

Lecture-3 & 4

Double Entry Systems

Accounting Equation

The equation is based on the principle that accounting deals with property & rights. The sum of the properties owned is equal to the sum of the rights to the properties. The properties owned by a business are called assets & the rights to properties are known as liabilities or equities of the business.

$$\text{Assets} = \text{Liabilities} + \text{Owner's equities}$$

The Double-Entry System

Each transaction has two parties— giver and receiver. One party receives a benefit and another party gives the benefit. The party which receives the benefit is called ‘Debtor’ and the party giving such benefit is called Creditor. The system under which two fold aspects are considered, one party is debited and other party credited with the same amount, is called Double Entry System of Book-keeping.

Rules of the Double Entry System

1) Personal Account:-

These accounts record a business dealings with persons or firm.

The person receiving something is given debit and the person giving something is given credit.

2) Real Account:-

These are the accounts of assets. Assets entering the business is given debit and assets leaving the business is given credit.

3) Nominal Account:-

These accounts deal with expenses, incomes, profits and losses. Accounts of expenses and losses are debited and accounts of incomes and gains are credited.

Personal Account	Debit	Receiver
	Credit	Giver
Real Account	Debit	What comes in
	Credit	What goes out
Nominal Account	Debit	Expenses & Losses
	Credit	Incomes & Gains

Advantages of Double Entry System

- a) Complete record of the financial transactions is maintained.
- b) It gives accurate information of amount due to & due by the business unit at any time.
- c) It is helpful in preventing frauds & errors.
- d) Arithmetical accuracy of the account books can be tested.
- e) It is helpful in preparing profit & loss account and Balance sheet of a firm.

The features/ Characteristics:

The features of double entry system of book-keeping is given below:

1. Each transaction is shown in its two-fold aspects.
2. In Double-entry system, the receiver is debited and the giver is credited.
3. Each debit amount shall be equal to each credit amount and vice versa.
4. The total amount of debit of a transaction will always be equal to the total of credit amount. Because, $\text{Total Assets} = \text{Total liabilities}$.
5. In every transaction, one party receives the benefit and another party gives the benefit. The receiver of benefit is debited and giver of benefit is credited.

Accounting Cycle

a) Recording:-

First, all transactions should be recorded in the Journal or Books of original entry known as subsidiary books.

b) Classifying:-

All entries in the Journal should be posted to the appropriate ledger accounts to find out at a glance the total effect of all such transactions in a particular account.

c) Summarising:-

Last stage is to prepare the trial balance and final accounts with a view to ascertaining the profit or loss made during a trading period and the financial position of the business on a particular date.