

14.3 A drill to develop understanding of account balances

State the significance of the following (possibly unusual) situations.

1. a CR balance on a customer's account

Customers on credit are debtors, and accounts for their promises will normally carry a DR balance. A CR balance on a customer's account would indicate that the firm owes money to the customer, perhaps because the customer has mistakenly paid too much

2. a DR balance on a supplier's account

Normally a supplier's account will show a CR balance, showing the firm's promises going OUT to pay the supplier for what it has received. A DR balance on a supplier's account would indicate that the supplier owes money to the firm, possibly because of a previous overpayment made by the firm

3. a CR balance on the account for bank

A CR balance on the account for bank indicates an overdraft – promises going OUT to pay the bank

4. a CR balance on the cash account

If the cash account is used only for money in the form of notes and coins, a CR balance on the cash account must indicate an error (for all except counterfeiters it is impossible to pay out more notes and coins than have come in to the firm)

5. a DR balance on the capital account

The capital account normally shows net promises going OUT to the owner, these promises constituting the owner's claim on the business. A DR balance on the capital account would indicate 'negative capital' – that is, the firm's claim on the owner