

2. MEANING AND FUNDAMENTAL OF DOUBLE ENTRY BOOK-KEEPING

Q. 1. Answer in one sentence only.

1) What is Double Entry System?

Ans. Double entry system is the most scientific method of recording all business transactions in the books of accounts by giving double or two fold effects of each transaction.

2) What is an Account?

Ans. An account is a summarized record of transactions relating to a particular person, asset, liability, particular head of expense or income recorded at one place.

3) State the meaning of Single Entry System.

Ans. Single entry system of accounting records only cash book and personal accounts and thus does not provide accurate information about the financial position of business.

4) What is Personal Account?

Ans. Personal account represents accounts relating to individual human beings, artificial person or accounts of certain person or group of persons in business dealing. Artificial persons means accounts of organisations, associations etc. which are created by law.

5) State the rule of nominal account.

Ans. As per Golden Rules, rule of Nominal account is as follow:

(1) Debit all expenses and losses (2) Credit all incomes and gains.

6) Give two examples of intangible assets.

Ans. Examples of intangible assets are as follow:

(1) Goodwill (2) Patents (3) Copyright (4) Trademark

7) State the meaning of Real Account.

Ans. Accounts represents assets and properties owned by the business having monetary value are known as Real Account.

8) Give two examples of income and gains.

Ans. Examples of income and gains are:

- (1) Discount received,
- (2) Rent received,
- (3) Profit on sale of furniture.

9) State the rule of Personal Account.

Ans. As per Golden Rules, rule of Personal account is as follows:

- (1) Debit the receiver, (2) Credit the giver.

10) How many methods of recording accounting information are there?

Ans. (1) Indian system (Mahajani Deshinama system)

(2) English system: (i) Single Entry System.

Q. 2. Write one word/phrase which can substitute each of the following statements.

Statements	Ans.
(1) Method Of accounting Which records both aspects of transaction.	Double entry system
(2) Right hand side of an account.	Credit (Cr.) side
(3) Name Of the account which is debited When Proprietor uses business money for personal use.	Drawings A/C
(4) Accounts of Assets and properties	Real A/c

(5) Accounts of expenses and losses and incomes and gains	Nominal A/c
(6) Left hand side of an account.	Debit (Dr.) side
(7) The assets which cannot be seen, touched or theft.	Intangible assets
(8) Person who invented the double entry system.	LUCA D BARGO PACIOLI
(9) Incomplete system of recording business transactions.	Single entry system
(10) Scientific system of recording business transactions.	Double entry system

Q. 3. Select the most appropriate alternatives from those given below and rewrite the statements.

- 1) International Accounting day is observed on 10th November.
- (2) Conventional system of accounting is Indian system.
- 3) Every debit has corresponding credit.
- 4) Radha's Account is a type of personal account.
- 5) Machinery Account is a real account.
- 6) Goodwill is an intangible asset.
- 7) Prepaid expenses is a personal account.
- 8) Debit the receiver, credit the giver.
- 9) Debit what comes in, credit what goes out.
- 10) Debit all expenses and losses and credit all incomes and gains.

Q.4. State whether the following statements are True or False with reasons.

- 1) Outstanding expense is nominal account.

Ans. This statement is False.

Amount payable to a person is known as outstanding expense in the business. As person is involved, outstanding expense is nothing but personal account.

- 2) Capital account is a real account.

Ans. This statement is False.

Amount invested by owner in the form of goods, cash or asset is known as capital. As owner is involved in a transaction, capital account is a personal account.

3) Every debit effect has equal and corresponding credit effect.

Ans. This statement is True.

As per Dual aspect concept, every business transaction have debit effect with equal and corresponding credit effect which is a base for double entry system.

4) Discount received is a nominal account.

Ans. This statement is True.

Discount received is an income for the business therefore discount received is a nominal account.

5) Drawings account is a nominal account.

Ans. This statement is False.

Drawings means amount withdrawn by owner from business and owner's account is a personal account. Therefore, we can say that drawings account is a personal account.

6) Outstanding salary is a nominal account.

Ans. This statement is False.

Salary payable to an employee means outstanding salary. As employee (person) is involved, outstanding salary is nothing but personal account.

7) Loan account is a personal account.

Ans. This statement is True.

Amount received or paid for a temporary period from or to a person is known as loan account. Here, person is involved, therefore loan account is a personal account.

8) Goodwill account is a real account.

Ans. This statement is True.

Goodwill is an intangible asset for the business, and every asset account is a real account.

9) had discount account is a nominal account.

Ans. This statement is False.

When discount is allowed on catalogue price or list price, it is known as Trade discount, which is general discount to be allowed to every customer. From accounting view point, it is not to be recorded in the books. So, we can say that trade discount itself is not an account.

10) Personal transactions of proprietor are recorded in the books of account of business.

Ans. This statement is False.

As per Business entity concept, business is separate and distinct unit from the owner/s. So, personal transactions of proprietor are not to be recorded in the books of account of business.

11) Motor car account is a real account.

Ans. This statement is True.

Motor car is an asset for the business and asset account is real account.

12) The rule of nominal account is Debit the receiver and credit the giver.

Ans. This statement is False.

The rule of nominal account is Debit all expenses and losses and Credit all incomes and gains.

13) Bank loan account is a nominal account.

Ans. This statement is False.

Amount of loan given by bank is known as bank loan. Here, bank is a legal entity, therefore we can say that bank loan account is a personal account.

14) Assets = Capital + Liabilities.

Ans. This statement is True.

Capital amount of a proprietor is a liability of the business and asset of the proprietor. Therefore, total liabilities of the business is capital plus other liabilities. Accounting equation signifies that assets of a business are always equal to the total of its liabilities and capital. Therefore, equation is expressed as $\text{Assets} = \text{Liabilities} + \text{Capital}$.

15) Trademark account is a personal account.

Ans. This statement is False.

Trademark is an invisible asset for the business and every asset account is a real account. Therefore, Trademark account is a real account.

Q.5. Fill in the blanks.

- 1) Increase in asset is debited and decrease asset is credited.
- 2) Assets = Liabilities + Capital.
- 3) Increase in capital is credited and decrease in capital is debited.
- 4) Scientific and complete system of recording business transactions is known as double entry system.
- 5) Debit all expenses and losses, Credit all incomes and gains.
- 6) Land and Building account is real account.
- 7) Cash book and Personal accounts are only maintained under Single entry system.
- 8) Debit what comes in and credit what goes out is the rule of real account.
- 9) Travelling expense account is Nominal type of account.
- 10) Every transaction has two fold effects.
- 11) Real accounts are accounts of properties and assets.
- 12) Laptop account is a real account.