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### Competency Statements

- ☐ *Students understand the Fundamental Principles of Double Entry System.*
- ☐ *Students understand the Classification and Types of Accounts.*
- ☐ *Students are able to apply the golden rules to classification tables.*
- ☐ *Students can prepare a statement of analysis of transactions and accounting equations system*

### 2.1 Meaning and Definition of Double Entry Book-Keeping:

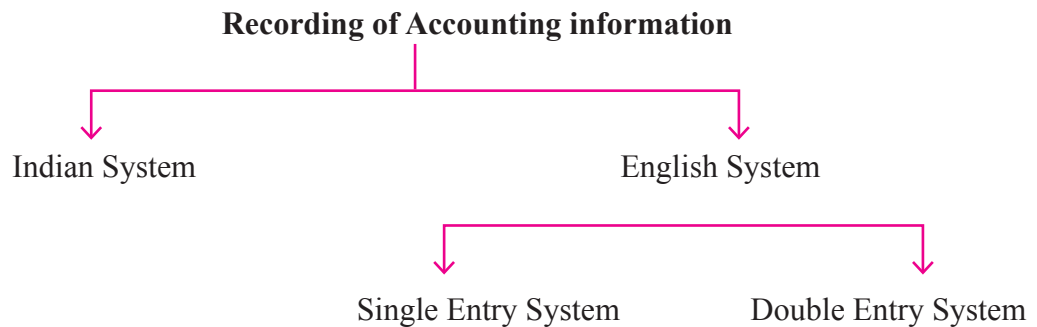
Double Entry Book-keeping System is the most scientific method of recording all monetary transactions in the books of accounts. This system owes its origin to Italian Merchant “LUCA D. BARGO PACIOLI” on 10th November 1494 and this day is celebrated as International Accounting Day. This system of Book-keeping is based on the fact that there are two aspects of every business transactions. Every business transaction involves two persons or accounts or parties where in one is the receiver of the benefit and the other is the giver of the benefit. If something comes into the business, something goes out from the business. Recording of two aspects of monetary transactions in the Books of Account in terms of Debit (Dr.) and Credit (Cr.) is called as "Double Entry" System of Book-keeping.



LUCA D. BARGO PACIOLI

According to modern approach, every business transaction is concerned with Assets, Liabilities, Capital, Expenses and Income. Whenever there is an increase in assets and expenses it is debited and decrease in assets and expenses are credited.

## 2.2 Methods of Recording accounting information:



### 1) Indian System:

Indian system maintains, records in Indian languages, such as Marathi, Hindi, Urdu, Gujarati etc. It is called Mahajani Deshinama system. In this system transactions are recorded or maintained in long books, known as Bahi-Khata and Kird. This system of accounting is not based on Double Entry system of accounting. Thus, is not a scientific accounting system. Even today this system is used in India for small business organization.

### 2) English System:

#### A) Single Entry System:

This system of accounting records only Cash book and Personal accounts. It is unscientific method and also known as an incomplete recording system, because it changes with the convenience of business for recording transactions. This system of accounting does not provide accurate information about the financial position of business and it is suitable for small business.

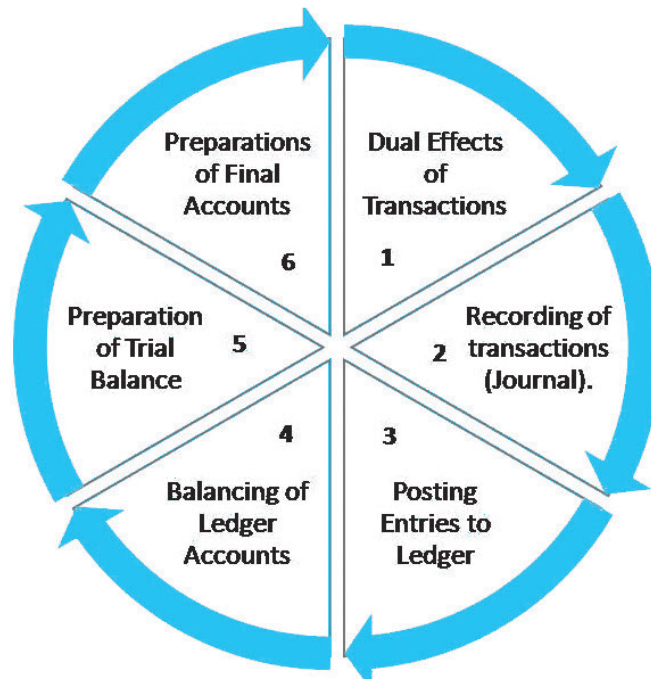
#### B) Double Entry System:

Double Entry System is the most scientific method of recording all business transactions in the books of accounts. Under this system double or two fold effects of each transaction is recorded.

According to Double Entry Book-keeping System, one account is to be debited and another account is to be credited with equal amount.

Every debit has an equal and corresponding credit of the same amount is the basic principle of Double Entry System.

## Important Elements of Double Entry Book-keeping System:



### Definition of Double Entry System

**Definition of Double Entry System is as follows-**

“Every business transaction has a two fold effect and that it affects two accounts in opposite directions and if a complete record is to be made of each such transaction it would be necessary to debit one account and credit another account. It is this recording of two fold effect of every transaction that has given rise to the term Double Entry.” – *J.R. Batliboi*.

### Principles of Double Entry Book-keeping System:

- 1) In every business transaction there must be minimum two effects i.e debit and credit.
- 2) Two Accounts means one is the Receiver of the benefit and other is the Giver of the benefit.
- 3) If one account is debited other account must be credited.
- 4) Every debit has a equal and corresponding credit of the same amount.

### 2.3 Advantages of Double Entry Book-keeping System:

#### 1) Complete Record:

Under this system all business transactions are recorded. This method is scientific and records both the aspects of each transaction.

#### 2) Accuracy:

In this system both aspects are recorded in the books of accounts so it gives complete accuracy in accounting work. It also checks arithmetical accuracy.

#### 3) Business Results:

All expenses, losses, income, gains, liabilities, assets, debtors and creditors all these transactions are recorded, therefore it helps to find out accurate business results of particular accounting period.

#### 4) Common Acceptance:

It is widely accepted since it follows universal accounting principles. Double Entry System is accepted by financial institutions, government authorities etc.

## Conventional Accounting System (Traditional):

Conventional Accounting System is based on practicability. Accounting convention means rules which by common agreement are used in accounting. However, there is no clear information of rules between concepts and convention.

Indian system of accounting is the example of conventional accounting. This system does not follow principles of double entry system. It is incomplete system of recording the business transactions.

## 2.4 Classification of Accounts :-

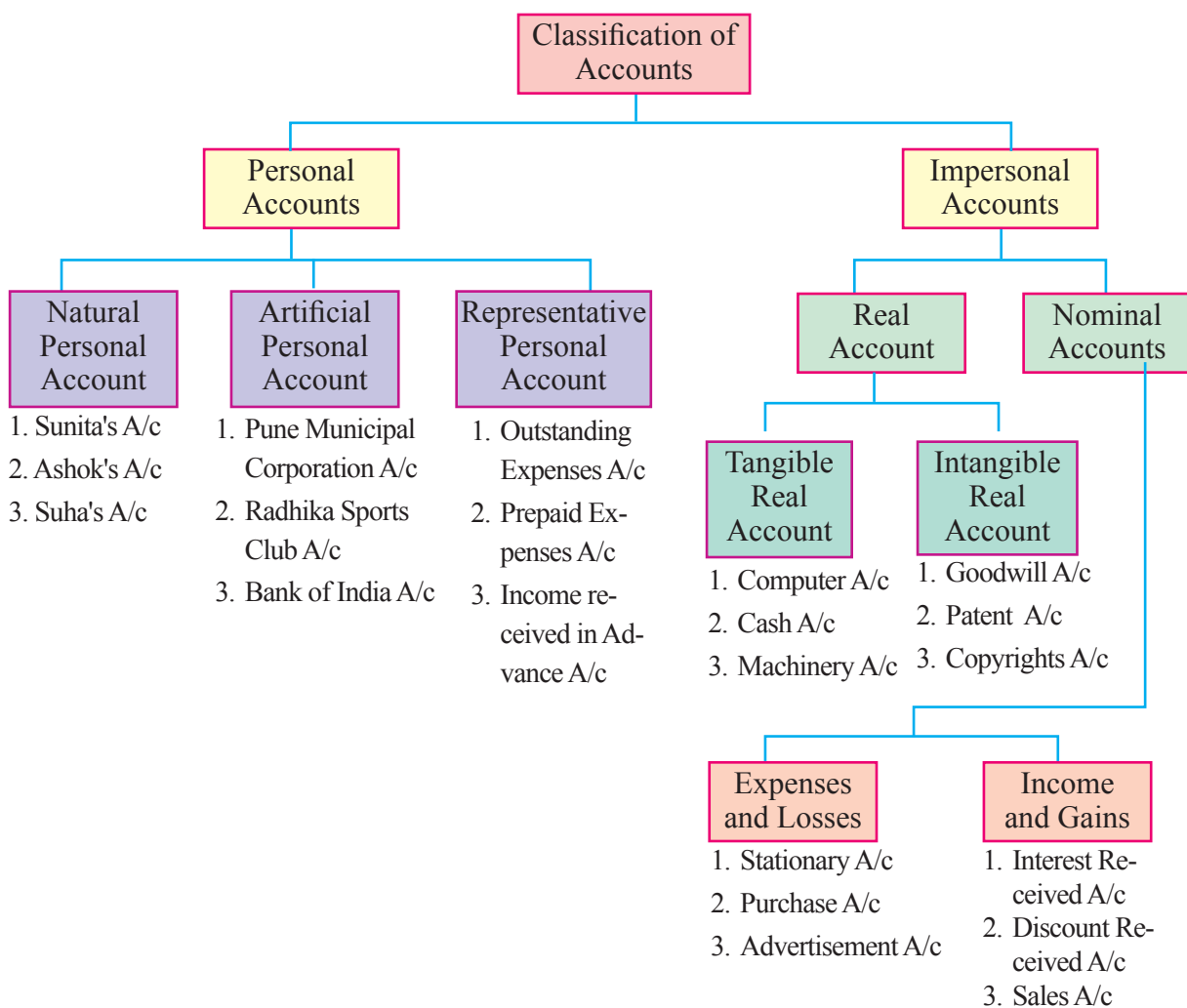
### Meaning of Account:

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. In day to day business activity large number of business transactions takes place. It affects the several accounts. At the end of certain period of time, it is necessary for the businessman to balance the accounts to find out the information. like total capital, total liabilities and assets , total incomes and expenses etc. of the business.

### Definition of Account:

“An account is summarized record of transactions affecting one person, one kind of property or one class of gain or loss.” – **G.R.Batliboi**

“An account is a ledger record in a summarized form of all the transactions that have taken place with the particular person or thing specified.” – **Carter**



**Each type of accounts is explained below with examples-**

**1) Personal Accounts :**

This account represents a person and group of persons with whom business deals. These accounts are classified into following three categories:-

**a) Natural Person's Account:**

Accounts relating to individual human beings. for e.g. Rajesh's A/c, Sumit's A/c, Sushma's A/c, Vaibhav's A/c etc.

**b) Artificial Person's Account:**

Artificial persons means includes accounts of organizations, associations which are created by law, for

E.g. Bank of Maharashtra A/c, ABC & Co A/c, Recreation Club A/c.

**c) Representative Personal Account:**

These Accounts represent a certain person or group of person in business dealing. Accounts relating to outstanding and prepaid items are called representative personal account

E.g. Outstanding Rent A/c, Income received in advance A/c, Prepaid Wages A/c etc.

**2) Impersonal Account:**

Impersonal Accounts are classified into following two categories:-

**1. Real Accounts:**

This account represents assets and properties owned by the business. The following are the types of Real Account.

**a) Tangible Real Account:**

Tangible real account means the Assets and properties, which can be seen, touched and felt. e.g. Machinery A/c, Motor Car A/c, Stock of Goods A/c etc.

**b) Intangible Real Account:**

Intangible Real account means assets which cannot be seen, touched, or felt but they can be measured in terms of money e.g. Goodwill A/c, Patents A/c, Trademark A/c, Copyright A/c etc.

**2. Nominal Accounts:**

The account of expenses, losses, income and gains are called as Nominal accounts e.g. Wages A/c, Stationery A/c, Salary A/c, Depreciation A/c Commission Received A/c, Discount Received A/c etc.

**Debit and Credit**

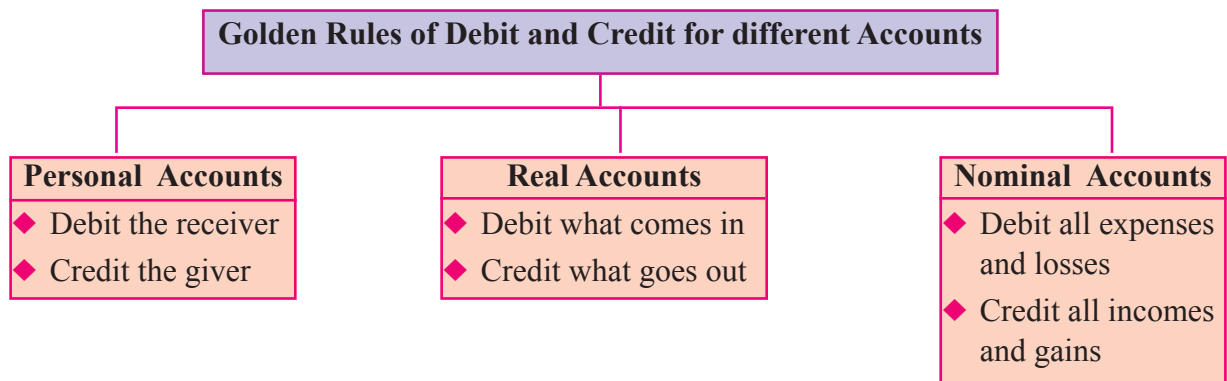
**1) Debit (Dr.):**

Left hand side of an Account is called Debit (Dr) side.

**2) Credit (Cr):**

Right hand side of an Account is called Credit (Cr) side.

## 2.5 Golden Rules of Debit and Credit (Traditional Approach):



### I) From the following transactions find out

1) Two aspects      2) Two accounts      3) Classify the accounts

- 1) Commenced business with Cash ₹ 20,000.
- 2) Purchased goods on credit from Ajay ₹ 10,000.
- 3) Cash Sales ₹ 7,000.
- 4) Received commission ₹ 500.
- 5) Paid Rent ₹ 800.

### Solution :

#### 1) Two Aspects

Sr. No.	Aspect I	Aspect II
1)	Cash comes in	Proprietor is giver
2)	Purchases is an expenditure	Ajay is giver
3)	Cash comes in	Sales is an income
4)	Cash comes in	Commission received is an income
5)	Rent is an expenses	Cash goes out

#### 2) Two Aspects and Two Accounts.

Sr. No.	Two aspects	Two accounts	
1	Cash comes in. Business Proprietor is giver	Cash A/c -----	----- Capital A/c
2	Purchases is an expense. Ajay is giver	Purchases A/c -----	----- Ajay A/c
3	Cash comes in. Sales is an income	Cash A/c -----	----- Sales A/c
4	Cash comes in. Commission is an income	Cash A/c -----	----- Commission A/c
5	Rent is an expense. Cash goes out	Rent A/c -----	----- Cash A/c

### 3) Two Aspects, Two Accounts and Classify the Accounts.

Sr. No.	Two aspects	Two accounts	Classification
1.	Cash comes in Proprietor (Capital) is the giver	Cash A/c Capital A/c	Real A/c Personal A/c
2.	Purchases is an expense Ajay is giver	Purchases A/c Ajay A/c	Nominal A/c Personal A/c
3.	Cash comes in Sales is an income	Cash A/c Sales A/c	Real A/c Nominal A/c
4	Cash comes in Commission is an income	Cash A/c Commission A/c	Real A/c Nominal A/c
5	Rent is an expense Cash goes out	Rent A/c Cash A/c	Nominal A/c Real A/c

#### Activity- 1

From the following transactions find out

- 1) Two Aspects                      2) Two Accounts
- 3) Classify the Accounts and Fill the following Tables
- 1) Started business with Cash ₹ 50,000.
- 2) Purchased Machinery on credit from Avinash ₹ 20,000.
- 3) Purchased goods ₹ 5,000 from Rahul on cash.
- 4) Sold goods to Aniket ₹ 6,000 on credit.
- 5) Paid Salary ₹ 1,000.
- 6) Sold old Tables for ₹ 3,000.

**Solution:**

#### 1) Two Aspects

Sr. No.	Aspect I	Aspect II
1		
2		
3		
4		
5		
6		

## 2) Two Aspects and Two Accounts.

Sr. No.	Two aspects	Two accounts	
1.			
2.			
3.			
4.			
5.			
6.			

## 3) Two Aspects, Two Accounts and Classify the Accounts.

Sr. No.	Two aspects	Two accounts	Classification
1.			
2.			
3.			
4.			
5.			
6.			

### Analysis of transaction by applying rules of Debit and Credit (Traditional Approach)

Sr. No.	Transaction	Two aspects/ Effects	Accounts Involved	Classification of Accounts	Rules Applied	Account to be Debited	Account to be Credited
1	Commenced business with Cash ₹50,000	1) Cash comes into the business 2) Proprietor is giver of the capital	1) Cash A/c 2) Capital A/c	1) Real A/c 2) Personal A/c	1) Debit what Comes in 2) Credit the giver	Cash A/c ---	--- Capital A/c
2	Advertisement paid ₹ 5,000 to Imran	1) Advertisement is an expenses 2) Cash goes out	1) Advertisement A/c 2) Cash A/c	1) Nominal A/c 2) Real A/c	1) Debit all expenses 2) Credit what goes out	Advertisement A/c ---	--- Cash A/c



3	Deposited cash into the Bank of India ₹ 10,000	1) Bank of India is receiver 2) Cash goes out	1) Bank of India A/c 2) Cash A/c	1) Personal A/c 2) Real A/c	1) Debit the receiver 2) Credit what goes out	Bank of India --- Cash A/c	---
4	Purchased Goods from Sunil ₹13,000	1) Purchase is an expense 2) Sunil is giver	1) Purchases A/c 2) Sunil's A/c	1) Nominal A/c 2) Personal A/c	1) Debit all expenses 2) Credit the giver	Purchase A/c ---	---
5	Sold goods for cash ₹ 12,000	1) Cash comes in 2) Sales is an income	1) Cash A/c 2) Sales A/c	1) Real A/c 2) Nominal A/c	1) Debit what comes in 2) Credit all income	Cash A/c ---	---
6	Received Commission ₹ 4,500	1) Cash comes in 2) Commission received is an income	1) Cash 2) Commission A/c	1) Real A/c 2) Nominal A/c	1) Debit what comes in 2) Credit all income	Cash A/c ---	---

- Note:** 1) Transaction number 2: Advertisement paid to Imran, here Imran's Account is not affected. The nature of expense is only to be considered.
- 2) Transaction number 4: This is considered as credit sale, because name of the person is given and sale for cash is not given.

**Activity: 02 Fill the following table.**

**Analysis of transaction by applying rules of Debit and Credit  
(Traditional Approach)**

Sr. No.	Transaction	Two Aspects/ Effects	Accounts Involved	Classification of Accounts	Rules Applied	Account to be Debited	Account to be Credited
1.	Commenced business with Cash ₹ 90,000						
2.	Deposited cash into Dena Bank ₹ 9,000						
3.	Withdrew cash for Personal use ₹ 1,500						



### Analysis of transaction by applying rules of Debit and Credit (Modern Approach)

Sr. No.	Transaction	Two Aspects/ Effects	Accounts Involved	Categories	Rules Applied	Account to be Debited	Account to be Credited
1.	Sanjay Com-menced busi-ness with cash ₹70,000	1) Cash comes in business 2) Propri- etor is giver of the cap- ital	1) Cash A/c 2) Capital A/c	1) Assets A/c 2) Capital A/c	1) Increase in asset 2) Increase in Cap- ital	Cash A/c ---	--- Capital A/c
2.	Rent paid cash. ₹5,000 to Amol.	1) Rent is an ex- penses 2) Cash goes out	1) Rent A/c 2) Cash A/c	1) Expense A/c 2) Asset A/c	1) Increase in ex- pense 2) Decrease in Asset	Rent A/c ---	--- Cash A/c
3.	Withdrew cash from Bank ₹10,000 for office use.	1) Cash comes in 2) Bank is giver	1) Cash A/c 2) Bank A/c	1) Asset A/c 2) Asset A/c	1) Increase in Asset 2) Decrease in Asset	Cash A/c --	--- Bank A/c
4.	Paid wife's mobile bill ₹4200.	1) Drawing is the re- ceiver of benefit 2) Cash goes out.	1) Drawings A/c 2) Cash A/c	1) Capital A/c 2) Asset A/c	1) Decrease in Capi- tal A/c 2) Decrease in Asset	Drawings A/c ---	--- Cash A/c
5.	Purchased Goods from Sunil ₹13,000	1) Purchase is an ex- pense 2) Sunil is giver	1) Purchas- es A/c 2) Sunil's A/c	1) Expense A/c 2) Liability A/c	1) Increase in ex- pense 2) Increase in Liabil- ity	Purchase A/c ---	--- Sunil's A/c
6.	Received Commission ₹4,500	1) Cash comes in 2) Commis- sion re- ceived is income	1) Cash A/c 2) Com- mission A/c	1) Asset A/c 2) Com- mission A/c	1) Increase in Asset 2) Increase in rev- enue/ gains	Cash A/c ---	--- Commis- sion A/c

**Activity: 03 : Fill the following table.****Analysis of transaction by applying rules of Debit and Credit  
(Modern Approach)**

Sr. No.	Transaction	Two Aspects/ Effects	Accounts Involved	Catego-ries	Rules Applied	Account to be Deb-ited	Account to be Credited
1.	Rajesh Commenced business with Cash ₹ 80,000						
2.	Paid Telephone bill (Office) ₹ 5,000						
3.	Goods purchased for cash ₹ 8,000.						
4.	Sold goods to Manoj worth ₹ 6,000						
5.	Purchased Machinery from Suresh on credit ₹ 15,000						
6.	Received Rent ₹ 2,500						

**2.7 Illustration-I:****State the types of two accounts involved in the following transaction.**

- 1) Commenced business with Cash ₹70,000.
  - (i) Cash A/c
  - (ii) Capital A/c
- 2) Deposited Cash into Bank of India ₹10,000.
  - (i) Bank of India A/c
  - (ii) Cash A/c
- 3) Withdrew Cash from Bank of India for Office use ₹5,500.
  - (i) Cash A/c
  - (ii) Bank of India A/c
- 4) Purchased goods for Cash ₹5,000.
  - (i) Purchases A/c
  - (ii) Cash A/c
- 5) Purchased goods on credit from Kiran Stores ₹6,000
  - (i) Purchase A/c
  - (ii) Kiran Stores A/c
- 6) Sold goods for Cash ₹3,000.
  - (i) Cash A/c
  - (ii) Sales A/c
- 7) Sold goods to Rohini ₹9,000.
  - (i) Rohini A/c
  - (ii) Sales A/c
- 8) Received Dividend ₹4,500.
  - (i) Cash A/c
  - (ii) Dividend A/c
- 9) Paid Audit fees ₹1,000.
  - (i) Audit fees A/c
  - (ii) Cash A/c

### Illustration – 2

Classify the following accounts into Personal, Real and Nominal accounts.

1)	Stationery A/c	2)	Mahesh's A/c
3)	Machinery A/c	4)	Capital A/c
5)	Loss by Fire A/c	6)	Pune Municipal Corp. A/c
7)	Building A/c	8)	Bank of Maharashtra A/c
9)	Copyright A/c	10)	Repairs A/c
11)	Laptop A/c	12)	Wages A/c

**Solution :**

Personal Account	Real Account	Nominal Account
Mahesh's A/c	Machinery A/c	Stationery A/c
Capital A/c	Building A/c	Loss by fire A/c
Pune Municipal Corp. A/c	Copyright A/c	Repairs A/c
Bank of Maharashtra A/c	Laptop A/c	Wages A/c

### Illustration – 3

Classify the following accounts under Personal, Real and Nominal Accounts.

1)	Cash A/c	2)	Outstanding Salary A/c	3)	Rohit's A/c
4)	Furniture A/c	5)	Life Insurance Corp. A/c	6)	Goodwill A/c
7)	Prepaid Insurance A/c	8)	Trademark A/c	9)	Commission A/c
10)	Loan A/c	11)	Drawings A/c	12)	Interest A/c

**Solution :**

Personal Account	Real Account	Nominal Account
Outstanding Salary A/c	Cash A/c	Commission A/c
Rohit's A/c	Furniture A/c	Interest A/c
Life Insurance Corp. A/c	Goodwill A/c	
Prepaid Insurance A/c	Trademark A/c	
Loan A/c		
Drawings A/c		

### Illustration – 4

Classify the following accounts under Assets, Liabilities, Income and Expenditure.

1) Prepaid Rent	2) Salary A/c	3) Bank Loan A/c
4) Motor Car A/c	5) Rent Payable A/c	6) Bad Debts A/c
7) Copyright A/c	8) Interest Received A/c	9) Dividend Received A/c
10) Premises A/c	11) Insurance Premium A/c	12) Audit Fees A/c

**Solution :**

Assets	Liabilities	Income/Gains	Expenditure/Loss
Prepaid Rent A/c	Bank Loan A/c	Interest Received A/c	Salary A/c
Motor Car A/c	Rent Payable A/c	Dividend Received A/c	Bad debts A/c
Copy Right A/c			Insurance Premium A/c
Premises A/c			Audit Fees A/c

**Illustration – 5**

**Classify the following accounts into Assets, Liabilities, Income, Expenditure and Capital.**

- |                                |                      |                      |
|--------------------------------|----------------------|----------------------|
| 1) Land and Building           | 2) Interest Received | 3) Computer          |
| 4) Sundry Creditors            | 5) Bills Receivables | 6) Discount Allowed  |
| 7) Sundry Debtors              | 8) Goodwill          | 9) Freight           |
| 10) Discount Received          | 11) Bills Payable    | 12) Amit's Capital   |
| 13) Interest on Fixed deposit. | 14) Bank Overdraft   | 15) Live Stock       |
| 16) Printing & Stationery      | 17) Cash at Bank     | 18) Rent Received    |
| 19) Repairs & Maintenance      | 20) Carriage         | 21) Outstanding Rent |
| 22) Commission Received        | 23) Bank Loan        | 24) Electricity Bill |
| 25) Copyright                  |                      |                      |

**Solution :**

Assets	Liabilities	Income/Gains	Expenditure/Loss	Capital
Land & Building	Sundry Creditors	Interest Received	Discount Allowed	Amit's Capital
Computer	Bills Payable	Discount Received	Freight	
Bills Receivable	Bank Overdraft	Interest on Fixed deposit.	Repairs & Maintenance	
Sundry Debtors	Outstanding Rent	Rent Received	Carriage	
Goodwill	Bank Loan	Commission Received	Printing and Stationary	
Live Stock			Electricity Bill	
Cash at Bank				
Copyright				

## 2.8 Accounting Equations:

Accounting equation signifies that assets of a business are always equal to the total of its liabilities and capital.

The equation is expressed as follows-

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

The fundamental equation gives the foundation to the Double Entry Book-keeping system.

Following are the equations-

$$\text{Capital} = \text{Total Assets} - \text{Outsider's Liabilities}$$

$$\text{Assets} = \text{Capital} + \text{Outsiders Liabilities}$$

$$\text{Assets} = \text{Liabilities}$$

### Example:-

1. Rahul started business with Cash ₹50,000.

The accounting equation will be-

$$\begin{aligned}\text{Assets} &= \text{Capital} + \text{Liabilities} \\ \text{Cash} &= \text{Capital} + \text{Liabilities} \\ ₹50,000 &= ₹50,000 + 0 \\ ₹50,000 &= ₹50,000\end{aligned}$$

2. Rahul purchased Machinery from H.P. Co. on credit of ₹10,000.

The accounting equation will be-

$$\begin{aligned}\text{Assets} &= \text{Capital} + \text{Liabilities} \\ \text{Cash} + \text{Machinery} &= \text{Capital} + \text{Sundry Creditors} \\ ₹50,000 + ₹10,000 &= ₹50,000 + ₹10,000 \\ ₹60,000 &= ₹60,000\end{aligned}$$

3. Rahul purchased goods ₹20,000.

The accounting equation will be-

$$\begin{aligned}\text{Assets} &= \text{Capital} + \text{Liabilities} \\ \text{Cash} + \text{Machinery} + \text{Stock} &= \text{Capital} + \text{Sundry Creditors} \\ \text{Old Bal. } ₹50,000 + ₹10,000 + 0 &= ₹50,000 + ₹10,000 \\ \text{New Transaction } ₹30,000 + ₹10,000 + ₹20,000 &= ₹50,000 + ₹10,000 \\ \text{New Balance. } ₹30,000 + ₹10,000 + ₹20,000 &= ₹50,000 + ₹10,000 \\ ₹60,000 &= ₹60,000\end{aligned}$$

**Illustration–1:**

Show the accounting equation for the following transactions.

- 1) Rohit Sharma started business with cash ₹50,000.
- 2) Purchased goods from Dhoni on credit ₹10,000
- 3) Sold goods to Virat on credit ₹20,000.
- 4) Received Dividend ₹500.
- 5) Paid for Advertisement ₹500

**Solution :**

Transaction		Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1	Rohit Sharma started business with cash ₹ 50,000	50,000	=	0	+	50,000
		50,000	=	0	+	50,000
2	Purchased goods from Dhoni on credit ₹ 10,000	(+) 10,000	=	10,000	+	0
		60,000	=	10,000	+	50,000
3	Sold goods to Virat on credit ₹20,000.	(-) 20,000				
		(+) 20,000	=	0	+	0
		60,000	=	10,000	+	50,000
4	Received Dividend ₹ 500	(+) 500	=	0	+	(+)500
		60,500	=	10,000	+	50,500
5	Paid for Advertisement ₹ 500	(-) 500	=	0	+	(-) 500
	<b>Total</b>	<b>60,000</b>	<b>=</b>	<b>10,000</b>	<b>+</b>	<b>50,000</b>

**Illustration– 2:**

Give the accounting equation for the following transactions-

- 1) Rupali commenced business with bank balance ₹ 25,000.
- 2) Purchased Machinery for cash ₹ 5,000.
- 3) Bought goods from Swara worth ₹ 3,000 on credit.
- 4) Paid for Salaries ₹ 3,000.
- 5) Received Interest ₹ 200.



**Solution :**

Transaction		Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1)	Rupali commenced business with bank balance ₹25,000.	25,000	=	0	+	25,000
2)	Purchased Machinery for cash ₹5,000	25,000	=	0	+	25,000
		(+) 5,000	=			
		(-) 5,000	=	0	+	0
3)	Bought goods from Swara worth ₹3,000 on credit	25,000	=	0	+	25,000
		(+) 3,000	=			
			=	3,000	+	0
4)	Paid for Salaries ₹3,000	28,000	=	3,000	+	25,000
		(-) 3,000	=	0	+	(-)3,000
		25,000	=	3,000	+	22,000
5)	Received Interest ₹200	(+) 200	=	0	+	(+) 200
Total		25,200	=	3,000	+	22,200

**Illustration– 3:****Give the accounting equation for the following transactions-**

- 1) Arjun started business with Cash ₹90,000.
- 2) Purchased Motor Car on credit from Honda Co. for ₹30,000.
- 3) Purchased goods from Karan worth ₹10,000 on credit.
- 4) Goods destroyed by fire ₹1,000.
- 5) Depreciation on Motor Car for 1 year is ₹1,000.
- 6) Goods sold for cash ₹5,000.

Transaction		Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1)	Arjun started business with Cash ₹90,000	90,000	=	0	+	90,000
2)	Purchased Motor Car on credit from Honda Co. for ₹30,000.	90,000	=	0	+	90,000
		(+) 30,000	=	30,000	+	0
		1,20,000	=	30,000	+	90,000
3)	Purchased goods from Karan worth ₹10,000 on credit.	(+) 10,000	=	10,000	+	0
		1,30,000	=	40,000	+	90,000
			=			
4)	Goods destroyed by fire ₹1,000.	(-) 1,000	=	0	+	(-)1,000
		1,29,000	=	40,000	+	89,000
			=			

5)	Depreciation on Motor car for 1 year is ₹1,000.	(-) 1,000	=	0	+	(-) 1,000
6)	Goods sold for cash ₹5,000	1,28,000	=	40,000	+	88,000
		(-)5,000		0		0
		(+)5,000				
	<b>Total</b>	<b>1,28,000</b>	<b>=</b>	<b>40,000</b>	<b>+</b>	<b>88,000</b>

#### Illustration– 4:

Give the accounting equation for the following transactions-

- 1) Nima started business with cash ₹60,000
- 2) Deposited cash into Bank of India ₹2000
- 3) Additional capital brought by Nima ₹7,000
- 4) Purchased goods from Varma worth ₹10,000
- 5) Sold goods to Karma ₹7,000
- 6) Paid Carriage ₹5,000
- 7) Received Interest ₹200.

**Solution :**

Transaction		Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1)	Nima started business with cash ₹60,000.	60,000	=	0	+	60,000
		60,000	=	0	+	60,000
2)	Deposited cash into Bank of India ₹2000.	(-) 2,000	=	0	+	0
		(+)2,000				
		60,000	=	0	+	60,000
3)	Additional capital brought by Nima ₹ 7,000.	(+) 7,000	=	0	+	(+) 7,000
		67,000	=		+	67,000
4)	Purchased goods from Varma worth ₹10,000.	(+) 10,000	=	(+) 10,000		
		77,000	=	10,000	+	67,000
5)	Sold goods to Karma ₹ 7,000.	(-) 7,000	=			
		(+)7,000				
		77,000	=	10,000	+	67,000
6)	Paid Carriage ₹5,000.	(-) 5,000	=	0	+	(-) 5,000
		72,000	=	10,000	+	62,000
7)	Received Interest ₹200.	(+) 200	=	0	+	(+) 200
	<b>Total</b>	<b>72,200</b>	<b>=</b>	<b>10,000</b>	<b>+</b>	<b>62,200</b>

**Illustration– 5:****Show the accounting equation for the following transactions-**

- 1) Mr. Mehta started business with ₹80,000
- 2) Purchased goods on credit from Ashwin ₹12,000.
- 3) Purchased Furniture from S.M Furniture Mart on credit ₹6,000
- 4) Sold goods to Anand worth ₹10,000.
- 5) Withdrew cash for personal use ₹2,500
- 6) Sold goods costing ₹12,000 at profit of ₹2,000.

**Solution :**

Transaction		Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1)	Mr. Mehta started business with ₹80,000.	80,000	=	0	+	80,000
		80,000	=	0	+	80,000
2)	Purchased goods on credit from Ashwin ₹12,000.	(+) 12,000		(+) 12,000	+	0
		92,000	=	12,000	+	80,000
3)	Purchased Furniture from S.M Furniture Mart on credit ₹6,000.	(+) 6,000	=	(+) 6,000	+	0
		98,000	=	18,000	+	80,000
4)	Sold goods to Anand worth ₹10,000.	(-) 10,000	=	0	+	0
		(+)10,000				
5)	Withdraw cash for personal use ₹2,500	98,000	=	18,000	+	80,000
		(-) 2,500	=	0	+	(-) 2,500
6)	Sold goods costing ₹12,000 at a profit of ₹2,000.	95,500	=	18,000	+	77,500
		(-) 12,000	=	0	+	(+) 2,000
		(+)14,000				
<b>Total</b>		<b>97,500</b>	<b>=</b>	<b>18,000</b>	<b>+</b>	<b>79,500</b>

**Activity : 04****Show the accounting equation for the following transactions and fill the table.**

- 1) Mr. Manohar started business with ₹ 75,000.
- 2) Purchase Stationery ₹ 1,000
- 3) Bought goods ₹ 6,000 from Mohan.
- 4) Sold goods to Radha ₹ 10,000.
- 5) Purchase Mobile For business ₹ 2,000.
- 6) Sold goods costing ₹ 20,000 at a profit of ₹ 5,000.
- 7) Paid salary ₹ 2,500.

Transaction		Assets	=	Liabilities	+	Capital



### Activity: 05

In your college there are some basic rules and regulations to be followed by everyone. What will happen if the rules are broken? What will happen if there are no such rules?



### EXERCISE



#### Q.1 Answer in one sentence only.

- 1) What is Double Entry System?
- 2) What is an Account?
- 3) State the meaning of Single Entry System.
- 4) What is Personal Account?
- 5) State the rule of Nominal Account.
- 6) Give two examples of intangible assets?
- 7) State the meaning of Real Account.
- 8) Give two examples of income and gains.
- 9) State the rule of Personal Account.
- 10) How many methods of recording accounting information are there?

**Q.2 Write one word / term or phrase which can substitute each of the following statement.**

- 1) Method of Accounting which records both aspect of transaction.
- 2) Right hand side of an account.
- 3) Name of the account which is debited when proprietor uses business money for personal use.
- 4) Accounts of Assets and Properties.
- 5) Accounts of Expenses and Losses and Incomes and Gains.
- 6) Left hand side of an account.
- 7) The Assets which cannot be seen, touched or felt.
- 8) Person who invented the Double Entry System.
- 9) Incomplete system of recording business transactions.
- 10) Scientific system of recording business transactions.

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

- 1) International Accounting day is observed on .....  
a) 10th November                      b) 12th November  
c) 10th December                      d) 15th December
- 2) Conventional system of accounting is .....  
a) English entry system                      b) Double entry system  
c) Indian system                      d) None of these
- 3) Every debit has corresponding .....  
a) Debit                      b) Credit                      c) Right hand side                      d) None of these
- 4) Radha's Account is a type of ..... account.  
a) Nominal                      b) Personal                      c) Real                      d) Expenses
- 5) Machinery Account is ..... account.  
a) Nominal                      b) Income                      c) Personal                      d) Real
- 6) Goodwill is ..... asset.  
a) Tangible                      b) Current                      c) an intangible                      d) None of these
- 7) Prepaid expenses is ..... account.  
a) Real                      b) Personal                      c) Nominal                      d) Income

- 8) Debit the receiver, Credit the .....  
 a) Goes out                      b) Giver                      c) Income and gains      d) Comes in
- 9) Debit what comes in, Credit what .....  
 a) Giver    b) Expenses and losses  
 c) Goes out    d) Income and gains
- 10) Debit all ..... and Credit all income and gains.  
 a) Giver                      b) Expenses and losses      c) Goes out                      d) None of these

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

- 1) Outstanding expense is nominal account.
- 2) Capital account is a real account.
- 3) Every debit has equal and corresponding credit.
- 4) Discount received is a nominal account.
- 5) Drawings account is a nominal account.
- 6) Outstanding salary is a nominal account.
- 7) Loan account is personal account.
- 8) Goodwill account is a real account.
- 9) Trade discount account is a nominal account.
- 10) Personal transactions of proprietor are recorded in the books of account of business.
- 11) Motor car account is a Real Account.
- 12) The rule of Nominal Account in Debit the receiver and Credit the giver.
- 13) Bank loan account is a Nominal account.
- 14)  $\text{Assets} = \text{Capital} + \text{Liabilities}$
- 15) Trademark account is a personal account.

**Q.5 Fill in the blanks.**

- 1) Increase in asset is debited and decrease in asset is .....
- 2)  $\text{Assets} = \text{Liabilities} + \dots\dots\dots$
- 3) Increase in capital is credited and decrease in capital is .....
- 4) Scientific and complete system of recording is known as .....
- 5) Debit all expenses and losses, Credit all .....
- 6) Land and Building account is ..... account.
- 7) Cash Book and Personal Accounts are only maintained under ..... system.

- 8) Debit what comes in and credit what goes out is the rule of . . . . . account.
- 9) Travelling expenses account is . . . . . type of Account.
- 10) Every transaction has . . . . . effect.
- 11) . . . . . accounts are accounts of properties and assets.
- 12) Laptop account is a . . . . . account.

**Q.6 Classify the following accounts under the types of Personal, Real and Nominal account.**

- |  |  |
|--|--|
| 1) Mr. Rohit's capital A/c               | 2) Loose Tools A/c                     |
| 3) Drawing A/c                           | 4) Cartage A/c                         |
| 5) Prepaid Rent A/c                      | 6) Copyright A/c                       |
| 7) Patent A/c                            | 8) Outstanding Income A/c              |
| 9) Prepaid Expenses A/c                  | 10) Commission Received A/c            |
| 11) Freight A/c                          | 12) Plant and Machinery A/c            |
| 13) Sundry Income A/c                    | 14) Live Stock A/c                     |
| 15) Goods distributed as free sample A/c | 16) Radhika's A/c                      |
| 17) Outstanding Wages A/c                | 18) Loss on Sale of Furniture A/c      |
| 19) Bank of Maharashtra A/c              | 20) Loan A/c                           |
| 21) Computer A/c                         | 22) Legal Expenses A/c                 |
| 23) Fixed Deposit A/c                    | 24) Income Receivable A/c              |
| 25) Audit Fees A/c                       | 26) Trademark A/c                      |
| 27) Loss by fire A/c                     | 28) Motor Car A/c                      |
| 29) Income tax A/c                       | 30) GST A/c (Goods and Service Tax)    |
| 31) Siddhivinayak Trust A/c              | 32) Office Equipment A/c               |
| 33) Stock of Stationery A/c              | 34) Indian Railways A/c                |
| 35) Income Received in Advance A/c       | 36) Dividend on Investment Advance A/c |
| 37) Discount A/c                         | 38) Raj & company A/c                  |
| 39) Repairs A/c                          | 40) Royalty A/c                        |

**Q.7 Complete the following Accounting equation table.**

Transaction	Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1. Started business with Cash ₹ 50,000	?	=	?	+	50,000
2. Purchased goods of ₹ 10,000	?	=	?	+	?
3. Goods stolen ₹ 1,000	?	=	?	+	?
4. Sold goods for cash ₹ 5,000	?	=	?	+	?
5. Loan taken from Bank ₹ 7,000	?	=	?	+	?

**Q.8 Give necessary transactions for the following effect of increase and decrease in Assets, Capital and Liabilities.**

- |    |  |   |
|----|--|---|
| 1) | <div style="border: 1px solid black; width: 250px; height: 30px;"></div> | Increase in Assets<br>Decrease in Assets      |
| 2) | <div style="border: 1px solid black; width: 250px; height: 30px;"></div> | Increase in Capital<br>Decrease in Assets     |
| 3) | <div style="border: 1px solid black; width: 250px; height: 30px;"></div> | Decrease in Liabilities<br>Decrease in Assets |
| 4) | <div style="border: 1px solid black; width: 250px; height: 30px;"></div> | Decrease in Assets<br>Decrease in Capital     |

**PRACTICAL PROBLEMS**

**Q. 1 Prepare a chart showing Analysis of the following transactions in a Tabular form according to Traditional Approach:**

- Rajasaheb started business with cash ₹ 85,000.
- Goods Purchased for cash ₹ 5,000.
- Sold goods on credit worth ₹ 6,000.
- Cash deposited into Bank of Maharashtra ₹ 12,000.
- Interest received ₹ 700 from Radhika.
- Paid Rent ₹ 2,000 to landlord.
- Bought goods on credit from Birajmohan ₹ 7,000.
- Withdrew cash from bank ₹ 1,000 for office use.
- Purchased computer ₹ 9,000 for cash.
- Paid Mobile bill (office) ₹ 500.
- Sold old Mobile ₹ 2,000.
- Received Rent ₹ 1,000 from tenant.



**Q. 2 Prepare Chart showing Analysis of the following transaction in a Tabular form according to Modern Approach.**

1. Mr. Meghraj started business with cash ₹ 30,000.
2. Deposited cash into Bank of India ₹ 2,000.
3. Withdrew cash ₹ 1,000 for personal use.
4. Purchased goods on credit from Nilesh ₹ 2,000.
5. Cash purchases ₹ 3,000.
6. Paid Wages ₹ 400.
7. Purchase a chair for office use ₹ 3,200.
8. Sold goods to Mohan worth ₹ 1,200.
9. Withdrew Cash for Office use ₹ 3,000.
10. Sold old furniture ₹ 9,000.
11. Received Dividend of ₹ 1,000.
12. Paid for Printing bill book ₹ 200.

**Q.3 Give the accounting equation for the following transactions:**

1. Mr. Vaibhav started business with Cash ₹ 1,00,000.
2. Purchased goods on credit from Rita Stores ₹ 9,000.
3. Purchase Laptop for office use ₹ 10,000.
4. Sold goods to Rina on credit ₹ 12,000.
5. Received Interest ₹ 2,500
6. Paid Telephone bill ₹ 1,300.

**Q. 4 Give the accounting equation for the following transactions.**

1. Mr. Swaraj commenced business with Bank balance ₹ 1,10,000.
2. Purchased Furniture on credit from S.M Furniture Mart ₹ 25,000.
3. Bought goods on credit from Yuvraj ₹ 15,000.
4. Purchased Machinery ₹ 10,000.
5. Paid Electricity bill ₹ 3,500.
6. Goods destroyed by fire ₹ 1,500.

**Q. 5 Show accounting equation for the following transactions:**

1. Rohit started business with cash ₹ 50,000.
2. Bought goods on credit from Manoj ₹ 6,000.
3. Cash purchases ₹ 5,000.
4. Paid wages ₹ 3,000 to Casual labour.
5. Sold goods to Santosh ₹ 7,000 on credit.
6. Received Commission ₹ 1,000 from Vaishali.

