

Effective Classroom Activities on Accounting Using Double Entry System: The Productive Consequences

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Abstract:

Effective classroom activities facilitate the students with simple teaching-learning method of understanding the conceptual as well as practical aspects. The present study reveals the essential of implementing effective classroom activities on accounting using double entry system. In the modern era, the accounting activities are performed through software like Tally.ERP 9, HDPOS Smart Accounts and Billing, Zoho Books etc. Even though the manual operations are replaced by accounting software, but the importance of understanding basic accounting concepts, rules and procedures remain unchanged. The authors have taken obsessive care to simplify the double entry system that can be understood by general public, businessman, and even non-commerce background students. The study described about the golden rules of accounting, the introduction and format of accounting equation, the description and specimen of journal, the format of ledger, introduction and specimen of trial balance, other related aspects. The present study will encourage the research scholars, business practitioners, and future generation with respect to fundamental concepts and practical applications.

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1 Introduction

Double Entry System is the important accounting aspect that ensures the accurate accounting record system, prevents and minimizes business frauds [1]. This paper content begins with golden rules of accounting and end with cash book recording. The authors have reviewed various related literatures, text books, intellectual contents and identify the gap between the details about double entry system with the expectations of the learners. With the consideration of future applicability of accounting concepts, the present study has simplified all the golden rules of accounting and other elements of accounting concepts [2]. The brief explanation of all the concepts will help the students and business practitioners for applying the thoughts in decision-making.

2 Three Golden Rules of Accounting

Before learning any topic in accounting it is very important to learn about the three important rules of accounting:

1. Debit the receiver, Credit the giver – This regulation is applied to personal accounts like bank A/C, Capital A/C, etc. Say if a person takes loan from bank, the bank becomes the giver and is thus credited in the accounts books or says if commerce offers an employee his salary in advance, then it becomes outstanding salary for the business and is then debited in the books of accounts.
2. Debit what comes in, Credit what goes out – This regulation be applied to real accounts like machinery A/C, land and building A/C,

etc. According to this rule the amount that comes in is added to the already existing balance of the account and the amount that goes out is deducted from the same.

3. Debit all expenses and losses, Credit all incomes and gains – This regulation is applies on nominal accounts like sales A/C, rent A/C etc. All the changes happening are done to the capital account. A Capital account is a liability to the business and therefore is shown in the credit side. All the debited expenses, losses are deducted from principal account and all credited incomes and gains are added to the capital account.

the company should be equal to all the sum of all liabilities and the capital amount. The Assets include whatever may bring a benefit to the business like machinery and plant, land and building, etc. which are considered as fixed assets or assets like cash and cash equivalents, stocks, etc. which are considered as current assets (Alan Sangster 2016).

The liabilities include whatever the business has to pay for in the future. All outstanding expenses like O/S advertisement expenses, O/S rent, are considered as liabilities. Bank loans or loans from any other means are also considered as a liability.

Accounting Equation: Assets = Liabilities + Capital

3 Accounting Equation

The next topic covered in accounting is accounting equations. The accounting equation is the base of any double entry accounting system. It shows the balance sheet of a company in which all the assets of

Like any other accounting tool, accounting equation has a format of its own.

ACCOUNTING EQUATION						
S.No.	Particulars	Assets	Total	Liability	Capital	Total
1	Mr. Ranveer Started Business:					
	Cash	600000			600000	
			600000			600000
2	Purchased furniture on credit:					
	Furniture	50,000				
	Mordern Furniture (Creditors)			50,000		
			650000			650000

In accounting equation the first entry is always that of starting a business as shown above. All the transactions are totalled after every step to check if the both the sides are balanced or not [3]. To know which item is to be placed under which side is very important [5]. For example, in the above image the second transaction is that of purchasing furniture on credit, this means that an asset I being purchased so the asset side is increased. Also the liability side is increased since the purchase in made on credit and would have to be paid in the future [4][7].

4 Journal

A journal records the daily transactions made by any business so that it can be used for further reference like when creating a ledger. Every transaction in the journal maintains atleast two accounts in the double entry system. An entry made with more than two accounts is called a compound entry. The journal includes the name of the person, the date on which the transaction occurred, the entry of accounts occurring on either credit or debit side, narration which defines the transactions, ledger folio

which is kept as a reference to the same entry in ledger and the debit side and credit side amounts [5]. The format is as follows:

JOURNAL				
IN THE BOOKS OF MR. RANVEER				
Date (2013)	Particulars	LF	Debit (Rs)	Credit(Rs)
1-Apr	Cash A/C Dr.		600000	
	To Capital A/C			600000
	[Being Business Started]			
4-Apr	Furniture A/C Dr.		50000	
	To Modern Furniture A/C			50000
	[Being furniture bought on credit]			

The second transaction on the date 4 April 2018 is has two accounts, that of furniture and Modern Furniture (A company). Following the golden rules furniture is debited and the company is credited since it becomes a liability to the business.

An Example of compound entry can be,

8-Apr	Purchases A/C Dr.	150000	
	To Discount Received A/C		30000
	To K.G. Khosla & Co. A/C		120000
	[Being goods purchased on credit]		

The three accounts used her are purchases A/C (maintained on purchases the goods that the business sells from manufacturer), Discount Received A/C which keep a track of the discount received by the business while purchasing the goods and K.G Khosla & Co. A/C who is the creditor to the company.

5 Ledger

The Ledger is defined the book of final entry. It consists of classified and summarized transactions of similar accounts. It takes the debit or credit balance of an account from the journal and finds the current

balance at end of a certain period. Ledgers consist of two sides, debit side and the credit side [6]. Both sides have transaction date, the particulars which note account name, then journal folio which is used to connect it to the entry in the journal and the amount. The account name is of the item that has affected that account [7]. For Example: In the ledger of cash A/C, if the business pays salary with cash then the cash is credited. So in the credit side it would be written as 'Salary A/C' and the amount. The format of ledger is as follows:

Cash A/C							
Dr.							Cr.
Date	Particulars	JF	Amt	Date	Particulars	JF	Amt
1-Jun-18	To Capital A/C		45000	2-Jun-18	By Purchases A/C		15000
5-Jun-18	To Sales A/C		8500	25-Jun-18	By Telephone Expenses A/C		400
18-Jun-08	To Arvind A/C		3760	28-Jun-18	By Amrit A/C		5940
21-Jun-18	To Bank A/C		5000	30-Jun-18	By Stationary A/C		200
				30-Jun-18	By Rent A/C		1000
				30-Jun-18	By Salary A/C		2500
				30-Jun-18	By Balance c/d (Bal Fig)		37220
			62260				62260
1-Jul-18	To Balance b/d		37220				

6 Trial Balance

The next topic is trial balance. A trial balance consists of the general ledger accounts which have either a credit or debit balance. This is made to check whether all the calculation done are correct or not. The credit and debit side of a trial balance are always suppose to match [8][9]. This does not need to have a date column as the last balance of the ledger account is posted.

The following is how a trial balance looks:

TRIAL BALANCE			
S.No.	Particulars	Debit	Credit
1	Cash A/C	₹ 37,220.00	
2	Capital A/C		₹ 70,000.00
3	Bank A/C	₹ 14,000.00	
4	Furniture A/C	₹ 5,000.00	
5	Sales A/C		₹ 12,500.00
6	Purchase Return A/C		₹ 1,000.00
7	Sales Return A/C	₹ 200.00	
8	Discount Allowed A/C	₹ 40.00	
9	Drawings A/C	₹ 1,000.00	
10	Telephone Expense A/C	₹ 400.00	
11	Stationary A/C		₹ 60.00
12	Discount Received A/C	₹ 200.00	
13	Rent A/C	₹ 1,000.00	
14	Salary A/C	₹ 2,500.00	
15	Purchases A/C	₹ 22,000.00	
	Total	₹ 83,560.00	₹ 83,560.00

Generally all the assets and expenses have a debit side balance and capital A/C, Sales A/c, all have credit side balance.

7 Subsidiary Books

Since journalizing all transactions can be very tough, these subsidiary books are maintained. An entry of

similar account is made in these subsidiary books[10]. The different types of subsidiary books include purchase book, purchase return book, sales book, sales return book, journal proper, bills receivables book, etc.

1. **Purchases Book:** The purchases book keeps a record of all credit purchases made by the business. It does not record and cash transaction. The purchases book consists of date, particulars, ledger folio, inward invoice number and the amount.
2. **Sales Book:** This book keeps the record of all the credit sales made by the business. Again just like the purchases book it does not record the cash transactions. This has the same format as purchases book except for inward invoice number. Instead of that it has outward invoice number.
3. **Purchases Return Book:** This book record all transactions made when produce bought on credit are revisited to trader. These are accompanied by a debit note stating the reason why these goods are returned.
4. **Sales Return Book:** This book record all transactions made when the produce sold on credit are revisited by purchaser. These are accompanied by a credit note stating the reason why these goods are returned.

Examples:

PURCHASES BOOKS				
Date (2013)	Particulars	L/F	Inward Invoice Number	Amount
1-Apr	Modern Furniture			50000
8-Apr	K.G. Khosla & Co: 120000 with trade discount @ 20%: 120000 - 24000			96000
20-Apr	Shiv Dayal & Co.			100000
	Total			246000

SALES BOOKS				
Date (2013)	Particulars	L/F	Outward Invoice Number	Amount
11-Apr	Sanjay Khan			100000
	Total			100000

PURCHASES RETURNS BOOKS				
Date (2013)	Particulars	L/F	DEBIT NOTE	Amount
25-Apr	Shiv Dayal & Co.			10000
	Total			10000

SALES RETURNS BOOKS				
Date (2013)	Particulars	L/F	CREDIT NOTE	Amount
14-Apr	Sanjay Khan			20000
	Total			20000

8 Cash Book

A cash book be subsidiary book which records all proceeds and payments. It fulfills the purpose of both the journal and the ledger. Since a cash book be subsidiary book it records all transactions of similar interests which are then easier to post in a ledger, this makes it a journal. The cash book has a debit with a credit part just as a ledger [11][12]. It follows the same format as the ledger so there is no need to make a ledger for cash book.

The types of cash book include single column cash book, double column cash book, triple column cash book and petty cash book.

1. **Single column cash book:** A single column cash book is used to note just the transaction where either cash comes in or goes out. It does not note any other amount even if it occurs in the same transaction [18]. For example, a cash purchase of goods has been made and the company gets a discount, then when writing in a single column cash book, the purchases is noted but not the amount of discount.
2. **Double Column Cash Book:** The double column cash book also notes only cash transactions. It too has the same format as the ledger. Additionally it also has a discount column on both sides that notes the discount allowed or received.
3. **Triple Column Cash Book:** This Cash Book notes all cash, discount and bank transactions made. The bank column includes whatever amount has been received or paid by cheque [19]. Whenever a transaction includes both cash and bank, it is called a contra entry. Then the amount is recorded in both credit and debit side. For example cash is deposited into bank, then on the same date the same amount will be recorded in both debit and credit side under bank name and cash respectively [20].
4. **Petty Cash Book:** This cash book records all small and miscellaneous cash transactions like giving small donation, etc.

Examples:

Simple Cash Book									
Dr.					Cr.				
Date (2018)	Particulars	R. No.	L/F	Amt	Date (2018)	Particulars	V. No.	L/F	Amt
1-Oct	To Balance b/d			30000	8-Oct	By Insurance A/c			6000
4-Oct	To Shivam's A/c			12000	13-Oct	By Furniture A/c			13800
16-Oct	To Sales A/c			28000	17-Oct	By Purchase A/c			17400
27-Oct	To Sales A/c			18200	20-Oct	By Stationary A/c			1100
					24-Oct	By Rupam's A/c			12500
					28-Oct	By Rent A/c			2500
					30-Oct	By Salary A/c			3500
					30-Oct	By Balance c/d (Bal Fig.)			31400
				88200					88200
1-Nov	To Balance b/d			31400					

Two-Column Cash Book										
Dr.						Cr.				
Date (2018)	Particulars	R. No.	L/F	Discount	Cash	Date (2018)	Particulars	V. No.	L/F	Cash
1-Jun	To Balance b/d				6000	3-Jun	By Bank A/c			1800
1-Jun	To Soham's A/c				1000	9-Jun	By Divya's A/c			2000
10-Jun	To Sales A/c				1800	11-Jun	By Purchase A/c			1920
19-Jun	To Kapoor's A/c			40	1160	13-Jun	By Cash A/c			1000
20-Jun	To Bank A/c				800	25-Jun	By Furniture A/c			120
29-Jun	To Sales A/c				1400	26-Jun	By Bank A/c			320
						30-Jun	By Vidya A/c			1000
						30-Jun	By Balance c/d (Bal Fig.)			4000
				40	12160					80 12160
1-Jul	To Balance b/d				4000					

Three-Column Cash Book												
Dr.							Cr.					
Date (2018)	Particulars	R. No.	L/F	Discount	Cash	Bank	Date (2018)	Particulars	V. No.	L/F	Discount	Cash
1-May	To Balance b/d				4000	10000	5-May	By Bank A/c		C		3200
3-May	To Mamta's A/c			80	2000		7-May	By Divya's A/c			50	1400
4-May	To Sales A/c				3500		10-May	By Purchase A/c				2700
5-May	To Cash A/c		C			3200	13-May	By Cash A/c		C		3100
13-May	To Bank A/c		C		3100		15-May	By Furniture A/c				5600
18-May	To Suresh A/c			50	1650		21-May	By Bank A/c		C		1650
21-May	To Cash A/c		C			1650	24-May	By Vidya A/c			100	1900
25-May	To Sales A/c				6950		30-May	By Salary A/c				1850
							31-May	By Balance c/d (Bal Fig.)				13100
				130	21200	14850					150	21200
1-Jun	To balance b/d				13100	1550						14850

9 Conclusions

Accounting concepts are starting with the three Golden Rules which are the base of understanding and practicing double entry system. The next topic covered in accounting is accounting equations. The accounting equation is the foundation of any double entry accounting system [7]. The relationship between the entries can be summarized and incorporated into the liabilities and assets sides of balance sheet. A journal records the daily transactions made by any business so that it can be used for further reference like when creating a

ledger. Every transaction in the journal maintains at least two accounts in the double entry system. An entry made with more than two accounts is called a compound entry [10]. After journal entry, the accounting entries are posting into the ledger account that becomes the final entry. This is classified and summarized transactions of similar accounts. It takes the debit or credit balance of an account from the journal and finds the current balance sheet. Ledgers consist of two sides[12][13][14]. Account name be of the item that has affected that account. The next topic is trial

balance. A trial balance consists of the general ledger accounts which have either a credit or debit balance. This is made to check whether all the calculation done are correct or not [15] [16]. The credit and debit side of a trial balance are always suppose to match. This does not need to have a date column as the last balance of the ledger account is posted. Since journalizing all transactions can be very tough, these subsidiary books are maintained. An entry of similar account is made in these subsidiary books [3]. The cash book consists of two side of data entry system as like the ledger account in which the cash transaction details are incorporated and balanced. It follows the same format as the ledger so there is no need to make a ledger for cash book.

Limitations

Accounting transactions and record keeping system especially double entry system follows the specific rules. Even though the authors tries to deliver the presentations in different ways to simplify the concepts and their applications, the fundamental golden rules, formats and aspects could not change. The limitation of the present study also considered the existing text book contents and standard format.

Future Implications

The present study will encourage the students, research scholars and business practitioners with respect to fundamental concepts and practical applications. The computerized accounting system also can be guided by the knowledge of double entry system and assists for managerial decision-making [17].

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