CHAPTER SIX
APPLICATION OF DOUBLE ENTRY PRINCIPLES IN BOOK-KEEPING

CHAPTER OUTLINE

- Types of accounts
- The Ledger
- Types and divisions of the ledger
- Double entry principle for Assets, Liabilities and Capital
- Double entry principle for expenses
- Balancing of ledger accounts

Learning Objectives

At the end of this chapter, the student shouldbe able to:

- Explain the principle of double entry in accounting
- Describe the major types or division of accounts in the ledger.
- Explain the fundamental principles of the ledger
- Post information from subsidiary books to the ledger.
- Balance the ledger accounts

APPLICATION OF DOUBLE ENTRY PRINCIPLES IN BOOK-KEEPING

The double entry principle is the base upon which every accounting record lies. It simply states that for every debit entry, there must be a corresponding credit entry and vice-versa. To appreciate the double entry principle, the reader needs to revise the treatment of accounting equation in section 2.2 on page 12 of this text. One other important foundation that will enable the student appreciate the double entry principle is understanding the nature and types of accounts.

6.1 TYPES OF ACCOUNTS

Accounts can be grouped into two main headings namely:

1. Personal Accounts
2. Impersonal Accounts.

Personal Accounts. These are accounts relating to persons and corporate bodies such as trade debtors (i.e. receivables from customers), trade creditors (amount due to vendors or suppliers) e.t.c. The student needs to understand that this class of account is opened only when the business concerned purchases or sells goods or renders services on credit; otherwise if the business deals strictly on cash basis, personal accounts will not arise. To record transactions in personal accounts, the simple rule is to debit the receiver and credit the giver. This means that if two accounts are involved when Ngozi receives money from Emeka, then Ngozi's account will be debited while Emeka's own will be credited.

When goods are sold on credit, the debtor's account is debited with the value of goods received while the creditors account is credited. So also, when the debtor makes payment, his account will be credited whereas the creditor is debited. Note that credit sales decrease the asset of the seller while credit purchases increase the liability of the buyer.

Impersonal Accounts: These class of accounts are not for persons and corporate bodies. It is for things that do not have legal personalities. It is further divided into real and nominal accounts.

Real Account: This is the account that deals with assets i.e. tangible items that can be seen, felt or touched e.g Fixtures and Fittings, Motor Vehicle, Stock of finished goods, Property, Plant, Equipment, e.t.c. The rule in real account is to debit value in i.e. what comes in and credit value out i.e. what goes out. This means that any increase in the asset (introduction of new asset) is debited to the account while any decrease in the account (disposal of asset) is credited to real account.

Nominal Account: This is the account opened for gains or losses. Such accounts like rent, electricity, wages, discount allowed or received are neither personal nor real accounts. We only realize benefits from this account as a result of services rendered. In nominal accounts, losses and

expenses are debited while income and gains are credited.
Bhattacharya (2012) summarized the above classification of accounts as follows:

Classification	Nature of the account	Examples	Debit/Credit rule
Personal account	Amount due to or from a natural or judicial person (e.g. a limited liability company).	Trade receivables (amount due from customers) trade creditors (amount due to vendors), banks and insurance companies.	Debit the receiver and credit the giver
Real account	Assets, other than amount due from a person	Cash, stock of finished goods, property, plant and equipment, brand and other intangible assets.	Debit what comes in and credit what goes out.
Nominal account	Incomes and expenses	Income from sale of goods and services, interest and dividend income, profit on sale of fixed assets and government subsidy	Debit expenses and credit income.

6.2 THE LEDGER

The ledger is referred to as the main book of accounts. The word "accounts" here means details of every transaction or activity that went into the account. The ledger is a permanent record of assets, liabilities, incomes and expenses of an entity. The listing done in the subsidiary books are normally posted to the ledger at specified periods. A ledger account can therefore, be defined as a statement that contains all the transactions of a specific class during a given period.

6.3 TYPES AND DIVISIONS OF THE LEDGER

For convenient sake, the ledger is normally divided into three or four depending on the nature of the organization. The most common divisions are

1. Sales Ledger or Debtors Ledger
2. Purchases Ledger or Bought Ledger
3. General Ledger
4. Private Ledger.

The sales ledger contains the personal accounts of customers to whom goods are sold on credit, otherwise referred to as debtors. Purchases ledger on the other hand, contains the personal accounts of suppliers of goods or services on credit i.e. the creditors.
General ledger on its part, contains the accounts other than personal accounts as already discussed in the sales ledger and purchases ledger. It is normally referred to as nominal ledger as all nominal accounts are contained therein.

The private ledger contains the details of capital accounts, drawings, loan account, e.t.c. Private ledgers are used to record accounting information that concern the proprietor of business.

Sometimes, the ledger is merely divided into three. When such happens, the private ledger accounts are done away with and all information that ordinarily would have been recorded in it will be presented in the general ledger.

Format/presentation of the ledger.

The ledger presentation is generally divided into two halves by a thick vertical line or two thin vertical lines. The left hand side is known as 'Dr' (Debit) while the right hand side is known as the 'Cr' (Credit). The ledger is mostly arranged on loose leaves. It is pre-numbered. The name of the account is boldly written on top of the leaf.

Each side of the ledger is divided into four columns; the date, particulars, folio and amount.
See the format below.

Format of a ledger:

DR ACCOUNT NAME CR

Date	Particulars	Folio	Amount ₦	Date	Particulars	Folio	Amount ₦

The student should endeavour to understand the following:

(a) Date column: The date of the transaction is stated in this column.
(b) Particulars: Brief narration of the transaction or the source of the transaction is made here.
(c) Folio column: This is where the folio number which indicates or serves as reference to where the corresponding entry is made is recorded.

(d) Amount column: The value of the transaction is recorded in this column.

(e) An amount recorded in the debit side i.e left hand side is called a "debit entry" while that recorded in the credit side i.e right hand side is known as a "credit entry"

Illustration 6.1

Abubakar Igboaja commenced business on 1st April 2014 with cash of ₦16,000. The following transactions were made during the month.

April, 2014:

		₦
1.	Bought goods on credit from Folorunsho	5,000
2.	Purchased office equipment for cash	8,000
3.	Paid cash into bank	7,000
4.	Sold goods on credit to Okon	1,600
5.	Paid Folorunsho by cheque	3,000
6.	Sold goods on credit to Odumbaku	2,000
7.	Received cash from Okon in full settlement	1,540
8.	Paid wages by cheque	600
9.	Bought goods by cheque	4,600
10.	Purchased goods from Etiebet	2,600
11.	Paid Folorunsho in full settlement by cash	1,900
12.	Paid carriage on goods by cash	40
13.	Bought goods on credit from Folorunsho	3,000
14.	Bought goods for cash	2,800
15.	Sold goods to Okon on credit	3,600
16.	Okon paid on account by cheque	4,000
17.	Returned goods to Folorunsho	800
18.	Cash sales to date	12,800
19.	Purchased goods on credit from Carina	1,500
20.	Okon returned goods worth	400
21.	Paid Carina on account by cash	840
22.	Returned goods to Carina	300
23.	Paid office expenses by cash	240
24.	Withdrew cash for personal use	2,000
25.	Paid electricity bill by cheque	240
31.	Bought motor van for cash	6,000

Required: Record the above transactions in the in the subsidiary books for the month.

Solution 6.1

Abubakar Igboaja's
Cash Book for the Month of January, 2014

Date	Particulars	Folio	Disc. Allowed N	Cash ₦	Bank ₦	Date	Particulars	Folio	Disc. Received N	Cash ₦	Bank ₦
April, 2014 1	Capital			16,000		April, 2014 1	Equipment			8,000	
3	Cash	©			7,000	3	Bank	©		7,000	
7	Okon		60	1,540		5	Folorunsho				3,000
16	Okon				4,000	8	Wages				600
18	Sales			12,800		9	Purchases				4,600
						11	Purchases				2,600
						11	Folorunsho		100		1,900
						12	Carriage			40	
						14	Purchases			2,800	
						21	Carina			840	
						23	Office expenses			240	
						24	Withdrawal			2,000	
						25	Electricity bill				240
						31	Motor Van			6,000	

Dr. Sales Day book Cr.

Date	Sales Invoice No	Customers Name	Amount (₦)
April 2014 4		Okon Goods	1,600
April 2014 6		Odumbaku Goods	2,000
April 2014 15		Okon Goods	3,600
		Transferred to Sales Account	7,200

Dr. Purchases day Book Cr.

Date	Purchases Invoice No	Supplier's Name	Amount (₦)
		Folorunsho	
April 1 2014		Goods	5,000
April 13 2014		Goods	3,000
		Carina	
April 19 2014		Goods	1,500
		Transferred to Purchases Account	9,500

Dr. Return Inwards Day Book Cr.

Date	Credit Note No.	Supplier's Name	Amount (₦)
		Okon	
April 20 2014		Goods	400
		Transferred to Return Inwards Account	400

Dr. Return Outwards Day Book Cr.

Date	Debit Note No.	Supplier's Name	Amount (₦)
		Folorunsho	
April 17 2014		Goods	800
		Carina	
April 22 2014		Goods	300
		Transferred to Return Outwards Account	1,100

6.4 THE DOUBLE ENTRY PRINCIPLE FOR ASSETS, LIABILITIES AND CAPITAL

The double entry system maintains an account (i.e. details of transactions in that item) for every asset, liability and capital in such a way that the transactions are entered observing the rules for debit and credit.

Note that the nature of every transaction is that it will either increase or decrease the account where it is entered. The table below shows the entry required in order to record either increase or decrease in assets, liabilities or capital.

Nature of account	Intention	Entry required.
Assets	To Increase	Debit
	To Decrease	Credit
Liabilities	To increase	Credit
	To Decrease	Debit
Capital	To increase	Credit
	To decrease	Debit.

From the above, the reader could realize that the double entry rules for liabilities and capital are the same but exactly opposite to those of assets. This goes on to confirm our earlier stated accounting equation: Assets = Capital + Lliability.

Illustration 6.2: The following itemized transactions were recorded in the books of Egbe Belu Enterprises.

1. Egbe Belu started business with ₦1,000,000 on 1st January, 2011
2. He bought motor van for ₦300, 000 cash on 2nd January, 2011.
3. Bought fixture and fittings on credit from Fitter Nig Ltd for ₦250,000
4. Paid ₦100, 000 as part of the amount owed to Fitters Nig. Ltd.
5. Bought office table for ₦50, 000 cash.

Required: Present the ledger accounts of the above transactions in the books of Egbe Belu Enterprises (Observe the double entry principle) Ignore balancing of the accounts.

Solution 6.2

Dr. Cash Account Cr.

Date	Particulars	Folio	Amount(₦)	Date	Particulars	Folio	Amount (₦)
Jan 1	Capital		1,000,000	Jan 2	Motor van		300,000
				4	Fitters		100,000
				4	Table		50,000

Dr. Capital Account Cr.

Date	Particulars	Folio	Amount ₦	Date	Particulars	Folio	Amount ₦
				Jan 1	Capital		1,000,000

Dr. Motor Van Account Cr.

Date	Particulars	Folio	Amount ₦	Date	Particulars	Folio	Amount ₦
Jan 2	Cash		300,000				

Dr. Fitters Enterprises Account Cr.

Date	Particulars	Folio	Amount ₦	Date	Particulars	Folio	Amount ₦
Jan 4	Cash		100,000	Jan 3	Fixtures		250,000

Dr. Fixtures Account Cr.

Date	Particulars	Folio	Amount ₦	Date	Particulars	Folio	Amount ₦
Jan 3	Fitters		250,000				

6.5 DOUBLE ENTRY PRINCIPLE FOR EXPENSES

As we are going to see in detailed treatment of statement of comprehensive income, there are other expenses such as rent, wages, and rates e.t.c to be incurred by the business before determining the net profit. Recall that gross profit is sales less cost of goods sold. Remember also that accounting equation states that Assets = Capital + Liabilities, or Assets – liabilities = Capital. We will realize that the value of capital changes from year to year if profit or loss is ploughed back into the business. In that case, the accounting equation changes slightly thus: Assets – Liabilities = Capital + Profit (Loss). Therefore, capital + Profit (Loss) forms the new capital.

To understand the accounting treatment of expenses, there is need for us to remember that the purchase of asset is an expenditure, hence the asset account is debited. Comparison of expenses to this transaction shows that an expense equally involves expenditure and hence should be debited.

Taken from another angle, an expense reduces profit which in turn reduces capital, hence it needs a debit entry. Summarily, the double entry treatment is debit expenses account, and credit cash account. We must always bear in mind that expenses should be separated into different headings they relate such as rent, rates, salaries, e.t.c.

Illustration 6.3

Mr Obong who started business on 1st January, 2013 made the following expenses:

January, 27. Vehicle repair expenses of ₦750 cash.
January, 31. Paid rent ₦1,000, Salaries ₦15, 000.

Required:
Show the double entry treatment of the above transactions.

Solution 6.3

Dr. VEHICLE REPAIRS ACCOUNT Cr.

		₦			
27/1/13	Cash	750			

Dr. RENT ACCOUNT Cr.

		₦			
27/1/13	Cash	1,000			

Dr. SALARY ACCOUNT Cr.

		₦			
27/1/13	Cash	15,000			

Dr. CASH ACCOUNT Cr

			27/1/13	Motor expense	750
			27/1/13	Rent	1,000
			31/1/2013	Salary	15,000

Comprehensive question on posting from subsidiary books to ledger.

Illustration 6.4: Mr. Dangote commenced business on 1st January, 2009 by transferring ₦1, 440, 000 from his private bank account into a bank which he had opened for the business. His transactions for the Month of January, 2009 were as follows:

JANUARY

		₦
1.	Bought goods on credit from Yemi	240,000
2.	Withdrew cash from the bank for office use	36,000
3.	Sold goods on credit to Dominic	300,000
4.	Bought goods on credit from Benjamin	360,000
5.	Sold goods to Okechukwu on credit	440,000
6.	Paid rent by cash	5,000
7.	Withdrew cash from office till for personal use	6,000
8.	Bought goods from Bolongo on credit	200,000
9.	Goods returned by Dominic	34,000
10.	Sold goods on credit to Anthony	280,000
11.	Cash purchases from Ekpo	80,000
12.	Goods returned to Yemi	16,400
13.	Cost of goods taken for private use	10,000
14.	Goods returned by Okechukwu	40,000
15.	Sold goods on credit (normal selling price ₦40,000) to Akin giving trade discount of 10%	
16.	Received cheque of ₦190,000 from Okechukwu, after he had deducted cash discount 5%	
17.	Purchased second car from MazaMaza motors by cheque	200,000
18.	Paid cheque to Yemi in full settlement of his account	220,000
19.	Cash sales to Taribo received by cash	50,000
20.	Goods returned to Bolongo	10,000
21.	Purchased good worth ₦140,000 on credit from Aminu at a trade discount of 10%	
22.	Paid cash of ₦36,000 to Bolongo after deducting discount of 10%	
23.	Received cash from Dominic in full settlement of his account	260,000
24.	Cheque received from Anthony	100,000

25.	Deposited cash from office safe into Bank account	160,000
26.	Paid salaries by cash	10,000
27.	Withdrew cash from bank to pay his son's school fees	6,000
28.	Paid Benjamin by cheque	160,000

Required: Write up the three column cash book and other subsidiary books.

Solution 6.4

Dangote's

Cash book For the Month of January, 2009

Dr.

Date	Particulars	Disc allowed N	Cash ₦	Bank ₦	Date	Particulars	Disc. Received N	Cash ₦	Bank ₦
1/1/09	Capital			1,440,000	2/1/09	Cash(contra)			36,000
2/1/09	Bank(Contra)		36,000		6/1/09	Rent		5,000	
16/1/09	Okechukwu	10,000		190,000	7/1/09	Drawings		6,000	
22/1/09	Sales		50,000		14/1/09	Purchases			80,000
23/1/09	Dominic	6,000	260,000		17/1/09	Motor vehicles			200,000
24/1/09	Anthony			100,000	18/1/09	Yemi			220,000
25/1/09	Cash (Contra)			160,000	22/1/09	Bolongo	4,000	36,000	
					25/1/09	Bank(contra)		160,000	
					26/1/09	Salaries		10,000	
					27/1/09	Drawings			6,000
					28/1/09	Benjamin			160,000
					31/1/09	Bal C/d		129,000	1,188,000
		16,000	**346,000**	**1,890,000**			**4,000**	**346,000**	**1,890,000**

1/2/2009 Bal. b/d 129,000 1,188,000

Workings 1: Cash Paid to Bolongo

To calculate total payment =₦36000/.9 = ₦40,000 OR 90% =₦36,000

Therefore: Total payment =₦40,000 Discount at 10%=10/90X36,000 = ₦40,000

Amount paid	=	₦36,000
Discount allowed	=	₦4,000

Workings 2: Cash received from Okechukwu

To calculate total cash ought to have been received =₦190,000/.95 =₦200,000

Therefore: Total due to be received	₦200,000
Amount received	₦190,000
Discount received	₦ 10,000

Dr. Sales Day Book Cr.

Date	Sales Invoice No	Customers Name	Amount (₦)
3/1/09		Dominic	300,000
6/1/09		Okechukwu	440,000
12/1/09		Anthony	280,000
13/1/09		Akin	36,000
31/1/09		Transferred to Sales Account	1,056,000

Dr Purchases Day Book Cr.

Date	Purchases Invoice No	Supplier's Name	Amount (₦)
1/1/2009		Yemi	240,000
4/1/2009		Benjamin	360,000
8/1/2009		Bolongo	200,000
21/1/2009		Aminu	126,000
31/1/2009		Transferred to Purchases Account	926,000

Dr. Return Inwards Day Book Cr.

Date	Credit Note No.	Supplier's Name	Amount (₦)
9/1/2009		Dominic	34,000
14/1/2009		Okechukwu	40,000
31/1/2009		Transferred to Return inwards Account	74,000

Dr. Return Outwards Day Book Cr.

Date	Debit Note No.	Supplier's Name	Amount (₦)
12/1/2009		Yemi	16,400
20/1/2009		Bolongo	10,000
31/1/2009		Transferred to Return outwards Account	

Journal Proper.

	Dr (₦)	Cr (₦)
Drawings A/c	10,000	
Purchases A/c		10,000
Being cost of goods taken over by the owner.		
Drawings A/c	6,000	
Cash A/c		6,000
Being cash taken by the owner		
Drawings A/c	6,000	
Bank A/c		6,000
Being cash withdrawn by the owner		

6.6. BALANCING OF LEDGER ACCOUNTS

It is the custom of most business to balance off the accounts in the ledger at the end of every period. This is meant to reveal the transaction in a particular account and equally show the balance outstanding, if any, in each of the accounts. To balance off an account means adding the two sides of the account differently to find out the difference, if any, between the two sides.

Procedure for balancing ledger accounts

Step 1. Add up the two sides of the account separately.

Step 2. Find out the difference between the two totals.

Step 3. Insert the difference as balance carried down (bal.c/d) on the side that has a lesser total thereby making the two sides to be equal.

Step 4. Draw lines and write the total of both sides which is now equal and close with two lines below.

Step 5. The bal.c/d in step 3 above is shown as balance brought down(bal b/d) for the next period. This is to complete the double entry principle.

Note that irrespective of the number of entries on the two sides, the total of both sides must be on the same line.

Interpretation of ledger balances.

After balancing each of the ledger accounts, one of these three natures of balances will be arrived at:

1. **Debit Balance:** This occurs when the total value of the debit side is higher than the credit side. In this case, the balance c/d would appear on the credit side but when transferred to the next period as balance b/d, it will appear on the debit side. Some accounts such as asset account, debtors account, purchases account, expenses account e.t.c, will always appear as a debit balance.
2. **Credit Balance:** This is the reverse of a debit balance. The total credit value will be higher than the total debit value hence; it is called a credit balance. Accounts that mostly fall into this category include capital account, liability account, sales account, e.t.c.
3. **Nil Balance:** This is a situation where the value of the debit side total is equal to the credit side total. In this case, there will neither be balance c/d nor balance b/d. This rarely occurs in ledger accounts.