**APPLICATION OF THE DOUBLE ENTRY BOOKKEEPING**

**Principle of Double Entry**

Double entry principle states that for every debit entry, there must be a corresponding credit entry and vice versa. If the principle is properly followed, the total of the debit entries in the accounts must be equal to the total of the credit entries. Before we go into the application of the double entry principle, let us discuss the nature, types and functions of ledger accounts.

**Ledger Accounts**

A ledger is the book containing a group of accounts. It contains the permanent records of the assets, liabilities, income, expenses and capital of a business entity. The accounts in a ledger are those to which entries are posted from the subsidiary books.

**Importance of the ledger accounts**

* They serve as the means of keeping permanent records of assets, liabilities, income and expenses.
* They provide relevant information that is required to prepare the income statement and the statement of financial position.
* They give the origin of every transaction and the parties involved.
* They show the details of the movement in each account. For instance, a bank account will show what amount had been deposited or how much had been withdrawn and for what purpose.
* The Trial Balance is extracted from the ledger accounts at the end of the accounting period.

**Types of Ledgers**

Ledgers can also be classified into the following four groups:-

1. Sales Ledger or Trade Receivables Ledger: This contains all the personal accounts of customers otherwise referred to as trade receivable.
2. Purchases Ledger or Payables Ledger: This contains the personal accounts of suppliers of goods and services, otherwise referred to as trade payables.
3. Private Ledger: The Private ledger contains details of capital accounts, drawings account, loan account and investment account. Usually only the senior managers have access to these accounts in order to prevent office staff from seeing details of the items contained therein.
4. General Ledger: The general ledger, also referred to as the nominal ledger, contains the remaining accounts such as:-  Nominal accounts, relating to expenses, wages, rent, sales, purchases, bad debts accounts; and  Real accounts; relating to assets such as land and buildings, motor vehicles, inventories, plant and machinery.

**Types of Accounts:**

Accounts can be grouped under three main headings

* Real Accounts
* Personal Accounts
* Nominal Accounts

**Real Accounts:**

These are accounts relating to tangible things that can be seen, felt, touched and moved in most cases e.g. cash, cars, goods etc. The rule of double entry to these types of accounts is Debit, when there are additions, that is, when more of these items are acquired. Credit, when these items are disposed off, either by selling them off, when damaged beyond use or when given out as gift. Personal Accounts: These are accounts dealing with persons, corporate bodies or even partnership. Before these accounts can exist, there must be credit transactions unlike the real accounts where both cash and credit transactions are involved.

**Personal Accounts:**

In personal accounts, the accounts are opened only if the persons concerned purchase goods or services on credit or if they sell goods or services on credit. There is no need of writing or recording the names of persons who have purchased on cash basis. This amounts to waste of resources since the company has nothing to do with the persons again. The case will be different if payment is deferred till a future date, it will be necessary to know those who owe and those who are owed as the case may be.

**Nominal Accounts:**

These are the accounts opened for gains or losses. They are not real or personal but are for profits and losses items. We only talk of benefit arising from these accounts as a result of the services rendered. Examples are rent, salaries, electricity, discounts, drawings etc.

**Application of the double entry principle**

To record a transaction using the double entry principle the following steps must be taken.

1. Ensure that a transaction has actually taken place. That is at least two parties are involved and the transaction can be measured in monetary terms.
2. Identify the two main accounts involved. That is, under which two main subject matters the transaction can be divided. For example: Adeolu Enterprises purchased a motor car for N750,000 cash.

\* The transaction can be measured monetarily and it involves at least two parties

\* Two main subject matters can be identified (a) Motor car was purchased (b) Cash was paid

1. Identify the one that receive value. In the above example motor car has increased, therefore it has received value.
2. Identify the one that has given value – cash has been reduced, in this case it has given value (v) Debit the account that has received value with N750,000 (i.e. debit motor car) and credit the account that has given value (i.e. credit cash)

Dr. **Title of the Account** Cr

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Folio** | **Amount(N)** | **Date** | **Particulars** | **Folio** | **Amount(N)** |
|  |  |  |  |  |  |  |  |

On both sides of the accounts we have column for date, particulars (details of the transaction), the folio and the amount. (c) An amount recorded on the debit side is called debit entry while an amount recorded on the credit side is called the credit entry. (d) The corresponding entry of the debit entry is found on the credit side of another account and the corresponding entry for the credit entry is found on the debit side of another account. (e) The folio is the ledger page on which the corresponding debit or credit entry could be found.

**Cash Transactions**

The simplest way to look at the application of the double entry is through cash transactions. a. When cash is received, debit cash and credit the corresponding accounts b. When cash is paid, credit cash account and debit the corresponding account.

**Illustration**

The following transactions took place in the books of Olu Aina Enterprises in 2016

1. January 4, 2016 Cash sales of N900,000
2. January 10, 2016 Payment of office rent N 250,000 in cash
3. January 18, 2016 Purchased N200,000 goods for cash
4. January 25, 2016 Purchased stationery for N40,000 cash.

**Required:** Show the double entries for each of the transactions.

**Credit transactions**

Transactions made on credit

1. When cash is not received immediately for goods sold then it is sold on credit. Therefore the receivables/customers account receives instead of cash, there the receivables account is debited and sales account is still credited.
2. When cash is not paid immediately for goods, then it is purchases on credit, therefore, the creditor gives. Creditors account will be credited and purchases account debited.

**Illustration** R. Okonkwo is a sole trader. The following transactions took place in his books.

1. Bought goods on credit from Jaja Ltd. 85,000
2. Sold goods on credit to Sule I & Co 176,000
3. Purchased some office machines on credit from Apala Engineering Ltd. 150,000

**Required:** Show the double entries for each of the transactions.

**Cash Book**

A Cash Book is a special journal which is used for recording all cash receipts and all cash payments. Cash Book is a book of original entry since transactions are recorded for the first time from the source documents. The Cash Book is larger in the sense that it is designed in the form of a Cash Account and records cash receipts on the debit side and cash payments on the credit side. Thus, the Cash Book is both a journal and a ledger.

**Types of Cash Book**

There are different types of Cash Book as follows:

1. Single Column Cash Book- Single Column Cash Book has one amount column on each side. All cash receipts are recorded on the debit side and all cash payments on the payment side, this book is nothing but a Cash Account and there is no need to open separate cash account in the ledger.
2. Double Column Cash Book- Cash Book with Discount Column has two amount columns, one for cash and other for Bank on each side. All cash receipts and cash discount allowed are recorded on the debit side and all cash payments and discount received are recorded on the credit side.

**Double Column Cash Book containing contra transaction and cheque transaction**

The double column Cash book has columns on both the sides of the Cash book. This cash book can have two columns on both the sides as under:

(a) Cash and Discount Columns,

(b) Cash and Bank columns,

(c) Bank and Discount columns.

(I) Contra Transactions which relates to allowing discount or receiving discount in cash after the settlement of the dues are known as Contra Transactions.

(II) Cheque Transactions When a cheque is received and no any other information at a later date about the same is given, it will be assumed that the said cheque has already been deposited into bank on the same day when it was received. Then the entry should be as under:

1. Three Column Cash Book- Triple Column Cash Book has three amount columns, one for cash, one for Bank and one for discount, on each side. All cash receipts, deposits into book and discount allowed are recorded on debit side and all cash payments, withdrawals from bank and discount received are recorded on the credit side. In fact, a triple-column cash book serves the purpose of Cash Account and Bank Account both. Thus, there is no need to create these two accounts in the ledger.

**Illustration 1**

Tasha started a restaurant business in December, 2019 and the following are the transactions recorded for the month of commencement of operation.

December 1, started with a capital of ~~N~~15,000

December 2, paid rent of ~~N~~700 by cash

December 3, received a loan of ~~N~~ 500 from Pogba by cheque

December 5, she received a cheque of ~~N~~1,650 from Olu

December 6, she paid general expenses of ~~N~~ 300 in cash

December 9, withdrew ~~N~~ 1000 cash, till and paid into the bank account

December 10, cash sales paid directly into the bank ~~N~~ 3,000

December 12, Banked cash ~~N~~ 900

December 14, Cash purchases ~~N~~ 500

December 16, Bought goods by cheque ~~N~~ 130

December 19, Commissioned received by cheque ~~N~~ 501

December 21, bought motor van by cheque ~~N~~ 60

December 22, Cash drawings by the owner of the restaurant ~~N~~ 21

December 24, Paid Biodun for goods bought ~~N~~ 250; ~~N~~ 150 in cash and ~~N~~ 100 by cheque

December 26, paid wages on cash ~~N~~ 350

December 27, Bought stationery paying by cash ~~N~~ 750

December 28, withdrew ~~N~~ 150 from bank for private use

December 30, Rent received by cheque ~~N~~ 450

December 31 cash sales of ~~N~~ 1,000

**You are required:**

1. Write up a two-column cash book for the transactions above.
2. Post the transactions to the relevant ledger accounts

**Illustration 3**

Cool print is a photo copy center commissioned to operate within the campus and the following are the details of their transactions for the month of January, 2022.

January 1, started with a capital of N20, 000

January 2, paid rent of N7, 000 by cash

January 3, received a loan of N5, 000 from Kente by cheque

January 5, received a cheque of N1, 600 from Olu

January 6, paid general expenses of N3, 000 in cash and received a discount of 5%

January 9, withdrew N10, 000 cash, till and paid into the bank account

January 10, sales proceeds paid directly into the bank N3, 000

January 12, Banked cash N9, 000

January 14, Cash purchases N5, 000 attracted a discount of 10%

January 16, bought goods by cheque N1, 300

January 19, Commissioned received by cheque N5, 000

January 21, bought motor van by cheque N6, 000

January 22, Cash drawings by the owner of the restaurant ~~N~~2, 000

January 24, Paid Chai for goods bought N2, 500; N1, 500 in cash and N1, 000 by cheque

January 26, paid wages by cash of N 3, 500

January 27, Bought stationery paying by cash ~~N~~ 700

January 28, withdrew N105 from bank for private use

January 30, Rent received by cheque N4, 500 which is subject to 10% discount.

January 31 cash sales of N10, 000

**You are required:**

1. Write up a three-column cash book for the transactions above.
2. Post the transactions to the relevant ledger accounts and balance it

**Practice Questions**

**Question 1**

From the following particulars in the books of Dinesh Singh prepare three column cash book.

1992 N

November 1 Cash in Hand 750

“ 1 Cash in Bank 9,700

“ 2 Cash received from baba Prasad 1,872

Discount given 28

“ 4 Salaries paid for October 1,500

“ 4 Cash Sales to Ranga rao 4,700

“ 5 Paid to veerabhadhram through cheque 475

Discount Received 25

“ 17 Cheque received from raghu ram(sent 391

To bank)

“ Discount given 9

“ 19 withdrawn form bank for personal use 2,300

“ 21 Deposited in the bank 862

**Question 2**

Prepare a three column cash book of Sri kishore Karwankar from the following Particulars and post the transactions to the relevant ledger accounts

1997 N

January 1 Cash in Hand 1,000

“ 1 Cash in Bank 20,000

“ 2 Purchased goods for Cash 600

“ 4 Sold goods for Cash 2,000

“ 10 Received cash from Birajdar ( Discount allowed Rs 25) 875

“ 12 Issued Cheque to Mohan Rao (Discount Received Rs 20) 480

“ 14 Cash Deposited in bank 1,000

“ 16 Received cheque from prabakar (in full settlement 950

Of a debt of Rs. 1000)

“ 20 Bank collects interest on Securities 500

“ 22 Received cheque from Kulkarni, deposited in bank 1,000

“ 27 Bank returns cheque of Kulkarni as dishonoured

“ 30 Bank charges as per Pass Book 50

“ 31 Amount withdrawn from bank for office use 500

“ 31 Amount withdrawn for Personal use 1,000  
B

**Question 3**

Solo Enterprises started a business with N96,000 on July 2016 and paid the money into the bank on 4 July, 2016. His transactions for the rest of the month were as follows:

2016 N

4/7 Purchases by cheque 32,760

7/7 Credit purchases 30,240

Electricity paid by cheque 600

Rent paid by cheque 840

10/7 Sales - on credit 51,024

- cheque 60,000

- by cash 576

Drew cash for office use 2,400

11/7 Paid trade payables by cheques 18,120

Cash discount recorded from creditors 384

12/7 Cash Sales 20,538

Wages paid by cash 600

14/7 Cheques received from customers 47,040

Discount allowed to customers 960

17/7 Drew cash for Office use 300

18/7 Paid cash for repairs 144

Purchases – credit 54,000

- cheques 6,000

- cash 23,000

22/7 Sales –cash 45,000

- cheques 20,400

24/7 Paid trade payables by cheques 32,400

Discount received from trade payables 120

Cash Sales immediately paid into bank 2,400

26/7 Paid rent by cheque 1,800

Paid Wages & Salaries by cheques 6,720

31/7 Cash paid into bank 12,000

Drew cheque for petty cash 240

**Required:** (a) Enter the above transactions in the cash book of Solo Enterprises and post to the relevant ledger accounts.