as the criterion or guideline. How much something is worth should not be determined by how much your best friend will give you for it, but by how much a group of strangers would be willing to pay for it. Your best friend is less likely to be unbiased or objective. You might be willing to give her a really low price because she's your best friend. Or she might be willing to pay extra to help you out because she's your best friend. The deal with your friend would be a non-arms-length deal, because of this potential for bias.

6. **Cost (Historical Cost) Principle**

All assets owned by the business are recorded on the balance sheet at their cost price — the fair market value at the time the asset was purchased. All depreciation expenses are based on this original cost. If the asset changes very quickly in value, these changes are not shown in the financial statements of the business. For example, a business that bought its property in downtown Toronto many years ago must continue to show the value of the land at the price that it paid (historical cost), even though the market price of the land is now much greater. If a business buys some machinery that very quickly becomes worthless because a newer and better model is available, the business must continue to record the value of the machinery at its cost price until it disposes of it.

7**. Realization (Recognition) Principle**

Income should be reported (or recognized) when it has been earned (or realized, that is, made real), regardless of when the payment for the work or goods is received. When the work is completed, the income should be reported. When a customer walks out of a store with a VCR, the revenue from the sale should be included in income for that day (or time period). The business may have a "don't pay a cent now" policy and the customer may not hand over the cash for another six months. This policy has nothing to do with when the income is reported.

8. **Matching Principle**

Expenses should be matched to the revenue that they helped to produce. That is, they should be reported in the same time period. Sales commissions paid should be reported with the sales that the salesperson generated. Store rent for the month should be recorded as an expense for the sales revenue for the same month. (See accrual basis of accounting.)

9. **Conservatism Principle**

Although most of the time the accountant for a business is objective in measuring the business' happenings, sometimes she has to make a choice between two ways of recording information. When making a choice, the accountant should choose the method that is more conservative or cautious (that is, the method that will report the business income at the lower amount should be used). For example, when trying to decide about bad debts, the business should not assume that all customers will pay their accounts (although it hopes that everyone will pay), but should report some allowance for non-payment. This will lower the income reported for the time period and is the more conservative approach.

10. **Materiality Principle**

Anything that is big enough should be included in the financial statements. You can decide whether something is "big enough" by asking whether it makes a difference to the business or its owners — would the shareholders want to know about it or might it affect someone's decision to invest in the company? Therefore, anything that will affect income should be included. Small items are not usually included in the statements because their effect on income would be so small as to be unnoticeable. Thus, a pencil sharpener that cost $3.50 would not appear on the balance sheet as an asset even if it can be expected to last for 10 years. Small items like this would be grouped together under an overall category, such as office supplies expense.

11. **Accrual Basis of Accounting**

This principle is related to the Recognition, Matching and Time Period principles. Income is reported when it is earned and expenses are reported with the income they helped to produce. Oftentimes, however, the time period required for reporting does not match up with the completion of a piece of work. Other times, a service that has been purchased lasts longer than the time period in which it has to be included as an expense. The accrual method deals with these situations. For example, when you prepare your annual income statement, you may have some projects or contracts that are partly finished. The part that is finished should be included in the income statement. It does not matter when you get paid for the work. You may also have bought some advertising time on the radio that will continue into the next fiscal year. The part that relates to the previous period should be recorded as an expense. Wages owing to employees are treated the same way. You owe them the money because they have already done the work and this amount owing (or accrued) should be included in the financial statements. When you actually pay for the advertising or work done does not matter.

Adjustments are important in accounting work because they are used to record the matching of expenses and income required in the accrual method.

Accrual based accounting is compared with cash accounting in Chapter 2 of the text. Adjusting entries are reviewed in Chapter 3.

12. **Consistency Principle**

A business should use the same methods (be consistent) for measuring and calculating income from one time period to another. This makes it possible to compare the financial statements from one period to another. If it does change its methods, it should have a good reason, should report the change in its financial statements (disclosure) and expect to continue with the new approach for an indefinite period of time.

13. **Disclosure Principle**

A business should include in its financial statements anything that might affect the decisions of its shareholders to invest in the company or its lenders to provide loans. For example, interested parties might want to know about the sale of a large asset for a loss that reduces the income reported for the time period, or about the special terms of a new bank loan. These details would be included as footnotes to the income statement and balance sheet.

Summary: Accounting Transactions

The following chart lists examples of all possible combinations of debits and credits.

Examples of Accounting Transactions

Assets - DR (inc)	Liabilities - CR (inc)	purchase inventory, equipment, other assets on credit (payables); secure bank loan*
Assets - DR (inc)	Equity - CR (inc)	owner invests cash in business
Assets - DR (inc)	Revenue - CR (inc)	sale of goods/services for cash or on credit (receivables)
Assets - DR (inc)	Expense - CR (dec)	these transactions do not normally occur**
Liabilities - CR (inc)	Equity - DR (dec)	declaration of dividends
Liabilities - CR (inc)	Revenue - DR (dec)	these transactions do not normally occur
Liabilities - CR (inc)	Expense - DR (dec)	recording expenses in preparation for payment, wage-related expenses that become payables
Equity - CR (inc)	Revenue - DR (dec)	closing revenue accounts from income statement to current earnings
Equity - CR (inc)	Expense - DR (dec)	closing contra-expense accounts from income statement to current earnings, e.g., purchase discounts
Revenue - CR (inc)	Expense - DR (dec)	these transactions do not normally occur
Assets - CR (dec)	Liabilities - DR (dec)	payment of debt (payables or bank loan) by cash/cheque; purchase returns
Assets - CR (dec)	Equity - DR (dec)	owner withdraws cash from business (drawings — contra equity account) for non-business use
Assets - CR (dec)	Revenue - DR (dec)	sales returns, sales discounts
Assets - CR (dec)	Expense - DR (inc)	payment of expenses (wages, operating expenses etc.) by cheque, recognize inventory sold as cost of goods sold
Liabilities - DR (dec)	Equity - CR (inc)	these transactions do not normally occur
Liabilities - DR (dec)	Revenue CR (inc)	sales tax compensation
Liabilities - DR (dec)	Revenue - CR (inc)	purchase discounts
Equity - DR (dec)	Revenue - CR (inc)	closing contra-revenue accounts from income statement to current earnings, e.g., sales discounts
Equity - DR (dec)	Expense - CR (dec)	closing expense accounts from income statement to current earnings
Revenue - DR (dec)	Expense - CR (dec)	these transactions do not normally occur
Assets - DR (inc)	Assets - CR (dec)	purchase of inventory, equipment (assets) with cash/cheque; customers pay receivables
Liabilities - CR (inc)	Liabilities - DR (dec)	record liability for taxes for remittances (e.g., GST Paid and GST Charged transferred to Accounts Payable - Receiver General)
Equity - CR (inc)	Equity - DR (dec)	closing current earnings to retained earnings (capital)
Revenue - CR (inc)	Revenue - DR (dec)	these transactions do not normally occur
Expense - DR (inc)	Expense - CR (dec)	these transactions do not normally occur

* Reversing entries are possible for each of the transactions listed. These represent a trivial case of opposite signs (reversing debit and credit entries) and are not included.

** Some of the combinations that have the entry “these transactions do not normally occur” could be represented by reversing entries.