UNIT 5 GENERAL PRINCIPLES OF BOOK-KEEPING AND ACCOUNTANCY, SINGLE AND DOUBLE ENTRY SYSTEM

Structure

5.0 OBJECTIVES

After reading this unit we shall be able:

- to develop an understanding of what accounting is all about;
- to explain the generally Accepted Accounting Principles and their importance; and
- to know how business transactions are recorded and processed under single entry and double entry book-keeping systems

5.1 INTRODUCTION

Accounting has been aptly called the language of business. It is called so because it is an effective method of communicating business information to various users who might be interested in seeking detailed information about the operations of business and its financial status. The ever changing business environment have widened the scope of accounting from the earlier mere record -keeping mechanism to a vibrant subject now so as to meet the needs of various interest groups. Accounting performs the vital functions of keeping systematic records of the transactions that take place during the course of running the business. It protects the business properties and also assists the management in the task of planning, control and co-ordination of the business activities.

5.2 ACCOUNTING - AN EXPOSITION

Accounting is the 'art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character and interpreting the result thereof' '.

Another definition interprets accounting as the process of identifying, measuring and communicating economic information to permit informed judgment and decisions by the user of information.

Let us understand what accounting is all about.

Accounting deals with financial transactions of an enterprise. There are many events that may affect the business enterprise. In accounting all such events are not recorded unless these are of financial character. It records transactions and events of financial nature according to *generally accepted accounting principles* (we shall discuss these principles in the next section). In order that a complete record of financial transactions of a business may be preserved, each transaction has to be recorded in the books of original entry (called journals and ledgers). Additionally each transaction needs to be classified in accordance to pre-determined plan of classification. The recording of all the financial transactions is known as book-keeping and it is necessary preliminary to the other functions of presenting and interpreting.

Presenting deals with the summarization of the recorded data in the form of reports or statements which may be put to internal or external use by the interested parties. The reports or the statements such as *Profit and Loss Account* and the *Balance Sheet* are the results of utilization of recorded transactions and their further processing to draw financial picture to meet the needs of all parties concerned .

Interpretation deals with explanation and utilization of the reports or statements. How the profits of the company have increased / decreased in comparison to the previous year and what are the contributing factors to that falls under its preview. Similarly an exposure to Balance Sheet items shall reflect the financial strength of the enterprise and how best it can be utilized for drawing inferences. The accounting report needs to be explained to those who are likely to use the information. This can be accomplished by explaining the meaning, uses and limitation of reported data with the help of the ratios, percentages etc.

We have already said that accounting records transactions and events of financial nature according to *Generally Accepted Accounting Principles*. These principles are now discussed below.

5.3 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

One of the major objectives of accounting is to provide business information to users. The information shall be useful to the users if it is consistent and comparable. To bring in consistency in the preparation of accounting information and also that it conveys the same meaning to all the users, a number of rules or guidelines variously called Concepts, Conventions, Postulates, Assumptions and Principles have been developed in Accounting over the years from experience, reason, usage and necessity. The set of assumptions, concepts and principles thus developed are called ' Generally Accepted Accounting Principles (GAAPs). These are well-accepted accounting practices at a particular time and form the theoretical base. These represent a consensus view by the accounting profession of good accounting practices and procedures to serve as a guide to action. GAAPs also help us to answer new questions that may arise from time to time. Some of the important concepts and principles are discussed below

i. Business Entity Concept

Business entity concept means that a business enterprise will be viewed as a unit independent from its owners for accounting purposes. All the records and transactions of the business and those of the owners should be kept separately. If there is no separation of these accounts, the affairs of the business will all be mixed up with the private financial affairs of the proprietor. In such circumstances the exact position of the business cannot be worked out.

ii. The Continuity or Going Concern Assumption

It postulates that the business will continue in operation for an indefinite period in the future. This assumption provides guidance with respect to the application of concept of cost in accounting for assets, capital and revenue expenditures. Investors' decision to contribute capital to enterprise is based on this assumption. Depreciation on fixed assets is charged on the basis of useful expected life and not at the market price. Tangible long lived assets such as buildings are shown at their original cost less a provision for the benefits used up (i.e original cost minus depreciation). Prepayment for insurance and leasing are also based on this assumption. When circumstances indicate that the continuity assumption is no longer valid for a particular firm, the resources could be reported at their current values or liquidated values rather than at their cost price.

iii. Cost Concept

This concept states that assets acquired through exchange are generally measured at their acquisition cost or price paid for it. The initial acquisition cost would not be changed in spite of the fact that current market value of similar type has been changed. Thus assets are recorded at their original purchase price. These assets appear on subsequent balance sheets at historical cost less a provision for the benefits used up. The cost of an asset that has a long but limited life is systematically reduced during its life by the amount of 'depreciation' charged for the asset each year.

iv. Accrual Concept

The accrual basis of accounting is essential for the preparation of reasonably accurate statements of income and the financial position. According to this concept revenue is recognized when earned whether or not received in cash and the expenses are recognized when incurred whether or not paid in cash. Revenue is the amount a business earns by selling its products or services to the customers. Revenue is deemed to have been earned in the period in which sale was done or services rendered. For example suppose a dairy plant sells milk products worth Rs. 10 lakhs in the month of Jan., 2005 through its dealers. The dealers make cash payment in the month of Feb. 2005. Though payment was received in the month of Feb, 2005 the right to receive payment was created in Jan. 2005 when products were sold. According to this A*ccrual Concept*, revenue earned is in the month of Jan. 2005. Similarly when any product or service is received the obligation of making payment becomes due and should be recorded as expense though payment might have made in advance or is made in subsequent periods later on.

v. Matching Principle

According to this principle the expenses for a period of time should be matched with the revenue for the same period. It means that the revenue recognized as being earned during a particular period should have deducted the expenses incurred in earning that revenue. First of all, income of a certain accounting period is determined and then expenses incurred in earning this income are determined so that the exact profit or loss for that accounting period can be ascertained. Trading and Profit and Loss Account of a business is prepared according to this concept.

vi. The Dual Aspect Concept

This concept recognize that every transaction affects at least two accounts and there is two fold effect. The dual-aspect concept is commonly expressed in the form of a fundamental accounting equality which is given below:

Assets = Equities (Claims)

or

Assets = Liabilities + Capital

According to this concept and fundamental accounting equation, for every entry in a ledger account, an entry of equal amount must be made on the opposite side of another ledger account(s) so that the sum of the entries on both sides of the ledger accounts (Debit and Credit) must always be equal. How the entries are made in the two accounts that are affected is highlighted in subsequent section.

vii. The Accounting Period Concept

The Continuity or Going Concern Assumption stipulates that business will continue in operation for an indefinite period in the future. The activities of business occur in a fairly continuous steam throughout its life. But for making decisions and show the results of the operations of the enterprise should the stakeholders be kept waiting till the end of the life of the business ? The accounting period concept stresses that it is necessary to calculate business income for time periods less than the life of a business enterprise. The stake holders want information on various aspects of the enterprise periodically. Accounting period is defined as interval of time at the end of which the income statement and balance sheet are prepared. The year is the most common accounting period. The management may prepare reports even for shorter periods such as one month or a quarter for its own use.

viii. Money Measurement Concept

There are many events that affect business entity. But according to the Money Measurement Concept only those facts which can be expressed in terms of money are recorded in accounting. Business possesses different assets and widely different type of equities. It becomes, therefore, necessary to adopt a common measurement yardstick to record diverse items in the books. Money serves that purpose. In accounts money is expressed in terms of its value at the time an event is recorded. Qualitative transactions which can not be expressed in money cannot be recorded in financial books.

ix. Conservatism

This concept advises us to take a cautious approach to valuation. The essence of this principle is “Anticipate no profit and provide for all possible losses”. It guides us to take into consideration all prospective losses but expected gains should be recorded only when they are actually earned. Similarly the stocks be valued at cost or market price whichever is lower . Wherever required, provision for doubtful debt be kept. It is better to play safe rather than show the rosy picture to the stake holders as it will harm the interests of business.

x. Materiality Concept

It states that financial accounting is only concerned with significant amounts. Amount considered insignificant may be handled in the most expedient manner rather than giving them strict theoretical correct treatment. Amounts are considered significant if they would affect decisions of financial statement users. There is no hard and fast rule to draw a border line between material and immaterial events. Management can best assess a given item and determine its significance. Suppose an electric sharpener is purchased for Rs. 100 and it is expected to last 4 years. Though theoretically Rs. 25 each year should be allocated as expense (Rs100 divided by the expected life of the sharpener i.e.4 years), but the amount of Rs. 100 is so insignificant that it can be treated as immaterial and the entire amount of Rs. 100 may be shown as expense in accounts.

xi. Consistency Assumption

There are several ways to record a transaction in the books of account. The consistency assumption stresses that a given company will consistently apply the same measurement techniques so that valid comparisons from year to year can be made. However, when management feels that there is some good reason for changing measurement technique, it must be disclosed in the financial statements. If there is inconsistency in the application of accounting methods, it might affect the reported profit and the financial position. This could thus mislead the uninformed statement reader.

xii. Objectivity Assumption

The financial statements must be as reliable as possible so that users have confidence in them. The measurements need to be objective and verifiable. The term objective in this context means free from bias and is subject to verification. Many measurements shown in the financial statements contain elements of judgment. Measurement which involve judgment should be systematized so that the others using the some rational process or method would achieve the some measurement results.

Check Your Progress – 1

1. What do you understand by the terms account, accounting & accountancy?

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2. List all the Generally Accepted Principles of Accountancy.

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3. Explain Consistency Assumption.

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5.4 BOOK KEEPING AND ACCOUNTANCY

The systematic recording of the financial transactions of an enterprise is known as **book keeping** or **accounts keeping**. It is concerned with keeping of records of every transaction, whether for sale, purchase or business expense that happens in the course of business It is the art of recording money transactions so that the financial position of an undertaking and its relationship to both its proprietors and to outside persons can be readily ascertained. The book-keeper writes up books and makes accounting records.

Accountancy is concerned with the knowledge of how to make accounting. Accountancy guides us how to design and maintain various books of accounts and prepare the financial statements and communicate accounting information to the parties interested in them. It also advises management. The *Accountant* is responsible for directing and co-ordinating the work of book- keeping staff and for designing and maintaining accounting systems according to the needs of the particular business. Preparation of the periodic accounts of profit and loss account and financial statements in a form which will be assistance to the management in appraising the past results and formulating the future policy are important contributions of the accounting staff.

5.5 ACCOUNTS– THEIR CONSTRUCTION

How accounts are made? What are sources of these accounts to initiate the accounting process so that the required statements are generated subsequently? What is the format of accounts and what purpose do they serve?

Before we answer all these questions it is worthwhile to understand some of the frequently used terms in accounting.

i. Account

An Account is a systematic record of the financial transactions pertaining to a particular asset, a particular liability, an owner's equity item, a revenue item or an expense item. Transactions of similar nature are brought together at one place in an account, which are opened in a book called Ledger.

ii. Ledger

A ledger is a set of accounts of an enterprise. It may be kept in bound or Loose Leaf form. All these accounts, each on a separate page or card are the source of information for preparation of the various financial statements.

iii. Journal

A journal is a chronological record of transactions. The Journal is the original book in which the transactions are recorded in the order in which they happen.

iv. Assets

Assets are items of value owned by a enterprise. It includes tangible and intangible items or rights. Tangible items may be in the form of money, buildings, machinery etc. Intangible items include claims on tangible assets, claims on services and also items such as goodwill, patents, copyrights and franchises. Assets can further be classified into current assets and long term assets.

v. Equities

These are claims against the enterprise. Claims are of two types

i) Liabilities: amount due to outsiders. Liabilities are debts or obligations of the enterprise to pay money or other assets at some future date. Liabilities can be further classified into current liabilities and long term liabilities

ii) Capital: Claims of owners or proprietors.

The sum of the claims of outsiders (creditors) and that of the owners is always equal to the total value of all assets owned by the enterprise. It is known as the Fundamental Accounting Equation.

Creditors (Liabilities)

Assets = Equities
(Total Claims)

Owners' equity (Capital)

Or

Assets = Liabilities + Capital

Having known the basic terminology let us understand how an account is constructed. We know that accounting is concerned with the recording of financial transactions of a business entity. The source of account is a document (called *Source Document*) which becomes the basis for recording a transaction in the books of accounts. Source documents are the original sources of information that provide documentation (proof) that a transaction has occurred. Sales invoices, invoices from suppliers, contracts, cheques written and cheques received, promissory notes, and various other types of business documents are source documents. These documents provide us with the information needed to record our financial transactions in our bookkeeping records.

There is a variety of forms for accounts but the most common is the 'T' account because each account form resembles a capital letter 'T'.

The title is placed above and in the centre of each account

At the centre of the horizontal line a perpendicular is drawn downward to separate the account into two distinct parts. The left part of the T account is called debit side and the right one is called the credit side as shown below:

Accounts Title	
(Debit Side)	(Credit Side)

To enter an amount on the left side of an account to known as debiting

To enter an amount in the right side of an account is known as crediting the account.

The Rules of Debits and Credits and the Account

How to determine whether an entry is to be made in debit or credit side of any account and what are the rules that guide us so that the proper entries are made in the book of accounts? The following shall help us in this process.

(1) Determine the type of account (asset, liability, revenue, or expense account) the transactions affect

(2) Determine if the transaction increases or decreases the account's balance.

(3) Apply the debit and credit rules based on the type of account and whether the balance of the account will increase or decrease after the transaction.

Assets are increased by *debits*. There is no reason for this other than that it has been conventional approach for several hundred years. If an asset is increased by a debit and if debits must equal credits, then a liability account or stockholders' equity account must be increased by a *credit* Conversely assets are reduced by credits and debits would then reduce liability or stockholders' equity. The following rules of making entries are adopted with respect to assets, liabilities and capital and the nominal accounts.

Regarding Assets: Increases in assets are debits and decreases in assets are credits.

Regarding Liabilities: Increases in liabilities are credits and decreases in liabilities are debits.

Regarding Capital: Increases in capital are credits and decreases are debits.

Regarding Expense: Increases in expenses are debits and decreases are credits

Regarding Income or Profits: Increases in income or profit are credits, decreases are debits

Regarding Stocks: Debit what comes in and credit, what goes out**.**

Regarding Receiver/ Giver: Debit the receiver and credit the giver

The purpose of accounts is to supply the recorded data for the preparation of accounting statements.

5.6 SINGLE AND DOUBLE ENTRY SYSTEM

There are basically two approaches of record keeping i) Single Entry Systems and ii) Double Entry Accounting Systems

Single Entry Systems: The term 'Single Entry Book Keeping' is generally applied to any system which is not a complete double entry system. Single entry systems of keeping books differ in the amount of detail and information concerning the business but all such systems have one common feature, viz. incompleteness of double entry.

There is so much variation in 'Single entry system' of keeping records that in case of some of the transactions, no entries may be made; in others a single entry to record only one side of the transaction may be made while the two fold aspect of each transaction as considered in the double entry system is ignored. However in some other transactions a complete double entry may be made.

Methods of record keeping in single entry system is quite different from the double entry system and also information is usually available up to a point. The original records such as the cash book, the purchase book, the sale book and returns book, and the bill book are sometimes maintained but postings are only made to the personal accounts concerned. It fails to give information of the impersonal side of a transaction and lays more emphasis in recording the personal side.

Single Entry system of record keeping fails to supply details regarding expenses, purchases and sale of goods as well as cost of assets such as plant and machinery, fixture and fittings and other real and nominal accounts. Thus at any stage when data are required in different aspects single entry system can only furnish a list of Debtors and Creditors along with amount outstanding. In the Single Entry System only final statements (not final accounts) can be drawn up;

It may not, however, be concluded from the above discussion that owing to an incomplete record of transactions, it is not possible to determine Profit and Loss for the period. It is possible to draw up a statement of profit & loss showing the difference between the assets and the liabilities at the terminal periods, and a statement of affairs showing the assets and liabilities on the two sides of the statement on a particular date. In both the statements it may be necessary in appropriate cases to make some adjustments.

The profit and loss is ascertained by comparing the capital at the end with that at the beginning, adjustments being effected in respect of withdrawals or introductions of capital during the period. The withdrawals must be added and introduction of capital be deducted to ascertain the profit or loss. If the closing capital is more than the opening capital such excess is considered as profit for the period. But if the closing capital is less than the capital at the beginning, there is loss for the period, subject to adjustments mentioned above. Capital as considered for this purpose is the excess of assets over liabilities.

The disadvantages of single entry system as compared to double entry are many. The arithmetic accuracy of the books cannot be proved, assets and liabilities may be wrongly shown, and the final statement of affairs cannot be relied upon.

The final results concerning the state of business are unreliable, owing to an incomplete record of transactions, lack and loss of information pertaining to the assets and particulars as to gains and losses. In such type of system a Trial Balance cannot be made from the records maintained. Profit determination in these circumstances can be extremely difficult. However many short -cuts are employed as a means to complete the double entry depending upon the degree of completeness already existing in the books. This form of book keeping is of very limited value and is seldom found in the any concern of importance.

Double Entry Book Keeping

Double-entry book-keeping is the standard accounting practice for recording financial transactions. It is a system of accounts keeping wherein all the financial transactions of an enterprise are recorded in a manner to show the effect of each on the assets, the liabilities, the owner’s equity, the revenue items and the expense items

Double-entry book-keeping is governed by the accounting equation. At any point of time, the following equation must be true:

Assets = Liabilities + Equity

For a particular time period, the equation becomes:

Assets = Liabilities + Equity + (Revenue - Expenses)

Finally, this equation may be rearranged algebraically as follows:

Assets + Expenses = Liabilities + Equity + Revenue

This equation must be true, for any time period. If it is, then the accounts are said to be in balance. If the accounts are not in balance, an error has occurred. For the accounts to remain in balance, a change in one account must be matched with a change in another account(s). These changes are known as debits and credits. Note that the usage of these terms in accounting is not identical to their everyday usage.

Double entry book keeping recognizes the fact that each entry affects at least two accounts. This is the dual or double feature of this system. There cannot be a debit without a corresponding credit and vice versa.

The principle book of account is ledger in which all transactions are ultimately recorded in double entry system although a number of subsidiary books are also necessary. As already mentioned the ledger is a set of accounts of an enterprise. This means ledger comprises of accounts each account being devoted solely to transactions with a particular person or of a particular kind. Having learnt the basics of book keeping I am sure now you are in a position to record business events , present them and interpret.

We shall explain this with the help of an example.

Mr. Ram Singh started dairy business and the following information was obtained

April 1 – Started business with Rs. 30000

April 4- Bought goods with Rs. 20000

April10- Received order for half of the goods from ‘A’

April12- Delivered the goods, A invoiced Rs. 13000

April15- Received order for remaining half of the total goods purchased.

April 21-Delivered goods and received cash Rs. 120000

April 30- ‘A’ makes payment

April 30- Paid salaries Rs. 2100

April 30-Received interest Rs. 500

To understand how the entries are to be made in each account according to double entry system of book keeping, let us first analyse each transaction to see what are the accounts that are affected by each transaction.

April 1- Started business with Rs. 30000

The two accounts involved are cash and owners equity. Cash increases and being an asset it has to be debited. Owners’ equity, a liability also increases and therefore, it has to be credited.

April 4 –Bought goods worth Rs. 20000

The two accounts affected by this transition are Cash and Goods (purchases). Cash balance decreases and hence it is credited and goods on hand, an asset, increases hence it is to be debited.

April 10- Received order for half of goods from 'A'

No entry is required as realization of revenue will take place only when goods are delivered (Realisation concept).

April 12 – Delivered the goods, 'A' invoiced Rs. 13000

This transaction affects two accounts – Goods (Sales) a/c and Receivables a/c. Since it is a credit transaction receivables increase (asset) and hence is to be debited. Sales decreases goods on hand and hence Goods (Sales) a/c is to be credited.

April 15 -Received order for remaining half of goods No entry is required as transaction is not complete.

April 21- Delivered goods and received cash Rs. 12000

This transaction affects cash a/c and sales a/c. Since cash is realized, the cash balance will increase and hence cash account is to be debited. Since the stock of goods becomes Nil due to sale, sales a/c to be credited (as asset in the form goods on hand has reduced due to sales).

April 30 - 'A' makes payment

Both the accounts affected by this transaction are assets accounts – cash and receivables. Cash balance increases and hence it is to be debited and receivables balance decreases and hence it is to be credited.

April 30- Paid Salaries Rs. 2100

Because of payment of salaries cash balance decreases and hence cash account is to be credited. Salary is an expense and since expenses has the effect of reducing owners' equity account, expenses account is to be debited.

April 30- Received Interest Rs. 500

The receipt of interest increases cash balance and hence cash a/c is to be debited. Interest being revenue which has the effect of increasing the owners' equity, it has to be credited as owners' equity account increases.

Cash a/c

Debit		Credit	
Capital a/c	30000	Purchase a/c	20000
Sales a/c	12000	Salaries a/c	2100
Receivables a/c	13000	Balance	3,3400
Interest a/c	500		
	55500		55500

Capital a/c

Rs. Debit		Rs.Credit	
Balance	30000	Cash a/c	30000

The Cash Account and the Capital Account have been done here, you are advised to prepare similarly the other relevant Accounts.

Double entry system has the following advantages.

1. It provides a complete record of every transaction both in its personal and impersonal aspects.

2. Financial position of business at any movement can be ascertained with the help of balance sheet and profit & loss for any given period can be easily worked out.

3. It provides an arithmetical checks on the records. It , therefore ,reduces risk and facilitates the detection of errors and frauds.

4. From personal accounts the amount due to and by each person with whom the business deals can at any time be ascertained.

Check Your Progress - 2

1. What is Double Entry System of book keeping? Explain its principles with examples. What are its advantages?

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2. State which account will be debited and which one will be credited if the following transactions take place

   i) Rent paid ii) Goods purchased iii) Rent received

   iv) Capital introduced v) Goods sold vi) Machinery purchased

   vii) Building sold viii) Discount allowed

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3. Distinguish between Single Entry and Double Entry System of book keeping. How accounts are constructed in Double Entry System of book keeping.

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4. Complete the following accounts on the basis of information furnished in the example under Double Entry System and make a Trial Balance (in this include the accounts that have been made for you earlier i.e. Cash a/c and Capital a/c)

Purchase a/c	Receivables a/c	Receivables a/c
Sales a/c	Salaries a/c	Interest a/c

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5.7 LET US SUM UP

Accounting is rightly called the language of business as it effectively communicates business information to various stakeholders who might be interested in such information. Accounting is the 'art of recording, classifying and summarizing in a significant manner and in terms of money ,transactions and events which are, in part at least, of financial character and interpreting the result thereof '. In order that business information is consistent, comparable and also conveys some meaning to all the users, a number of rules or guidelines known as' Generally Accepted Accounting Principles (GAAPs) have been developed over time. Book keeping is concerned with the systematic recording of the financial transactions of an enterprise. There are basically two approaches to book keeping namely single entry systems and double entry accounting systems. Double entry book keeping recognizes the fact that each entry affects at least two accounts. It has many advantages and is widely used as a standard accounting practice. *Source Document* is the basis for recording a transaction in the books of accounts. The Rules of Debits and Credits are then applied which are based on the type of account and whether the balance of the account will increase or decrease.

5.8 KEY WORDS

Accounting : The 'art of recording, classifying and summarizing in a significant manner in terms of money, transactions and events which are, in part at least, of financial character and interpreting the result thereof '.

Accountancy : Is concerned with the knowledge of how to make accounting.

Account : An Account is a systematic record of the financial transactions pertaining to a particular asset, a particular liability, an owner's equity item, a revenue item or an expense item.

Ledger : A ledger is a set of accounts of an enterprise.

Journal : A journal is a chronological record of transactions.

Assets : Assets are items of value owned by a enterprise. It includes tangible and intangible items or rights.

Equities : These are claims against the enterprise.

Capital : It is owners' equity against the business

Liabilities : Are debts or obligations of the enterprise to pay money or other assets at some future date.

5.9 SOME USEFUL BOOKS

J.R.Monga (1995) 'Fundamentals of Accounting' Mayoor Paperbacks, NOIDA (U.P)

T. S.Grewal (1992) ' Double Entry Book Keeping' Sultan Chand &Sons ((P) Ltd, New Delhi

5.10 ANSWERS TO CHECK YOUR PROGRESS

Your answer should include the following points

Check Your Progress – 1

1. An Account is a systematic record of the financial transactions pertaining to a particular asset, a particular liability, an owner's equity item, a revenue item or an expense item.

   The 'art of recording, classifying and summarizing in a significant manner in terms of money, transactions and events which are, in part at least, of financial character and interpreting the result thereof '.

   Accountancy is concerned with the knowledge of how to make accounting.

2. Business Entity Concept, The Continuity or Going Concern Assumption, Cost concept, Accrual Concept, Matching Principles, The Dual Aspect Concept, The Accounting Period Concept, Money Measurement Concept, Conservatism, Materiality Concept, Consistency Assumption, Objectivity Assumption,

3. It is based on the assumption that a given company will consistently apply the same measurement technique so that valid comparisons from year to year can be made.

Check Your Progress – 2

1. The students should explain what is Double-entry book - keeping and how each transaction affects two accounts. How double-entry book-keeping is governed by the accounting equation. The principles of debit and credit emanating there from need to be discussed.

2. The student should read throughly 'Generally Accepted Accounting Principles' explained in Section 1.3 to attempt this question.

3. Accounts — Debited/Credited

	Accounts	Debited/Credited
i)	Rent paid A/c	Debited
ii)	Purchase A/c	Debited
iii)	Rent received A/c	Credited
iv)	Capital A/c	Credited
v)	Sales A/c	Credited
vi)	Purchase A/c	Debited
vii)	Building A/c	Credited
viii)	Discount Allowed A/c	Debited

4. Explain the differences between Single Entry and Double Entry System. How accounts are constructed in Double Entry System may be attempted giving a suitable example.

5. **Purchase a/c**

Debit (Rs).			Credit(Rs).
Cash a/c	20000	Balance	20000

Debit (Rs).	**Receivables a/c**		.Credit(Rs).
Sales a/c	13000	Cash a/c	13000

Debit(Rs.).	**Sales a/c**		Credit(Rs).
Balance	25000	Receivables a/c	13000
		Cash a/c	12000
	25000		25000

Debit(Rs)	**Salaries a/c**		.Credit (Rs)
Cash a/c	2100	Balance	2100

. Debit(Rs)	**Interest a/c**		.Credit(Rs)
Balance	500	Cash a/c	500

Now a Trial Balance can be prepared and when prepared it would appear as follows:

Trial Balance

Debit			Credit
Cash	33400	Capital	30000
Purchases	20000	Sales	25000
Salaries	2100	Interest	500
	55500		55500