**WEEK FOUR AND FIVE**

**TOPIC: DOUBLE ENTRY BOOK – KEEPING**

**CONTENT**

* Double Entry Principle
* Posting of Transactions to Ledger Accounts
* Combination of Cash Account and Bank Account
* Double Entry Records for Sales, Purchases, Returns, Carriage inwards, Carriage Outwards, Capital, Drawings, Expenses, Income, Assets and Liabilities

**Note**

The day-to-day transactions of a business are recorded in the books of account using the double entry system of bookkeeping. The term double entry is used because the two effects of a transaction (a giving and a receiving) are both recorded in the ledger.

Double entry bookkeeping is the system of keeping account which involves the recording of the two-fold aspect of every transaction, whereby one account that receives value is debited and another account, which gives value is credited.

**Rules of Double Entry**

1. All transactions must be recorded in two accounts, one account is debited and another account credited.
2. For every debit entry in an account, there must be a corresponding credit entry in another account.
3. For every credit entry in an account, there must be a corresponding debit entry in another account.
4. Debit the account that receives value, credit the account that gives values.

**Illustration**

Record the following transaction in the ledger of F. Sanusi for the month of July 2016.

July 1 Started business with N50, 000 cash

“ 3 Bought goods for cash N8, 500

“ 7 Bought goods on credit N11, 600 from K. Nasiru

“ 10 Sold goods for cash N14, 000

“ 14 Returned goods to K. Nasiru N2, 000

“ 18 Bought goods on credit N18, 000 from S. Dauda.

“ 21 Returned goods to S. Dauda N5, 000

“ 22 Sold goods to A. Femi N27, 000 on credit

“ 24 Paid K. Nasiru’s account by cash N9, 600

“ 25 A. Femi returned goods worth N3, 000 to us

“ 27 Bought ceiling fan for shop by cash N6, 000

**Solution**

**Cash Account**

2016 N 2016 N

July 1 Capital 50, 000 July 3 Purchases 8, 500

“ 10 Sales 14, 000 “ 24 K. Nasiru 9, 600

“ 27 Fittings 6, 000

**Capital Account**

N N

July 1 Cash 50, 000

**Purchases Account**

N N

July 3 Cash 8, 500

“ 7 K. Nasiru 11, 600

“ 18 S. Dauda 18, 000

**K. Nasiru’s Account**

N N

July 14 Returns Outward 2, 000 July 7 Purchases 11, 600

July 24 Cash 9, 600

**Sales Account**

**N N**

Jul10 Cash 14, 000

Jul 22 A. Femi 27, 000

**Returns Outwards Account**

N N

Jul 14 K. Nasiru 2, 000

Jul 12 S. Dauda 5, 000

**S. Dauda’s Account**

N N

Jul 21 Returns Outward 5, 000 Jul 18 Purchases 18, 000

**A. Femi’s Account**

N N

Jul 22 Sales 27, 000 Jul 25 Returns Inwards 3, 000

**Returns Inwards Account**

N N

Jul 25 A. Femi 3, 000

**Fittings Account**

N N

Jul 27 Cash 6, 000

A business maintains a separate ledger account for each type of asset, liability, expense and income and also for each individual debtor and creditor. Every transaction is recorded in the ledger account relating to that particular item or person.

In practice, each ledger account has its own page or sheet (i.e. folio). As this is not possible in examination questions and class exercises, it is usual to find several accounts displayed on one page.

**EVALUATION**

1. Complete the following table, showing the accounts to be debited and those to be credited:

Accounts to be debited Account to be credited

1. Bought furniture by cheque
2. Paid wages by cash
3. Cash sales
4. Cash purchases
5. Started business with money in bank
6. The owner took cash for his personal use
7. Sold goods on credit to Mr. Anayo
8. Bought fixtures on credit from Odunlade
9. Bought machinery by cheque
10. Received loan by cash from Mr. Evans
11. Business Accounting 1 by Frank Wood, Exercise 3.6, 3.9A and 3.10A

**READING ASSIGNMENT**

1. Simplified and Amplified Financial Accounting page 20 – 27
2. Business Accounting 1 page 21 – 38

**GENERAL EVALUATION QUESTIONS**

1. State four differences between book – keeping and accounting.
2. List ten users of financial information.
3. State seven benefits of keeping accounting records.
4. List three differences between the Journal and the Ledger.
5. Explain the principle of double entry system

**WEEKEND ASSIGNMENT**

1. Cross referencing among different books of account is achieved with the use of A. columns B. reference numbers C. folio D. margin
2. A ledger is a A. summary of entries B. book of original entry C. book of account D. double entry posting
3. A trader set aside from his private funds N70, 000 for business purposes. The N70, 000 would be referred to as A. drawings B. profit C. capital D. loan
4. Purchases in accounting refers to goods bought for A. repairs B. permanent use C. resale D. owner’s use
5. When goods are sold for cash, the credit entry goes to the \_\_\_? A. trader’s account B. cash account C. customer’s account D. sales account

**THEORY**

1. What is a ledger?
2. Explain the principle of double entry system.