

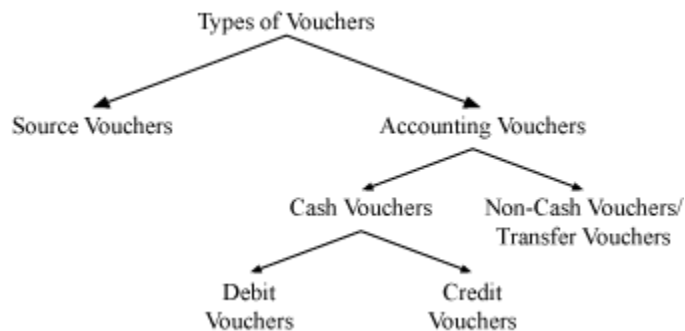
CHAPTER 3

RECORDING of TRANSACTIONS- I

❖ Source Documents

These are those documents which authenticates the occurrence and details of the transactions. For example, Cash memos, Deposit receipts, bills, etc.

❖ Types of Vouchers



- **Source Vouchers**

When the source documents are used as evidences to check the authenticity of the transactions, these are normally known as source vouchers.

- **Accounting Vouchers**

These are prepared on the basis of source vouchers to analyse the transaction and its effect on different affected accounts.

- **Transfer Vouchers**

Transfer vouchers are prepared for non-cash transactions like, credit sales, credit purchases, etc.

- **Cash Vouchers**

These are prepared for cash transactions like, cash purchases, cash sales, etc.

- **Debit Vouchers**

These are prepared for *payments in cash and through cheques* like, cash purchases, etc.

- **Credit Vouchers**

These are prepared for *payments received in cash and through cheques* like, cash sales, etc.

❖ **Accounting Equation**

It refers to the mathematical statement (or equation) that expresses the equality between assets and sum total of liabilities and capital of a business.

Algebraically, it is expressed as:

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

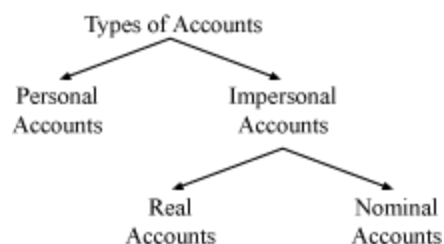
As accounting equation shows the effect of transaction on the either side of the balance sheet, so it is also known as balance sheet equation.

❖ **Classification of Accounts**

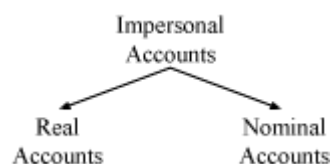
- Traditional Classification of Accounts (English System)
- Modern Classification of Accounts (American System)

❖ **Traditional Classification of Accounts (English System)-**

According to this approach, accounts are divided in two broad categories:



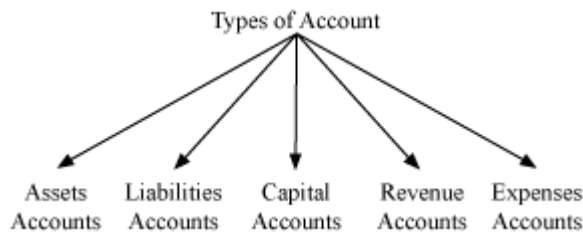
- **Personal Account** – These accounts are named after the name of the persons or organisations like, Ram Account, Shyam Trader’s Account, etc.
- **Impersonal Account** – These accounts are not named after the name of persons or organisations. Impersonal accounts are classified as:



- **Real Account** – These accounts are related to non-living things (tangible or intangible) like machinery, furniture, goodwill.
- **Nominal Account** – These accounts are related to revenues, expenses, gains and losses like, Sales Account, Purchases Account, Salary Account, Commission Paid Account, etc.

❖ **Modern Classification of Accounts (American System)-**

According to this approach, accounts are broadly divided into five categories.



❖ **Rules of Debit and Credit**

Every transaction is recorded in the books of account with dual aspect, i.e. debit and credit. The rules of debit and credit depend on the classification of accounts.

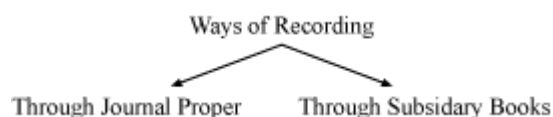
Rules of Debit and Credit

| On the basis of <i><u>Traditional Classification of Accounts</u></i> (English System) | On the basis of <i><u>Modern Classification of Accounts</u></i> (American System) |
|---|--|
| Rules for Personal Accounts <ul style="list-style-type: none">• Debit- The Receiver• Credit- The Giver | Rules for Assets Accounts <ul style="list-style-type: none">• Debit, if assets increase• Credit, if assets decrease |
| Rules for Real Accounts <ul style="list-style-type: none">• Debit- What Comes In• Credit-What Goes Out | Rules for Liabilities Accounts <ul style="list-style-type: none">• Debit, if liabilities decrease• Credit, if liabilities increase |
| Rules for Nominal Account <ul style="list-style-type: none">• Debit- All Expenses and Losses• Credit- All Incomes and Gains | Rules for Capital Accounts <ul style="list-style-type: none">• Debit, if capital decreases• Credit, if capital increases |
| | Rules for Expenses Account <ul style="list-style-type: none">• Debit, if expenses increase• Credit, if expenses decrease |
| | Rules for Revenue Account <ul style="list-style-type: none">• Debit, if revenue decreases• Credit, if revenue increases |

❖ **Books of Original entry**

This refers to the books in which transactions are recorded in the chronological order of their occurrence with the help of source document. This book is also called Journal. The books of original entry forms the basis of all further accounting practices.

- **Journalising** refers to the process of recording transaction in Journal.



- **Format of Journal**

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|------|-------------|------|-----------------------|------------------------|
| | | | | |

❖ **Cash Discount** – It refers to the discount given at the time of receiving and making payment of cash. Generally, cash discount is allowed for quick payments.

- If discount is allowed at the time of making cash or cheque payment, then it is known as discount received.
- If discount is allowed at the time of receiving cash or cheque payment, then it is known as discount allowed.

❖ **Trade Discount** – It is generally allowed by the wholeseller to the retailers on list price of goods and services at the time of sale.

NOTE: Trade Discount is not shown in the books, i.e. sales are recorded in the books after deducting Trade Discount. For example, sold goods list price of Rs 2,000 at 10% Trade Discount

| | | | |
|--|-----|-------|-------|
| Cash A/c | Dr. | 1,800 | |
| To Sales A/c | | | 1,800 |
| (Goods sold list price Rs 2,000 at 10% Trade Discount) | | | |

❖ **Trade Discount and Cash Discount**

When both Trade Discount and Cash Discount is mentioned in the question, then first Trade Discount will be deducted from the list price of the goods and then Cash Discount will be provided on the amount of cash paid. For example:

- Sold goods list price of Rs 2,000 at 10% Trade Discount and 5% Cash Discount

| | | | |
|----------------------|-----|-------|------|
| Cash A/c | Dr. | 1,710 | |
| Discount Allowed A/c | Dr. | 90 | |
| To Sales A/c | | | 1800 |

Recording of Transactions – I

- Sold goods to Ashok Rs 2,000 at 10% Trade Discount and 5% Cash Discount he paid half of the amount immediately

| | | | |
|--------------|-----|-------|-------|
| Ashok A/c | Dr. | 1,800 | |
| To Sales A/c | | | 1,800 |

(Goods sold to Ashok of list price Rs 2,000 at 10% Trade Discount)

| | | | |
|----------------------|-----|-----|-----|
| Cash A/c | Dr. | 855 | |
| Discount Allowed A/c | Dr. | 45 | |
| To Ashok A/c | | | 900 |

(Cash received from Ashok 50% of the amount due from him and allowed him 5% Cash Discount)

❖ Some Important Entries

- **Bad Debt**

| | | |
|--------------|-----|--------------------------------|
| Bad Debt A/c | Dr. | (When the whole amount is bad) |
| To Debtors | | |

| | | |
|----------------|-----|------------------------------|
| Cash/ Bank A/c | Dr. | |
| Bad Debt A/c | Dr. | (When a part of debt is bad) |
| To Debtors | | |

- **Purchases**

a) Goods drawn by proprietor for personal use

| | | |
|------------------|-----|--|
| | Dr. | |
| To Purchases A/c | | |

b) Goods given as charity

| | | |
|------------------|-----|--|
| Charity A/c | Dr. | |
| To Purchases A/c | | |

c) Goods distributed as free sample

| | | |
|-------------------|-----|--|
| Advertisement A/c | Dr. | |
| To Purchases A/c | | |

d) Good lost by fire or theft

| | | |
|-------------------------------|-----|--|
| Goods lost by fire/ theft A/c | Dr. | |
| To Purchases A/c | | |

| | | |
|----------------------------------|-----|----------------------------|
| Profit and Loss A/c | Dr. | (If goods are not insured) |
| To Goods lost by fire/ theft A/c | | |

Or,

| | | |
|----------------------------------|-----|-------------------------------|
| Profit and Loss A/c | Dr. | |
| Insurance Co. A/c | Dr. | (If goods are partly insured) |
| To Goods lost by fire/ theft A/c | | |

Or,

| | | |
|----------------------------------|-----|------------------------------|
| Insurance Co. A/c | Dr. | (If goods are fully insured) |
| To Goods lost by fire/ theft A/c | | |

e) *Goods used to make an Asset*

| | |
|------------------|-----|
| Asset A/c | Dr. |
| To Purchases A/c | |

f) *Goods given to the employee in consideration of salaries or wages*

| | |
|---------------------|-----|
| Salaries/ Wages A/c | Dr. |
| To Purchases A/c | |

• Entries related to Assets

a) *Purchases of Assets*

| | | |
|---------------|-----|------------------------------|
| Assets A/c | Dr. | (If it is purchased on cash) |
| To Cash/ Bank | | |

Or,

| | | |
|-------------------------|-----|--------------------------------|
| Asset A/c | Dr. | (If it is purchased on credit) |
| To Creditors for Assets | | |

b) *Depreciation on Assets*

| | | |
|------------------|-----|---|
| Depreciation A/c | Dr. | (If accounts are maintained without provision for depreciation) |
| To Assets A/c | | |

Or,

| | | |
|---|-----|--|
| Depreciation A/c | Dr. | (Provision for depreciation is maintained) |
| To Provision for Depreciation/ Accumulated Depreciation A/c | | |

Recording of Transactions – I

c) Sale of Assets

| | | |
|-------------------------|-----|-------------------------------------|
| Cash/ Bank/ Debtors A/c | Dr. | (If Asset is sold without any loss) |
| To Assets A/c | | |

Or,

| | | |
|------------------------|-----|----------------------------|
| Cash/ Bank/ Debtor A/c | Dr. | (If asset is sold at loss) |
| Profit and Loss A/c | Dr. | |
| To Assets A/c | | |

d) Expenditure on Purchase or Installation of Assets

| | |
|------------------------|-----|
| Assets A/c | Dr. |
| To Cash/ Bank/ Debtors | |

e) Expenses Paid in advance/ Prepaid Expenses/ Unexpired expenses

| | |
|----------------------|-----|
| Prepaid expenses A/c | Dr. |
| To Expenses A/c | |

f) Accrued Income/ Income Outstanding/ Income due but not received

| | |
|--------------------|-----|
| Accrued Income A/c | Dr. |
| To Income A/c | |

g) Unaccrued Income/ Advance Income/ Income received but not due

| | |
|-------------------------|-----|
| Income A/c | Dr. |
| To Unaccrued Income A/c | |

Or,

| | | |
|-------------------------|-----|------------------------------|
| Cash/ Bank/ Debtors A/c | Dr. | (If Asset is sold at profit) |
| To Assets A/c | | |
| To Profit and Loss A/c | | |

• Income Tax

| | | |
|---------------|-----|-------------------------|
| Drawings A/c | Dr. | (If Income tax is paid) |
| To Cash/ Bank | | |

Or,

| | | |
|-----------------------|-----|------------------------|
| Drawings A/c | Dr. | (If income tax is due) |
| To Income Tax Payable | | |

- ***Bad debt recovered***

| | |
|---------------------------|-----|
| Cash/ Bank A/c | Dr. |
| To Bad Debt Recovered A/c | |

- *Outstanding Expenses/ Expenses Payable/ Expenses due*

Expenses A/c Dr.
To Expenses Outstanding A/c

❖ *Value Added Tax*

- Purchase of goods with VAT

| | |
|------------------------------|-----|
| Purchases A/c | Dr. |
| VAT Paid A/c | Dr. |
| To Cash/ Bank/ Creditors A/c | |

- Sale of goods and VAT collected

| | |
|-------------------------|-----|
| Cash/ Bank/ Debtors A/c | Dr. |
| To Sales A/c | |
| To VAT Collected A/c | |

- Adjustment between VAT collected and paid

| | | |
|-------------------|-----|--------------|
| VAT Collected A/c | Dr. | (adjustment) |
| To VAT Paid A/c | | |

- VAT paid

VAT Collected A/c Dr.
To Cash/ Bank A/c

❖ *Books of Final Entry*

Ledger Accounts are known as Books of Final Entry as it is the final place of recording the financial transactions once they are recorded in the journal.

- A Ledger is a collection of different accounts of assets, liabilities, capital, revenue and expenses.
- Format of Ledger

| Dr. | | | | Name of the Account | | | | Cr. | | | |
|------|-------------|------|-------------|---------------------|-------------|------|-------------|------|-------------|------|-------------|
| Date | Particulars | J.F. | Amount (Rs) | Date | Particulars | J.F. | Amount (Rs) | Date | Particulars | J.F. | Amount (Rs) |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |

❖ ***Ledger Posting***

STEPS INVOLVED IN POSTING FROM JOURNAL TO LEDGERS

***POSTING OF ACCOUNT
DEBITED IN TRANSACTION***

- Open the concerned Account
- Write the date of transaction, in the date column on the debit side of the account
- Write the name of account which has been credited in the Journal in the particulars column on the debit side
- Write the page number of Journal in Folio column on debit side
- Record the amount in the amount column on the debit side

***POSTING OF ACCOUNT
CREDITED IN TRANSACTION***

- Open the concerned Account
- Enter the date of transaction, in date column on the credit side of account
- Write the name of account which has been debited in the Journal in the particulars on the credit side
- Write the page number of Journal in Folio column on credit side
- Record the amount in the amount column on the credit side

❖ *Closing and Balancing of Ledger Accounts*

