DOUBLE-ENTRY BOOKKEEPING

The banking system is an extremely complicated maze of numbers and legal terms, and with the invention of ***double-entry bookkeeping*** in 1494 by ***Luca Pacioli***, the banking world has become exponentially more difficult to comprehend.

However, with an understanding of a few basic terminologies you can begin to navigate this maze and see what is really going on.

Words like ***bookkeeping***, ***accounting*** and ***ledger*** are interchanged by people who do not comprehend the subtle differences between these words.

Bookkeeping

Like the name suggests, the ***"keeper of the book"*** is undertaking the ***"upkeep of a book"*** by way of keeping records, usually of a financial nature, and placing the information into organised accounts within the pages of a ***book***.

Accounting

The process of accounting is conducted by an ***accountant***, who uses the information provided by the ***book-keeper*** within the ***book***, to prepare financial reports and statements using a ***ledger***.

Single Entry Bookkeeping

This method of bookkeeping is the simplest to use and understand as it involves just ***one account***, owned and run by just ***one party***, which would be the ***account holder***.

The account has just ***two sides***; one side listing a ***negative value*** on the ***left*** and the other side listing a ***positive value*** on the ***right***.

The ***negative value*** shows ***"cash"*** going ***out*** of the account, such as expenses, and the ***positive value*** shows ***"cash"*** coming ***in***, such as payments received for work.

In almost all cases this would be the ***primary bookkeeping account,*** with transactions being recorded within the ***"cash book"***.

An example would look like this:

Cash	Debit (DR)	Credit (CR)
Expenses	-£100 DR	
Salary		+£1,000 CR

Once all the ***negative*** and ***positive*** values are summed up, a ***balance*** of the account can be ascertained.

Double-entry bookkeeping is much more complicated, as ***"debt"*** and ***"credit"*** do ***not*** mean ***negative*** and ***positive*** in the true sense.

Note: the use of the legal terms ***"debit"*** and ***"credit"*** signify there is ***more than one party involved*** with the account.

This means the ***account*** is ***"shared"*** with another party, which most people are completely unaware of, and therefore the deception can now be carried out.

It is your ***position*** within the ***account*** that determines whether you are in ***credit*** or ***debt***; either you are the ***account holder*** or just the ***account user***.

If you are in ***credit*** then the ***account holder*** is now in ***debt*** to you, and if you are in ***debt*** then the ***account holder*** has offered you ***credit***, which you must pay back.

Note: You do ***not*** own ***"your"*** bank account; you are just an unpaid ***administrator*** for the ***account holder***, which is the bank.

Double-Entry Bookkeeping

In ***double-entry bookkeeping***, every financial transaction involves at least ***one debit*** and ***one credit***.

A minimum of ***two accounts*** are set up, meaning the double-entry system has ***two*** matching and corresponding sides, known as ***debit*** and ***credit***.

Within this ledger of ***two*** account books, ***debits*** are written on the ***left*** and ***credits*** on the ***right***.

Once these ***two accounts*** are set up it works as follows:

For example: If the account holder took out a loan for £10,000 then the loan would be recorded in both the ***debt*** account and ***credit*** account.

Note: For business accounting there is a difference between ***current accounts*** and ***physical cash***:

Within accounting purposes ***"cash"*** refers to all the ***"money"*** a business can spend immediately.

This is divided into ***"cash in hand"***, which is the physical notes and coins in its possession, and ***"cash at bank"***, which is the ***electronic money*** available in its current account.

Therefore, the example given below is of a private ***"cash book"*** and not a ***third-party bank account***, which is much more complicated.

CASH	ACCOUNT ONE (CREDIT)	
	Debit (DR)	Credit (CR)
####	####	
LOAN		£10,000 CR

	ACCOUNT TWO (DEBT)	
	Debit (DR)	Credit (CR)
LOAN	£10,000 DR	
####		####

The loan ***received***, which is the amount now ***owed*** is entered as a ***debit*** in the ***debt*** account, while what can ***be given*** or ***paid out*** is entered as a ***credit*** in the ***credit*** account.

DR is an abbreviation of ***"debtor"*** and comes from the ***Latin*** word ***debitum*** meaning ***"what is due"***.

CR is an abbreviation of ***"creditor"*** and comes from the ***Latin*** word ***creditum,*** meaning ***"something entrusted to another"*** or ***"a loan"***.

These ***debit*** and ***credit*** entries must always ***match*** each other so that the account remains ***balanced***, hence the term ***"bank balance"***.

Note: ***One*** transaction will always affect a minimum of ***two*** accounts.

Although this system must have a minimum of ***two*** accounts to function, it can be linked to many accounts, like a chain, which goes on ***"forever"***.

Multiple sets of double-entry books can be linked or ***"connected"***; this is done by using ***connector numbers*** within the paperwork.

Connector numbers can be used with ***financial*** and ***debt instruments*** to integrate multiple customer data sources, thereby forming a connected data layer.

This data can then be digitally processed by relevant applications within the Banking system.

Note: Connecting numbers may be referred to as a ***"sort code"*** showing a change in accounting books, or may not even have a title at all, with just a long number being displayed on the document or screen.

The Golden Rules

Before we get into the different types of accounts, there are three golden rules of accounting that apply to these ***different*** types of account when using the double-entry system:

1. Debit all expenses and losses; credit all incomes and gains.
- This rule applies to nominal accounts, which are related to expenses, losses, incomes, and gains.
2. Debit the receiver; credit the giver.
- This rule applies to personal accounts, which are general ledger accounts.
3. Debit what comes in; credit what goes out.
- This rule applies to real accounts, which are related to assets.

Note: Rule ***one*** states ***"credit all incomes"*** and rule ***three*** states ***"debit what comes in"***, which is a contradiction difficult to explain without knowing your position within the account.

Furthermore, rule ***two*** has either flipped your position within the account, or changed the owner of the account, or even changed the definition of ***debit*** and ***credit***.

For example:

Debit the Receiver: when a business or person receives something of value, their account is ***debited***.

Credit the Giver: when a person or entity gives something of value, their account is ***credited***.

There is another consideration regarding your ***"bank account"***: it may appear as a ***single-entry account***, but it could actually be a ***credit account*** with a hidden ***debit account***.

- ***Debit account:*** what is owed. This is the ***destination*** that ***"economic benefit"*** flows to.
- ***Credit account:*** to intrust. This is the ***source*** that ***"economic benefit"*** flows from.

Note: The term ***"economic benefit"*** is used because ***real money***, which has intrinsic value without third-party risk, is ***not*** being used within these accounts.

Account Types

Within ***Double-Entry Bookkeeping***, using this ***debit*** and ***credit*** system, there are six main types of accounts, which are as follows:

Assets: Debit Account

An ***asset account*** represents a business's resources, such as inventory, equipment, property, accounts receivable and cash.

- A ***Fixed asset account*** would show the monetary value of assets such as property and equipment, and is considered ***long-term***.
- A ***Current asset account*** is named as such because it can be readily converted to cash, or is a cash account, and is considered ***short-term***.

Assets are resources that have a ***"monetary value"*** and represent current and future ***economic benefits***.

This is where things begin to get confusing, because according to the rules of double entry bookkeeping, if you ***deposit cash into*** an ***asset account***, it is recorded as a ***debit*** and ***not*** as a ***credit***.

By following this rule, a ***debit*** has somehow ***increased*** an asset, yet it is recorded as ***"increased debt"***, which does ***not*** follow the other rules of this system.

A ***credit*** entry ***decreases*** an asset account, while a ***debit*** entry ***increases*** it.

For example: If a business ***"borrows"*** from a bank, the ***"cash"*** is ***debited*** into the ***asset account*** as the cash is considered an ***"internal asset"*** until ***"spent"***.

Dividends: Debit Account

A dividend is a distribution of assets or shares from a corporation to its shareholders. Usually there are two basic forms of dividends:

1. ***Cash dividend:*** a distribution of a portion of the company's earnings.
2. ***Stock dividend:*** issuing additional shares of stock.

Note: Other less common forms of dividends include property dividends, where physical assets are distributed, and special dividends, which are one-off payments made outside the normal policy.

A dividend payment is ***debited*** against the cash account; this means when the dividend is paid, the cash account is ***debited*** or ***decreased***.

The dividend payment ***reduces*** cash recorded within the ***cash account***, which is a ***debit account***.

Expenses: Debit Account

In ***double-entry bookkeeping***, an expense account is used to track the day-to-day costs a business incurs to operate, such as rent, salaries and utilities.

In accordance with the rules of ***double-entry bookkeeping***, every transaction has an equal and opposite entry.

Therefore, when a ***debit*** is recorded within the expense account, a corresponding ***credit*** is placed within another account, which is the source of the ***"economic benefit"***.

Liabilities: Credit Account

A liabilities account tracks a company's outstanding debts and obligations, representing an ***"economic benefit" owed*** to external parties, like suppliers or lenders.

A ***credit*** entry ***increases*** a liability account, while a ***debit*** entry ***decreases*** it.

For example:

- ***Credit entry:*** taking out a ***"loan"***.
- ***Debit entry:*** paying back the ***"loan"***.

Note: The word ***"loan"*** represents an ***"economic benefit"*** not an actual ***debt***. This is because nothing is loaned within this system, as no money exists; you are the ***creditor*** of this alleged loan.

In short, the ***liability account*** represents the ***source*** of ***credit***, with an increased credit amount showing an increase in liability to ***"pay it back"*** or ***"promise to pay"***.

Note: A ***"promise to pay"*** is ***not*** an ***"agreement to pay"***.

Revenue: Credit Account

Revenue accounts are used to track the ***income*** a business generates from its primary activities, such as sales or services.

This is an ***internal account*** that follows the ***"revenue recognition principle"***, which means the account only ***recognises*** revenue earned but ***not*** when the ***"payment"*** is received.

There are two basic types of revenue;

1. **Deferred Revenue:** also known as ***unearned revenue***, refers to when ***"money"*** is received in advance for a product or service that has ***not*** been delivered yet.

- This is recorded as a ***liability*** until delivered.
- After delivery, the revenue is now considered earned.

2. **Accrued Revenue:** this is income a business has earned by delivering goods or services, but for which it has not yet issued an invoice or received payment.

- This is recorded as an ***asset*** on the balance sheet.
- After the ***"cash"*** is received the revenue is now recognised.

This means that revenue is only recognised when ***"cash changes hands"*** and ***"the contract is completed"***.

Note: Nothing is ever ***"paid"*** within double-entry bookkeeping.

Equity: Credit Account

An equity account represents the ***"owner's stake"*** or ***net*** worth in a business or corporation, calculated from ***total assets*** minus ***total liabilities***.

This can include recording the capital invested by the owners, accumulated profits or savings, and any withdrawals or dividends from the business, to produce a final balance.

A ***credit*** entry ***increases*** an equity account, while a ***debit*** entry ***decreases*** it.

For example: If a business ***"borrows"*** from a bank, the ***liabilities*** held by the business go up, and a ***credit*** is added to the liability account to show the obligation to ***"pay it back"***.

Equity

Equity refers to the ***"monetary value"*** left over once all debts and liabilities have been settled, or the account has been ***balanced***.

Equity can either be a ***positive value*** or a ***negative value;*** with positive value being considered an asset.

Therefore ***Assets*** = ***Liabilities*** + ***Equity***, as long as the account remains balanced.

Note: Liabilities are what are ***owed*** to any ***third parties***.

For example: A ***mortgage "debt"*** is considered a ***liability***, and if said ***liability*** is ***greater*** than the value of the house, then this is ***negative equity*** and the house is ***not*** an asset.

If you have ***positive equity***, then this is an asset that can be used to gain ***credit***, or a ***sum that can be paid out***.

Note: A ***"loan"*** is required to turn the ***positive equity*** within the house into a ***liquid asset***, in the form of ***credit*** that can be ***paid out***.

Double-Entry Account

A ***debit*** is an entry made on the ***left side*** of an account: debits ***increase*** an asset or expense account and ***decrease*** equity, liability, or revenue accounts.

A ***credit*** is an entry made on the ***right side*** of an account: credits ***increase*** equity, liability and revenue accounts and ***decrease*** asset and expense accounts.

Here are some effects caused by ***debits*** and ***credits*** upon a ***double-entry account***:

Liabilities: A credit ***increases*** liabilities, while a debit ***decreases*** them.

There are many liability accounts, categorised as either ***"current"*** or ***"long-term"*** liabilities. A ***debit*** to a liability account ***reduces*** the business's liability, while a ***credit increases*** it.

Credit increases liabilities because it indicates that someone has ***"loaned"*** you ***"money"*** that you used to purchase something.

A ***debit decreases liabilities*** because it represents ***"economic benefit"*** being ***"paid out"***.

Equity: A credit ***increases*** equity, while a debit ***decreases*** it.

Equity represents the ***"owners' interest"*** in the business. More precisely, it equals ***net assets***, which are calculated as assets ***minus*** liabilities.

Revenues: A credit ***increases*** revenues, while a debit ***decreases*** them.

Credit ***increases*** a revenue account because credits represent increases in equity and income, which ***sales on credit*** generate.

A ***sale on credit*** means a customer receives goods or services and will ***pay later***, so the business records the sale as revenue.

Debits are used to record things such as reduction in income from sales returns, or sales discounts, and would therefore ***decrease*** revenue.

Expenses: A credit ***decreases*** expenses, while a debit ***increases*** them.

A debit ***increases*** an expense account because a debit is recorded to show the use of resources and the resulting cost.

For example: When a business incurs costs such as paying rent or salaries, a ***debit*** is recorded.

An expense account is referred to as a ***"normal debit balance"*** account, which means an account that typically has more total debits than credits.

A credit ***decreases*** an expense account, which can happen in cases of refunds, reversals, or other adjustments that offset a previously recorded cost.

Off-Book Accounting

Within double-entry bookkeeping, an ***"off-book"*** or ***"off-balance sheet"*** item is an asset or liability that is ***not recorded*** on the company's balance sheet but is disclosed in the financial statement footnotes.

This ***"off-book"*** accounting is considered legitimate, with such forms of ***"Off-Balance Sheet"*** financing being disclosed in footnotes by using the acronym ***OBS***.

Corporations use this technique to appear less leveraged and more financially stable to investors and lenders.

Note: Just because something is considered ***"off-books"*** does ***not*** mean there is ***not*** another set of ***adjacent*** double-entry books.

It just means these books have not been fully disclosed, although the footnote ***OBS*** is supposed to show ***"transparency"*** within the financial statement.

In financial trading, an ***"off-book"*** trade is conducted directly between two parties, away from an ***"official book"***, with the terms of the trade being ***privately*** negotiated.

Debit and Credit Reversed

Within ***double-entry bookkeeping***, when you ***deposit cash*** into your ***cash account***, you are required to ***debit*** the ***cash account***, which is ***contrary*** to what the rules say.

- When ***cash*** is added to your ***cash account*** in double-entry bookkeeping, it is a ***debit*** because the ***cash account*** is an ***asset***.
- When you ***deposit cash*** into your personal ***bank account***, it is recorded as a ***credit*** to your account. This is because the bank considers your account balance a ***liability*** to them.

The reason the ***"cash account"*** seems to ***break double-entry bookkeeping*** rules is that a ***second account***, which is the ***bank account***, is now involved.

The ***cash account*** is ***not*** the same as a ***bank account***; however they are linked.

The ***cash account*** is considered an ***asset account*** as it tracks the cash ***given*** to a ***third party***, namely the bank.

Therefore, when you ***deposit cash*** in the ***account held by the bank*** it is recorded as a ***credit*** in the ***bank account***, but as a ***debit*** in your ***cash account*** as you have ***given credit*** to the bank.

The bank ***credits*** the ***depositor's bank account*** when a ***deposit*** is made because the bank ***"legally owes"*** the ***depositor*** the money.

Note: When a ***fiat note*** is used, the ***depositor*** does ***not*** own the ***"money"*** but is merely the ***"holder in due course"***, as the central bank retains both ***ownership*** and the ***"controlling interest"*** as the issuer.

Once a deposit has been made, the bank has ***increased*** its liability to the depositor and must ***credit*** the ***bank account*** issued to the depositors.

Conversely, when cash is paid ***out*** from the ***bank account***, the bank reduces its ***liability*** by ***debiting*** the depositor's account. Simultaneously, the depositor reduces their assets by ***crediting*** their ***cash account*** on their balance sheet.

Therefore, in layman's terms, the ***cash account*** is the amount of cash the bank ***owes you***, and because ***debt*** is considered an ***asset***, so too is the ***cash account***.

The greater the ***debit***, the larger the ***asset***.

Note: The bank, ***not*** the depositor, ***owns*** the bank account. The depositor is merely an unpaid administrator of it.

Cash as Debt

With an understanding of how this double-entry bookkeeping functions, we can now consider how this system is being used to obscure what is truly going on.

There are a few things to consider when trying to delve deeper into this system:

1. The word ***"cash"*** is referring to a ***debt instrument***, which is operating on another set of books.
2. Debt is considered an asset with a value.
3. No money is used.
4. Nothing is paid.
5. High street banks hold ***Bank of England*** promissory notes of debt, which are a liability.

When ***cash*** is considered to be a ***debt*** with a ***hidden contract***, we can theorise the following:

The ***"cash account"*** is ***debited*** because cash is deposited in the company's bank account which does ***not*** belong to the company, it belongs to the bank.

Although the company may consider the bank account as an ***asset***, the bank considers it a ***liability*** because the bank is obligated to ***"pay"*** the cash out to the company.

However, this is not entirely true, as the ***depositor*** has given away the notes to a bank that owns the account.

The ***depositor*** is nothing more than a ***"holder in due course"***, placing a ***debt instrument*** into an ***account*** labelled with the ***"surname"***, a name the depositor does ***not*** own.

Therefore, there is ***no obligation*** for the bank to ***"pay back"*** the cash. In fact, as the depositor you have agreed to any bank bail-in the bank may choose to conduct, and for whatever reason.

Note: The words ***deposit***, ***depositor*** and ***depose*** come from the ***Latin*** word ***depositum,*** which means ***"to put down"*** or ***"lay down"***, meaning the ***position*** of something has changed.

What has changed is ***your standing***; by ***depositing*** you have lowered your standing, elevating someone or something into a ***higher standing,*** thereby giving them ***authority*** over you.

In almost all cases, you have handed over your authority or given away the asset.

Cheque Deposited

If you write out a ***cheque*** to someone, and they ***deposit*** said cheque into ***"their"*** bank account, what appears to be a ***deduction*** from ***"your"*** account is recorded on your statement.

However, this is just an ***assumption*** of what is happening with your account, ***not*** what is actually going on.

When you write a cheque, ***new credit*** has been created in ***"your name"***, and when you ***receive*** a cheque or promissory note, it is a liability as it has ***not*** been paid.

The cheque is ***debited*** into your account, but ***credited*** from another account you do ***not*** see within the ***double-entry bookkeeping*** of the bank.

Note: The ***credit*** comes from your ***foreign situs trust***, through the central bank and to the high street bank you are dealing with.

The bank does ***not*** loan you anything, but just ***facilitates your credit*** from your ***foreign situs trust***, which is done through the following:

1. Direct debit.
2. Debit card.
3. Credit card.
4. Cheques.
5. Bankers' draft.
6. Mortgage contract.
7. ***"Loan"*** agreement.
8. Cashback on your card.

Every time you use these ***credit creation*** methods a ***debit*** and a ***credit*** is placed within the ***ledger*** of this ***double-entry bookkeeping***.

You do ***not*** have access to, nor can you view the ***credit*** side of this ledger, you only have access to the ***debit*** side, which you believe to be ***"your bank account"***.

The use of ***physical notes***, once they are deposited into ***"your"*** bank account, does ***not*** create new credit.

Note: This is one reason why businesses are going ***"cashless"***, as using cash does ***not*** create new credit, but use of your debit or credit card does.

Therefore, the ***debit*** side of this ***banking ledger*** is from the ***creation*** of your ***own credit***; if you make a ***"loan payment"*** then the bank removes ***"cash"*** from your ***credit side*** and ***keeps*** the ***debit side***.

Note: The ***debit entry side*** of this ***double-entry bookkeeping*** can only be claimed by the bank after 3 years as you never claimed the asset and they are therefore now considered ***"abandoned"*** and eligible for ***"salvage"***.

Summary

Modern day bank accounts now have ***three parties*** involved, which are as follows:

- The Creditor
- The Debtor
- The account owner

The Bank has made you hold the position of both the ***creditor*** and the ***debtor*** of the account they own.

This means if you have a high street bank account with an ***overdraft***, or ***"in the red"***, this is ***credit*** that you have issued and are owed back.

Conversely, if you have one million dollars in the bank, or ***"in the black"***, this is one million in ***liability*** for the high street bank, as these promissory notes have ***not*** been paid yet.

To figure out what should be a ***debit*** and what should be a ***credit*** depends on the perspective of the user or, more accurately, who ***owns*** the account.

There are anomalies within documentation that suggests not everything is as it appears:

- When a utility company sends you a ***"statement"*** the balance is a ***positive number***.
- Council normal business accounts for ***gross income*** show a ***negative number***.