

3

PRINCIPLES OF DOUBLE-ENTRY

Objectives

At the end of this chapter, students should be able to:

- Explain the rules of double entry;
- Remember the origin of double entry system;
- Apply the rules of double entry to various bookkeeping problems.

3.1 Introduction

Double-entry are those rules which are the key to bookkeeping operations from the simplest to the most difficult ones. For this reason, the rule is being revisited to ensure a proper grip of it.

3.2 Concept of the Rules of Double-Entry

In every business transaction, two aspects are involved, namely; buying and selling ; and giving and receiving. In other words when one person sells goods, another is buying at the same time. Similarly, when one person gives, another is receiving at the same time. As these two things happen side by side, they are recorded in the books of account. This is what is called double-entry. Double-entry, therefore, is a method of recording a single transaction twice in a book of accounts, called the general ledger, with both debt and credit entries. The golden rule of this principle is that every debit entry must have a corresponding credit entry and vice-versa.

In order to facilitate the recording of transactions under double entry system, the following rules are applied:

- i. Identify the two accounts involved in a transaction.
- ii. Determine the account that gives value and the one that receives value.
- iii. Debit the receiver and credit the giver with the value involved (an account is debited or credited by recording the value on the debit or credit side as the case may be).
- iv. Debit any receipt and credit any payment.
- v. Debit purchases and credit sales.
- vi. Debit value in and credit value out.

The rules are illustrated in the following examples:

Example 3.1

Oreoluwa went to Shoprite Supermarket to buy a set of furniture for N100,000. Using this data, show the debit and credit entries in the book of:

- i. Oreoluwa.
- ii. Shoprite Supermarkets.

Solution

i. In the books of Oreoluwa

Debit: furniture N100,000

Credit: cash N100,000

ii. In the books of Shoprite Supermarket

Debit: cash N100,000

Credit: furniture N100,000

Thus, the transaction involves an exchange of N100,000 cash for Shoprite Supermarket's set of furniture. The transaction increases the cash of Shoprite Supermarket by N100,000 and reduces the set of furniture assets by N100,000.

Example 3.2

Show the double-entry records for the following transactions which appeared in the books of Micheal Mosope for the month of April 2009:

April 1 Started business with cash N75,000

April 6 Sold goods for cash N8,000

April 10 Received cash from Ige Adubi N5,000

April 12 Paid cash to Ore Oluwa N9,500

April 15 Bought goods for cash N25,000

Note the recording of these transactions:

1. April 1 - debit cash (the receiver) and credit capital account (the giver).
2. April 6 - debit cash (the receiver) and credit sales (the giver).
3. April 10 - debit cash account (the receiver) and credit Ige Adubi (the giver).
4. April 12 - debit Oreoluwa (the receiver) and credit cash (the giver).
5. April 15 - debit purchases account (the receiver) and credit cash account (the giver).

Solution

Cash Account

Dr			Cash book			Cr	
Date	Particulars	F	Amount	Date	Particulars	F	Amount
2009			N	2009			N
Apr. 1	Capital		75,000	Apr. 12	Oreoluwa		9,500
Apr. 6	Sales		8,000	Apr. 15	Purchases		25,000
Apr. 10	Ige Adubi		5,000	Apr. 30	Bal. c/d		53,500
			88,000				88,000
May 1	Bal. b/d		53,000				

Capital Account

	Date	Particulars	F	Amount
	2009			N
	Apr. 1	Cash		75,000

Sales Account

	Date	Particulars	F	Amount
	2009			₦
	Apr. 6	Cash		8,000

Ige Adubi

	Date	Particulars	F	Amount
	2009			₦
	Apr. 10	Cash		5,000

Oreoluwa

Date	Particulars	F	Amount
2009			₦
Apr. 12	Cash		9,500

Purchase Account

Date	Particulars	F	Amount
2009			
Apr. 15	Cash		25,000

The above demonstrates the use of double-entry for cash transactions. Its use is also shown in credit transactions as illustrated in the next example.

Example 3.3

Enter the following transactions in the book of Mojisola in the double-entry format form for the month of September, 2009:

Purchase Account

Date	Particulars	F	Amount
2009			₦
Sept. 14	A. Bosede		34,000

Sales Account

	Date	Particulars	F	Amount
	2009			
	Sept. 29	Madueke		40,000

Madueke

Date	Particulars	F	Amount
2009			N
Sept. 29	Sales		40,000

Sept. 14: Bought from A. Bosede goods worth 34,000

Sept. 29: Sold to Madueke goods worth 40,000

On the payment of debt in cash to A. Bosede by Mojisola:

Debit A. Bosede's account (the receiving account) with 34,000 and credit Mojisola's account (the giving account) with 34,000.

On the payment of cash to Mojisola by Madueke:

Debit Mojisola's account (the receiving account) with 40,000 and credit Madueke's account (the giving account) with 40,000.

The sales or purchases of goods on credit require a debit and credit entry in each person's books while the settlement or payment for the goods requires a debit entry and credit in each party's book. Note that the purchases and sales of goods in cash does not require opening of accounts in the names of the buyer or the seller. The cash payment entries in the cash book reflect the transactions.

Three books are to be kept or opened here, namely; the journal, the cashbook, and the ledger.

- i. The journal is a subsidiary book in which initial entries of business transactions are recorded.
- ii. The cash book records cash receipts and payments. It is also a ledger account.
- iii. The ledger is used to record transactions after classification into groups which affect cash, goods and persons.

This leads to the classification of account into real and nominal accounts which is treated in detail in chapter 8.

3.3 Summary

In this chapter, students have learnt that:

- Book-keeping is based on the rules of double entry.
- The rules of double entry is that for any debit entry there must be a corresponding credit entry in the appropriate account in the ledger.
- The principle of double-entry is applied in the recording of every business transaction.

3.4 Revision Questions

Capital				
	Date	Particulars	F	Amount
	2009			N
	April 15	Cash		75,000

The double entry for the above capital account on April 15, 2009 will be in the:

- A. Cash book
- B. Sales account
- C. Machinery account

D. Purchases account

Purchase Account			
Date	Particulars	F	Amount
2009			N
April 14	A. Bosede		34 000

2. The credit entry of the above transaction on Sept. 14,2009 will be in the:

- A. cash book
- B. A. Bosede
- C. capital
- D. stock

3. To credit an account means:

- A. the right side of an account
- B. to post an amount on the right side of an amount
- C. to give a credit facility to an owner of an accrual
- D. to increase the account by an amount

4. Which of the following accounts is credited when equipment is sold for cash:

- A. sides account
- B. cash account
- C. equipment account
- D. capital account

5. Manpower Ltd. purchases a money counting machine on credit from CTCOIN. What is the entry?

- A. debit CTCOIN credit Manpower Ltd.
- B. credit Manpower Ltd. debit CTCOIN
- C. debit money counting machine, credit CTCOIN
- D. credit money counting machine, debit CTCOIN

6. Explain the rules of double-entry.

7. Show the double entry records in the following transactions appearing in the books of Monday Ibrahim, a business man in Ondo for the month of January:

		N
Jan. 1:	Sold goods for cash	60,000
Jan. 2:	Paid cash to S. A. Adeloro	140,000
Jan. 14:	Received cash from A. A. Ogungbade	230,000
Jan. 17:	Bought goods for cash	170,000
Jan. 25:	Paid wages	60,000
Jan. 28:	Bought goods from S. Akinleye	320,000
Jan. 31:	Sold goods to Adegboyega	252,000

8. Enter the following transactions in the books of G. T. Gbolahan for the month of March, 2009:

	₦
Mar. 1: Purchased goods for cash	520,000
Mar. 4: Paid rent in cash	56,000
Mar. 5: Sold goods for cash	756,000
Mar. 9: Paid cash to P. I. Nwokolo	120,000
Mar. 10: Received cash from M. O. Maduka	250,000
Mar. 15: Paid wages	60,000
Mar. 19: Bought goods from N. M. Olagbaise	946,000
Mar. 22: Sold goods to Idris Yinusa	842,000
Mar. 28: Paid Insurance in cash	40,000

9. M. Ogagu commenced business as a trader in April 2009 and had the following transactions:

	₦
Apr. 1: Bought a new motor vehicle and paid cheque	300,000
Apr. 5: Bought goods for sale	50,000
Apr. 7: Paid rent	5,000
Apr. 9: Sold goods	70,000
Apr. 15: Paid wages	6,000
Apr. 17: Received commission	3,000
Apr. 20: Received invoice for stationery from Ajasa & Co Ltd	30,000

Make necessary entries in the ledger.