Financial Accounting

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# Double Entry System

▶ Introduction

Double entry system is the system under which each transaction is regarded to have two fold aspects and both the aspects are recorded to obtain complete rocord of dealings. Double entry system of book keeping adheres to the rule, that for each transaction the debit amount(s) must equal the credit amount(s).That is why this system is called double entry system.

Features of Double Entry System

- Two parties
- Each party is affected in opposite direction.
- Affects at least two items.
- Each account has two sides debit and credit.
- Debit amount is equal to the credit amount.
- Amount receiving the benefit is debited and amount rendering the benefit is credited.

Classification of Accounts

▶ Accounts are classified using two approaches(Traditional and modern)

▶ Traditional approach (also known as the British approach)
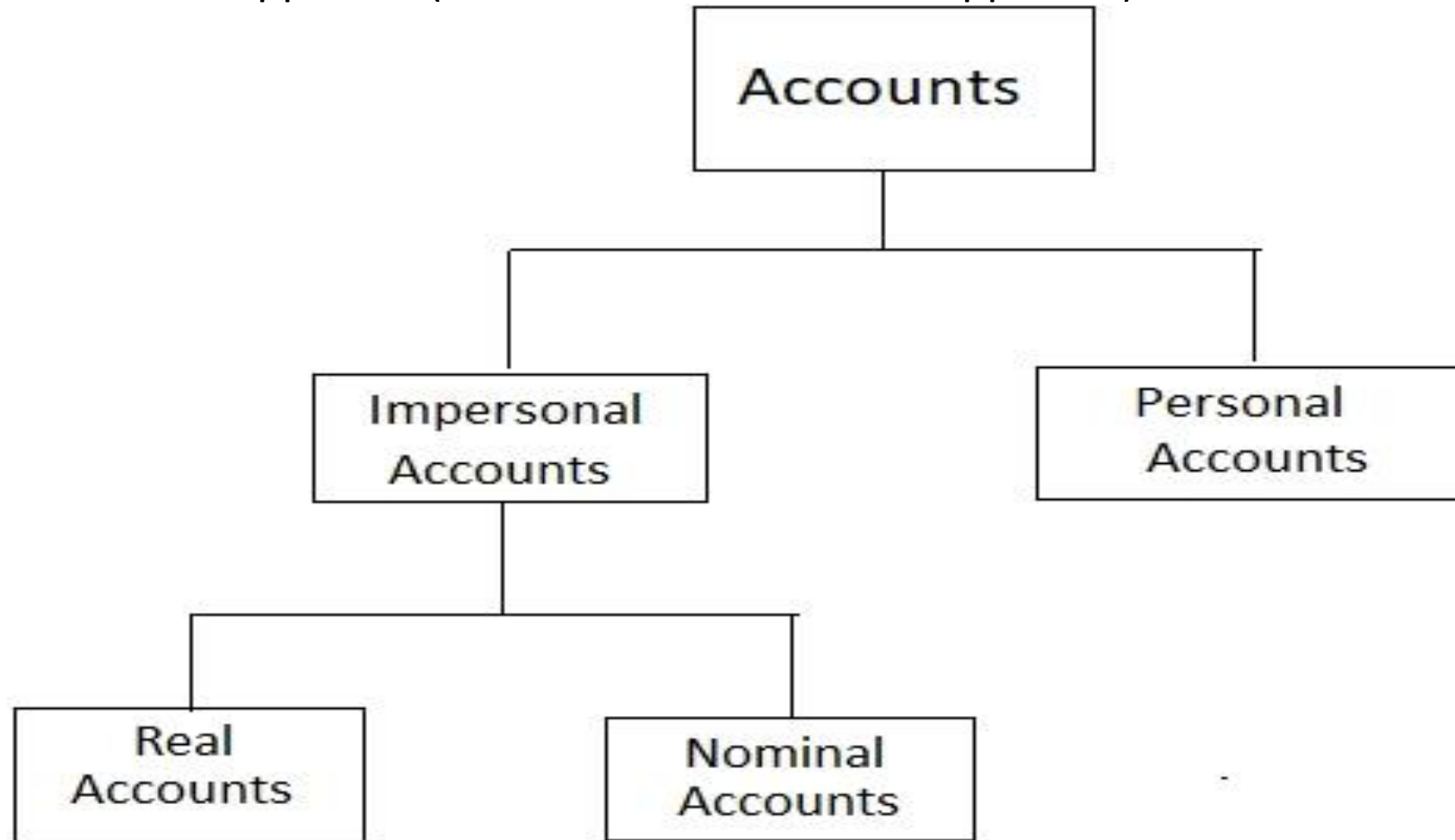
Personal Accounts

▶ Personal accounts are the accounts that are used to record transactions relating to individual persons, firms, companies, or other organizations.

▶ Examples of such accounts include an individual's accounts (e.g., Mr. X's account), the accounts held by modern enterprises, and city bank accounts.

▶ Impersonal Accounts

Real Accounts

▶ Real accounts exist even after the end of accounting period. For the next accounting period, these accounts start with a non-zero balance, which is carried forward from the previous accounting period.

▶ Examples of such accounts include machinery accounts, land accounts, furniture accounts, cash accounts, and accounts payable accounts.

Nominal Accounts

▶ Nominal accounts are closed at the end of the accounting period. For the next account period, these accounts start with a zero balance. Nominal accounts typically cover issues such as income, gains, expenses, and losses.

Examples of nominal accounts include sales, purchases, gains on asset, wages paid, and rent paid.

Classification of Accounts Under the Modern (or American) Approach

▶ **Asset accounts:** Examples include land accounts, machinery accounts, accounts receivable accounts, prepaid rent accounts, and cash accounts.

▶ **Liability accounts:** Examples include loan accounts, accounts payable accounts, wages payable accounts, salaries payable accounts, and rent payable accounts.

▶ **Revenue accounts:** Examples include sales accounts, service revenue accounts, rent revenue accounts, and interest revenue accounts.

▶ **Expense accounts:** Examples include wage expense accounts, commission expense accounts, salary expense accounts, and rent expense accounts.

▶ **Capital/owner's equity accounts:** An example is an individual owner's account (e.g., Mr. X's account).

Rules of Accounts

- ## Personal Accounts

  Debit the receiver,

  Credit the giver.

- ## Real Accounts

  Debit what comes in ,

  Credit what goes out .

- ## Nominal Accounts

  Debit all expenses and losses,

  Credit all incomes and gains.

Accounting Cycle

- Accounting cycle is a complete sequence beginning with the recording of the transactions and ending with the preparation of final accounts. Steps involved in accounting cycle are:
- Step1   JOURNALISING
- Step2   POSTING
- Step3   BALANCING
- Step4   TRIAL BALANCE
- Step5   INCOME STATEMENT
- Step6   BALANCE SHEET

Thanks