

Chapter 2: Meaning & Fundamentals of Double Entry Book-Keeping

EXERCISE 1 [PAGE 38]

Exercise 1 | Q 1 | Page 38

QUESTION

Answer in one sentence only:

What is Double Entry System?

SOLUTION

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.

Exercise 1 | Q 2 | Page 38

QUESTION

Answer in one sentence only:

What is an Account?

SOLUTION

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.

Exercise 1 | Q 3 | Page 38

QUESTION

Answer in one sentence only:

State the meaning of the Single Entry System.

SOLUTION

A single entry system of accounting records only cash books and personal accounts and thus does not provide accurate information about the financial position of a business.

Exercise 1 | Q 4 | Page 38

QUESTION

Answer in one sentence only:

What is Personal Account?

SOLUTION

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

Exercise 1 | Q 5 | Page 38

QUESTION

Answer in one sentence only:

State the rule of Nominal Account.

SOLUTION

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

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

Exercise 1 | Q 6 | Page 38

QUESTION

Answer in one sentence only:

Give two examples of intangible assets?

SOLUTION

Examples of intangible assets are as follow:

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

Exercise 1 | Q 7 | Page 38

QUESTION

Answer in one sentence only:

State the meaning of Real Account.

SOLUTION

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

QUESTION

Answer in one sentence only:

Give two examples of income and gains.

SOLUTION

Examples of income and gains are:

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

QUESTION

Answer in one sentence only:

State the rule of Personal Account.

SOLUTION

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

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

QUESTION

Answer in one sentence only:

How many methods of recording accounting information are there?

SOLUTION

- (1) Indian system (Mahajani Deshinama system)
- (2) English system:

- 1. Single Entry System.

EXERCISE Q.2 [PAGE 39]

QUESTION

Write one word/term or phrase which can substitute the following statement.

Method of Accounting which records both aspects of the transaction.

SOLUTION

Method of Accounting which records both aspects of the transaction. - **Double entry system**

Exercise 2 | Q 2 | Page 39

QUESTION

Write one word/term or phrase which can substitute the following statement.

Right hand side of an account.

SOLUTION

Right hand side of an account. - **Credit (Cr.) side**

Exercise 2 | Q 3 | Page 39

QUESTION

Write one word/term or phrase which can substitute the following statement.

Name of the account which is debited when proprietor uses business money for personal use.

SOLUTION

Name of the account which is debited when proprietor uses business money for personal use. - **Drawings A/C**

Exercise 2 | Q 4 | Page 39

QUESTION

Write one word/term or phrase which can substitute the following statement.

Accounts of Assets and Properties.

SOLUTION

Exercise 2 | Q 5 | Page 39

QUESTION

Write one word/term or phrase which can substitute the following statement.

Accounts of Expenses and Losses and Incomes and Gains.

SOLUTION

Accounts of Expenses and Losses and Incomes and Gains. - Nominal A/c

Exercise 2 | Q 6 | Page 39

QUESTION

Write one word/term or phrase which can substitute the following statement.

Left hand side of an account.

SOLUTION

Left hand side of an account. - **Debit (Dr.) side**

Exercise 2 | Q 7 | Page 39

QUESTION

Write one word/term or phrase which can substitute the following statement.

The Assets which cannot be seen, touched or felt.

SOLUTION

The Assets which cannot be seen, touched, or felt. - **Intangible assets**

Exercise 2 | Q 8 | Page 39

QUESTION

Write one word/term or phrase which can substitute the following statement.

Person who invented the Double Entry System.

SOLUTION

The person who invented the Double Entry System. - **LUCA D BARGO PACIOLI**

Exercise 2 | Q 9 | Page 39

QUESTION

Write one word/term or phrase which can substitute the following statement.

Incomplete system of recording business transactions.

SOLUTION

Incomplete system of recording business transactions. - Single entry system

Exercise 2 | Q 10 | Page 39

QUESTION

Write one word/term or phrase which can substitute the following statement.

Scientific system of recording business transactions.

SOLUTION

Scientific system of recording business transactions. - **Double entry system**

EXERCISE 3 [PAGES 39 - 40]

Exercise 3 | Q 1 | Page 39

QUESTION

Select the most appropriate alternatives from the given below and rewrite the statement:

International Accounting day is observed on _____

- 10th November
- 12th November
- 10th December
- 15th December

SOLUTION

International Accounting day is observed on **10th November.**

Exercise 3 | Q 2 | Page 39

QUESTION

Select the most appropriate alternatives from the given below and rewrite the statement:

Conventional system of accounting is _____

- English entry system
- Double entry system
- Indian system
- None of these

SOLUTION

Conventional system of accounting is **Indian system**.

Exercise 3 | Q 3 | Page 39

QUESTION

Select the most appropriate alternatives from the given below and rewrite the statement:

Every debit has corresponding _____

- Debit
- Credit
- Right hand side
- None of these

SOLUTION

Every debit has corresponding **Credit**.

Exercise 3 | Q 4 | Page 39

QUESTION

Select the most appropriate alternatives from the given below and rewrite the statement:

Radha's Account is a type of _____ account.

- Nominal
- Personal
- Real
- Expenses

SOLUTION

Radha's Account is a type of **Personal** account.

Exercise 3 | Q 5 | Page 39

QUESTION

Select the most appropriate alternatives from the given below and rewrite the statement:

Machinery Account is _____ account.

- Nominal
- Income
- Personal
- Real

SOLUTION

Machinery Account is a **Real** account.

Exercise 3 | Q 6 | Page 39

QUESTION

Select the most appropriate alternatives from the given below and rewrite the statement:

Goodwill is _____ asset.

- Tangible
- Current
- an intangible
- None of these

SOLUTION

Exercise 3 | Q 7 | Page 39

QUESTION

Select the most appropriate alternatives from the given below and rewrite the statement:

Prepaid expenses is _____ account.

- Real
- Personal
- Nominal
- Income

SOLUTION

Prepaid expenses is a **Personal** account.

Exercise 3 | Q 8 | Page 40

QUESTION

Select the most appropriate alternatives from the given below and rewrite the statement:

Debit the receiver, Credit the _____

- Goes out
- Giver
- Income and gains
- Comes in

SOLUTION

Debit the Receiver, Credit the **Giver**.

Exercise 3 | Q 9 | Page 40

QUESTION

Select the most appropriate alternatives from the given below and rewrite the statement:

Debit what comes in, Credit what _____

- Giver
- Expenses and losses
- Goes out
- Income and gains

SOLUTION

Debit what comes in, Credit what **Goes out**.

Exercise 3 | Q 10 | Page 40

QUESTION

Select the most appropriate alternatives from the given below and rewrite the statement:

Debit all _____ and Credit all income and gains.

- Giver
- Expenses and losses

- Goes out
- None of these

SOLUTION

Debit all **expenses and losses** and Credit all income and gains.

EXERCISE 4 [PAGE 40]

Exercise 4 | Q 1 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

Outstanding expense is a nominal account.

- True
- False

SOLUTION

This statement is False.

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

Exercise 4 | Q 3 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

Every debit has equal and corresponding credit.

- True
- False

SOLUTION

This statement is True.

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

Exercise 4 | Q 4 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

Discount received is a nominal account.

- True
- False

SOLUTION

This statement is True.

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

Exercise 4 | Q 5 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

Drawings account is a nominal account.

- True
- False

SOLUTION

This statement is False.

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

Exercise 4 | Q 6 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

Outstanding salary is a nominal account.

- True
- False

SOLUTION

This statement is False.

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

Exercise 4 | Q 7 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

Loan account is personal account.

- True
- False

SOLUTION

This statement is True.

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

Exercise 4 | Q 8 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

Goodwill account is a real account.

- True
- False

SOLUTION

This statement is True.

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

Exercise 4 | Q 9 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

Trade discount account is a nominal account.

- True
- False

SOLUTION

This statement is False.

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

Exercise 4 | Q 10 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

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

- True
- False

SOLUTION

This statement is False.

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

Exercise 4 | Q 11 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

Motor car account is a Real Account.

- True
- False

SOLUTION

Exercise 4 | Q 12 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

The rule of Nominal Account is Debit the receiver and Credit the giver.

- True
- False

SOLUTION

This statement is False.

The rule of the nominal account is to Debit all expenses and losses and credit all incomes and gains.

Exercise 4 | Q 13 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

Bank loan account is a Nominal account.

- True
- False

SOLUTION

This statement is False.

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

Exercise 4 | Q 14 | Page 40

QUESTION

State whether the following statement is True or False with reasons:

Assets = Capital + Liabilities

- True
- False

SOLUTION

This statement is True.

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

QUESTION

State whether the following statement is True or False with reasons:

Trademark account is a personal account.

- True
- False

SOLUTION

This statement is False.

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

EXERCISE 5 [PAGES 40 - 41]

QUESTION

Fill in the blank:

Increase in asset is debited and decrease in asset is _____

SOLUTION

Increase in asset is debited and decrease asset is **credited.**

QUESTION

Fill in the blank:

Assets = Liabilities + _____

SOLUTION

Assets = Liabilities + **Capital.**

QUESTION

Fill in the blank:

Increase in capital is credited and decrease in capital is _____

SOLUTION

Increase in capital is credited and decrease in capital is **debited.**

Exercise 5 | Q 4 | Page 40

QUESTION

Fill in the blank:

Scientific and complete system of recording is known as _____

SOLUTION

Scientific and complete system of recording business transactions is known as **double entry system.**

Exercise 5 | Q 5 | Page 40

QUESTION

Fill in the blank:

Debit all expenses and losses, Credit all _____

SOLUTION

Debit all expenses and losses, Credit all **incomes and gains.**

Exercise 5 | Q 6 | Page 40

QUESTION

Fill in the blank:

Land and Building account is _____ account.

SOLUTION

Land and Building account is a **real** account.

Exercise 5 | Q 6 | Page 40

QUESTION

Fill in the blank:

Land and Building account is _____ account.

SOLUTION

Land and Building account is a **real** account.

Exercise 5 | Q 7 | Page 40

QUESTION

Fill in the blank:

Cash Book and Personal Accounts are only maintained under _____ system.

SOLUTION

Cash book and Personal accounts are only maintained under **Single entry system.**

Exercise 5 | Q 8 | Page 41

QUESTION

Fill in the blank:

Debit what comes in and credit what goes out is the rule of _____ account.

SOLUTION

Debit what comes in and credit what goes out is the rule of real account.

Exercise 5 | Q 9 | Page 41

QUESTION

Fill in the blank:

Travelling expenses account is _____ type of Account

SOLUTION

Travelling expense account is **Nominal** type of account.

Exercise 5 | Q 10 | Page 41

QUESTION

Fill in the blank:

Every transaction has _____ effect.

SOLUTION

Every transaction has **two fold** effects.

Exercise 5 | Q 11 | Page 41

QUESTION

Fill in the blank:

_____ accounts are accounts of properties and assets.

SOLUTION

Real accounts are accounts of properties and assets.

Exercise 5 | Q 12 | Page 41

QUESTION

Fill in the blank:

Laptop account is a _____ account.

SOLUTION

Laptop account is a **real** account.