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**11 – Accountancy**  
**Unit – 3 Books of Prime Entry**

**I. Choose the Correct Answers**

1. Accounting equation signifies
  - (a) Capital of a business is equal to assets
  - (b) Liabilities of a business are equal to assets
  - (c) Capital of a business is equal to liabilities
  - (d) Assets of a business are equal to the total of capital and liabilities**
2. 'Cash withdrawn by the proprietor from the business for his personal use' causes
  - (a) Decrease in assets and decrease in owner's capital**
  - (b) Increase in one asset and decrease in another asset
  - (c) Increase in one asset and increase in liabilities
  - (d) Increase in asset and decrease in capital
3. A firm has assets of ₹ 1,00,000 and the external liabilities of ₹ 60,000. Its capital would be
  - (a) ₹ 1,60,000 (b) ₹ 60,000 (c) ₹ 1,00,000 **(d) ₹ 40,000**
4. The incorrect accounting equation is
  - (a) Assets = Liabilities + Capital (b) Assets = Capital + Liabilities
  - (c) Liabilities = Assets + Capital** (d) Capital = Assets – Liabilities
5. Accounting equation is formed based on the accounting principle of
  - (a) Dual aspect** (b) Consistency (c) Going concern (d) Accrual
6. Real account deals with
  - (a) Individual persons (b) Expenses and losses
  - (c) Assets** (d) Incomes and gains

7. Which one of the following is representative personal account?  
(a) Building A/c (b) **Outstanding salary A/c** (c) Mahesh A/c (d) Balan & Co
8. Prepaid rent is a  
(a) Nominal A/c (b) Personal A/c  
(c) Real A/c (d) **Representative personal A/c**
9. Withdrawal of cash from business by the proprietor should be credited to  
(a) Drawings A/c (b) **Cash A/c** (c) Capital A/c (d) Purchases A/c
10. In double entry system of book keeping, every business transaction affects  
(a) **Minimum of two accounts** (b) Same account on two different dates  
(c) Two sides of the same account (d) Minimum three accounts

## II. Very short answer

### 1. What are source documents?

- (i) Source documents are the authentic evidences of financial transactions.
- (ii) These documents show the nature of transaction, the date, the amount and the parties involved.
- (iii) 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?

- (i) Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital.
- (ii) This is based on the dual aspect concept of accounting.
- (iii)  $\text{Assets} = \text{Liabilities} + \text{Capital} + \text{Revenues} - \text{Expenses}$

### 3. Write any one transaction which

(a)	<b>Decreases the assets and decreases the liabilities</b>	Cash paid to creditors
(b)	<b>Increases one asset and decreases another asset</b>	Purchase furniture for cash

**4. What is meant by journalising?**

⇒ The process of analysing the business transactions under the heads of debit and credit and recording them in the journal is called journalising.

**5. What is real account?**

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

**6. How are personal accounts classified?**

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

**7. State the accounting rule for nominal account.**

- (i) Debit all expenses and losses.
- (ii) Credit all incomes and gains.

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

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

**III. Short answer****1. Write a brief note on accounting equation approach of recording transactions.**

- (i) The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation.
- (ii) 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 equated.
- (iii) Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital.
- (iv)  $\text{Capital} + \text{Liabilities} = \text{Assets}$
- (v) 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.

### Meaning of Account

⇒ Account is the systematic presentation of all material information regarding a particular person or item at one place, under one head.

#### (i) Asset account

⇒ Any physical thing or right owned that has a monetary value is called asset.

⇒ For example, Land and Buildings account, Plant and Machinery account.

#### (ii) Liability account

⇒ Financial obligations of the enterprise towards outsiders are shown under separate heads as liabilities.

⇒ For example, creditors account, expenses outstanding account.

#### (iii) Capital account

⇒ Financial obligations of a business enterprise towards its owners are grouped under this category.

⇒ For example, capital contributed by owner.

#### (iv) Revenue account

⇒ Accounts relating to revenues of an enterprise are grouped under this category.

⇒ For example; revenues from sale of goods, rent received.

#### (v) Expense account

⇒ Expenses incurred and losses suffered for earning revenue are grouped under this category.

⇒ For example, purchase of goods, salaries paid.

Personal account:

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

(a) Natural person's account:

- (i) Natural person means human beings.
- (ii) Example: Vinoth account, Malini account.

(b) Artificial person's account:

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

(c) Representative personal accounts:

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

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

- ⇒ Insurance premium paid on the life of the proprietor is a personal expense.
- ⇒ It is not related to business expenses.
- ⇒ So, it is treated as drawings.

Drawings a/c      Dr.                      **XXX**

Cash/Bank a/c XXX

(Being insurance premium paid on the life of the proprietor)

**5. State the principles of double entry system of book keeping.**

- (i) In every business transaction, there are two aspects.
- (ii) The two aspects involved are the benefit or value receiving aspect and benefit or value giving aspect.
- (iii) These two aspects involve minimum two accounts; at least one debit and at least one credit.
- (iv) For every debit, there is a corresponding and equivalent credit.
- (v) If one account is debited the other account must be credited.

**6. Briefly explain about steps 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) Write the narration within brackets in the next line in the particulars column.

**7. What is double entry system? State its advantages.****Meaning**

- (i) Double entry system of book keeping is a scientific and complete system of recording the financial transactions of an organisation.
- (ii) According to this system, every transaction has a twofold effect.
- (iii) That is, there are two aspects involved, namely, receiving aspect and giving aspect.
- (iv) It is denoted by debit (Dr.) and credit (Cr.).



(i) Accuracy

- ⇒ In this system, the two aspects of each transaction are recorded in the books of accounts.
- ⇒ This helps in checking the accuracy in accounting.

(ii) Ascertainment of business results

- ⇒ Details regarding expenses, losses, incomes, gains, assets, liabilities, debtors, creditors, etc., are readily available.
- ⇒ This helps to ascertain the net profit earned or loss incurred during an accounting period.

(iii) Comparative study

- ⇒ The business results of the current year can be compared with those of the previous years and also with other business firms.

Thank You

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