

UNIT – 3
BOOKS OF PRIME ENTRY

2 Marks

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1. What are source documents?

Source Documents:

- "Source documents are the authentic evidences of financial transactions".
- These documents show the nature of transaction, the date, the amount and the parties involved.
- **Source documents include** - cash receipt, invoice, debit note, credit note, pay – in – slip, salary bills, wage bills, cheque record slips, etc.

2. What is accounting equation?

Accounting Equation :

- ⚙ Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital.
- ⚙ This is based on the dual aspect concept of accounting.
- ⚙ This means that total claims of outsiders and the proprietor against a business enterprise will always be equal to the total assets of the business enterprise.

**3. Write any one transaction which a)Decreases the assets and decreases the liabilities
b) Increases one asset and decreases another asset**

- a)Paid creditors b) Cash sales

4. What is meant by journalising?

Journalising – Meaning:

- The word journal has been derived from the French word 'Jour' which means day.
- So, journal means daily. Journalising is the beginning of the accounting process for the financial transactions.

5. What is real account?

Real Account:

All accounts relating to tangible and intangible properties and possessions are called real accounts.

6. How are personal accounts classified?

Personal account:

- Account relating to persons is called personal account.
- The personal account may be natural, artificial or representative personal account.

7. State the accounting rule for nominal account.

Accounting Rule for Nominal Account:

Debit all expenses and losses credit all incomes and gains.

8. Give the golden rules of double entry accounting system.

The golden rules of double entry accounting system

Personal account	Debit the receiver	Credit the giver
Real account	Debit what comes in	Credits what goes out
Nominal account	Debit all expenses and losses	Credit all incomes and gains

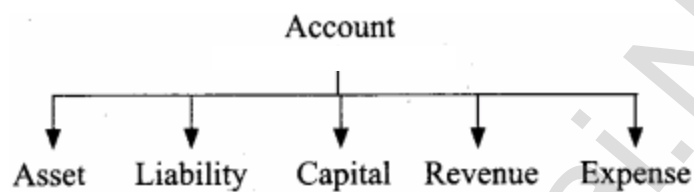
3 Marks / 5 Marks

1. Write a brief note on accounting equation approach of recording transactions.

Note on accounting equation approach of recording transactions:

- ♣ The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation.
- ♣ Under the double entry system of book keeping, every transaction has two fold effects, which causes the changes in assets and liabilities or capital in such a way that an accounting equation is completed and equated. - **Capital + Liabilities = Assets**
- ♣ Capital can also be called as owner's equity and liabilities as outsider's equity.

2. What is an Account? Classify the accounts with suitable examples.



1. Asset account:

- Any physical thing or right owned that has a monetary value is called asset.
- The assets are grouped and shown separately;
- For example, Land and Buildings account, Plant and Machinery account.

2. Liability account:

- Financial obligations of the enterprise towards outsiders are shown under separate heads as liabilities;
- For example, creditors account, expenses outstanding account.

3. Capital account:

- Financial obligations of a business enterprise towards its owners are grouped under this category;
- For example, capital contributed by owner.

4. Revenue account:

- Accounts relating to revenues of an enterprise are grouped under this category,
- For example; revenues from sale of goods, rent received.

5. Expense account:

- Expenses incurred and losses suffered for earning revenue are grouped under this category;
- For example, purchase of goods, salaries paid.

3. What are the three different types of personal accounts?

Under double entry system of book keeping, for the purpose of recording the various financial transactions, the accounts are classified as personal accounts and impersonal accounts.

1. Natural person's account:

- ♣ Natural person means human beings. Example: Vinoth account, Malini account.

2. Artificial person's account:

- ♣ Artificial person refers to the persons other than human beings recognised by law as persons.
- ♣ They include business concerns, charitable institutions, etc. Example: BHEL account, Bank account.

3. Representative personal accounts:

- ♣ These are the accounts which represent persons natural or artificial or a group of persons.
- ♣ Example: Outstanding salaries account, Prepaid rent account. When expenses are outstanding, it is payable to a person. Hence, it represents a person.

What is the accounting treatment for insurance premium paid on the life of the proprietor?

Date	Particulars	LF	Debit M.	Credit M.
	Drawing A/c Dr.		X X X	
	To Cash A/c (Insurance paid for owner life insurance)			X X X

4. State the principles of double entry system of bookkeeping.**Following are the principles of double entry system:**

1. In every business transaction, there are two aspects.
2. The two aspects involved are the benefit or value receiving aspect and benefit or value giving aspect.
3. These two aspects involve minimum two accounts; at least one debit and at least one credit.
4. For every debit, there is a corresponding and equivalent credit. If one account is debited the other account must be credited.

5. Briefly explain about steps in journalising.**The following steps are followed in journalising:**

1. Analyse the transactions and identify the accounts (based on aspects) which are involved in the transaction.
2. Classify the above accounts under Personal account, Real account or Nominal account
3. Apply the rules of debit and credit for the above two accounts.
4. Find which account is to be debited and which account is to be credited by the application of rules of double entry system.
5. Record the date of transaction in the date column.
6. Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation 'Dr.' at the end in the same line. Against this, the amount to be debited is entered in the debit amount column in the same line.
7. Write the name of the account to be credited in the second line starting with the word 'To' prefixed a few spaces away from the margin in the particulars column. Against this, the amount to be credited is entered in the credit amount column in the same line.
8. Write the narration within brackets in the next line in the particulars column.

6. What is double entry system? State its advantages.

Double Entry System and its Advantages:

- ♣ Double entry system of book keeping is a scientific and complete system of recording the financial transactions of an organisation.
- ♣ According to this system, every transaction has a two folds effect.
- ♣ That is, there are two aspects involved, namely, receiving aspect and giving aspect. It is denoted by debit (Dr.) and credit (Cr.).
- ♣ The basic principle of double entry system is that for every debit there must be an equivalent and corresponding credit.
- ♣ Debit denotes an increase in assets or expenses or a decrease in liabilities, income or capital.
- ♣ Credit denotes an increase in liabilities, income or capital or a decrease in assets or expenses.

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