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