### Chapter-3

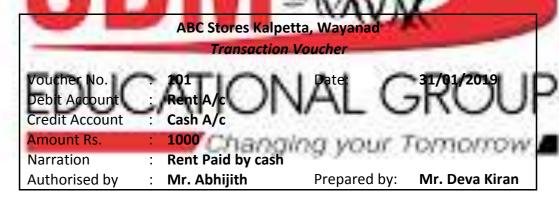
## Recording of Transactions - I

**Business Transactions and Source Documents** – The first stage in the process of accounting is recording of business transactions. In order to record the same there must be some documents in support of it. The documents on the basis of which transactions are recorded in the books of accounts are known as source documents. They provide information about the nature of transactions and also the actual amount involved in it. The verifiable objective principle of accounting requires that each recorded transactions must have a

supporting document as evidence.

The source document is the origin of a transaction and it initiates the accounting process. Invoices, vouchers, receipts, cash memos, bills etc. are the examples.

Accounting Vouchers – Vouchers are classified as cash vouchers, debit vouchers, credit vouchers, journal vouchers etc. A transaction with one debit and one credit is a smalle transaction and the voucher prepared for it is known as **Transaction Voucher**.



Transactions with multiple debits / credits and one debit / credit are called compound transactions. Voucher prepared for such transaction is **compound voucher**. A compound voucher may be Debit Voucher or Credit Voucher.

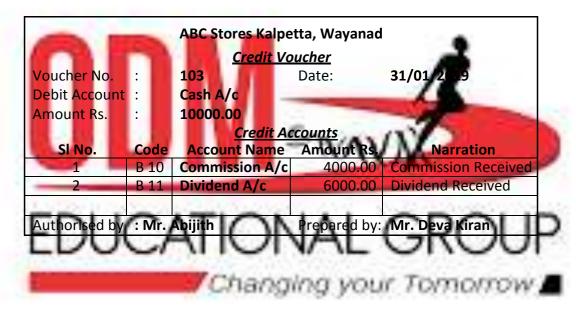
**Debit Voucher** – A voucher which records for a transaction which has two or more debits and one credit is called Debit Voucher. Usually it is used for expenses or expenditures.

| ABC Stores Kalpetta, Wayanad |                                    |                 |            |                     |  |  |  |  |  |
|------------------------------|------------------------------------|-----------------|------------|---------------------|--|--|--|--|--|
| <u>Debit Voucher</u>         |                                    |                 |            |                     |  |  |  |  |  |
| Voucher No.                  | Voucher No. : 102 Date: 31/01/2019 |                 |            |                     |  |  |  |  |  |
| Credit Account               | :                                  |                 |            |                     |  |  |  |  |  |
| Amount Rs. : <b>15000.00</b> |                                    |                 |            |                     |  |  |  |  |  |
|                              |                                    | <u>Debit Ad</u> | ccounts    |                     |  |  |  |  |  |
| SI                           | Cod                                | Account         | Amount Rs. | Narration           |  |  |  |  |  |
| No.                          | е                                  | Name            |            |                     |  |  |  |  |  |
| 1                            | A1                                 | Furniture A/c   | 5000.00    | Furniture purchased |  |  |  |  |  |
| 2                            | A2                                 | Machinery A/c   | 10000.00   | Machinery purchased |  |  |  |  |  |
|                              |                                    |                 |            |                     |  |  |  |  |  |

**Credit Voucher** – A voucher which records for a transaction with two or more credits and one debit is called Credit Voucher. It is used to record incomes and gains.

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**Journal Voucher** - Transactions with multiple debits and multiple credits are called complex transactions and the accounting voucher prepared for such transaction is known as Complex Voucher/Journal Voucher

| ABC Stores Kalpetta, Wayanad            |  |                |             |                             |  |  |  |  |  |
|---|--|----------------|-------------|-----------------------------|--|--|--|--|--|
| <u>Journal Voucher</u>                  |  |                |             |                             |  |  |  |  |  |
| Voucher No.                             | :  | 104            | Date:       | 31/01/2019                  |  |  |  |  |  |
| Amount Rs.                              | :  | 10000.00       |             |                             |  |  |  |  |  |
|   |  | <u>Deb</u>     | it Accounts |                             |  |  |  |  |  |
| SI Cod Account Name Amount Rs. Narratio |  |                |             |                             |  |  |  |  |  |
| No.                                     | е  |                |             | n                           |  |  |  |  |  |
| 1                                       | A 3  | Cash A/c       | 4000.00     | Commission Received by cash |  |  |  |  |  |
| 2                                       | A 4  | Bank A/c       | 6000.00     | Dividend Received by cheque |  |  |  |  |  |
|   |  |                |             |                             |  |  |  |  |  |
|   |  | <u>Cred</u>    | it Accounts |                             |  |  |  |  |  |
| SI                                      | Cod  | Account Name   | Amount Rs.  | Narratio                    |  |  |  |  |  |
| No.                                     | е  |                |             | n                           |  |  |  |  |  |
| 1                                       | B 12   | Commission A/c | 4000.00     | Commission Received by cash |  |  |  |  |  |
| 2                                       | B 13   | Dividend A/c   | 6000.00     | Dividend Received by cheque |  |  |  |  |  |
|   |  |                |             |                             |  |  |  |  |  |
| Authorised by                           | Authorised by: Mr. Abijith Prepared by: Mr. Deva Kiran |                |             |                             |  |  |  |  |  |

Accounting equation – It is a statement of equality between the assets and abbilities including capital. Therefore,

Assets = Equities

Equities include both owner's equity or **capital** and creditor's equity or **liabilities**. Therefore, the accounting equation may be as follows:

Harryman from

A=C+L C=A-L L=A-C A-C

A-C-L=0

A – Assets C – Capital

The accounting equation is also called as the Balance Sheet equation as it gives the fundamental relationship among the components of a Balance sheet ie: assets, liabilities and capital.

At the time of recording transactions, the test of equality is always kept in mind. That means, every transaction is expressed in terms of accounting equation i.e. Assets = Capital + Liabilities.

Rules for Debit and Credit – Every transaction has a dual aspect – the receiving aspect is called Debit and the giving aspect is called Credit. In order to record transactions in the books of original entry, it is necessary to identify the debit and credit aspects of each transaction. This is done in accordance with the rules of debit and credit applicable to different types of accounts. According to modern approach business transactions are divided into five categories, they are Assets, Liabilities, Capital, Income (Revenue) and Expenses.

The rules for debit and credit in respect of various categories are given below:

| Type of Account | If Debited | If Credited |
|-----------------|------------|-------------|
| 1. Assets       | Increase   | Decrease    |
| 2. Capital      | Decrease   | Increase    |
| 3. Liability    | Decrease   | Increase    |
| 4. Income       | Decrease   | Increase    |
| 5. Expense      | Increase   | Decrease    |

\*\*Traditional approach for rules of debit and credit – Under this approach, the accounts are classified into three, namely Personal Account, Real Account and Nominal Account.

| Type of account  | Debit                   | Credit                |
|------------------|-------------------------|-----------------------|
| Personal account | The receiver            | The giver             |
| Real account     | What comes in           | What goes out         |
| Nominal account  | All expenses and losses | All incomes and gains |

Personal Account – It includes <u>natural persons or physical persons</u> accounts like, Rajan's Account, Sobha's account, capital account, drawings account, bank account, and <u>accounts of artificial or legal persons</u> such as, ABC Paper Mart account, Omega Sports Club account, Income tax department account, KSEB account etc. and also <u>representative persons account</u> like outstanding expenses account, prepaid expenses account, accrued income account, outstanding salary account etc.

Real Account – It includes the accounts of tangible and intangible assets such as, goods account, buildings, furniture, goodwill, patent, copyrights, trade mark account etc.

**Nominal Account** – These are accounts which record transactions relating to expenses, losses, incomes and gains. These accounts are called nominal accounts, as they exist only in name and cannot be see or touched. It includes expenses accounts like Salaries, paid, rent paid, commission paid, bad debts etc. and revenues or incomes like discount received, interest received, commission received, profit and loss account etc.

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**Account** – An account is a formal record of all transactions relating to changes in a particular item'. It brings together transaction of similar nature at one place in a book called the **ledger**. Traditionally ledger account is prepared in "T" format having two equal sides. The left side is called Debit side and the right side is called Credit side. The process of transferring entries recorded in the journal to the ledger is called **Posting**.

# Format of an account

Account

Dr Cr

| Date | Particulars | Folio | Amount<br>Rs. | Date | Particulars | Folio | Amount<br>Rs. |
|------|-------------|-------|---------------|------|-------------|-------|---------------|
|      |             |       |               |      |             |       |               |
|      |             | 1 1/4 | -             |      | 201         |       |               |

Folio = Page number

**Double entry book keeping** – The recording of debit aspect and the credit aspect of a transaction in the books of accounts is called double entry book keeping. In this system every transaction affects at least two accounts or each and every transaction has at least two aspects – a receiving aspect and a giving aspect (debit and credit).

Accounting under double entry system is divided into two stages –

- 1. Preparation of Journal.
- 2. Preparation of Ledger.

**Journal** – It is the prime book or **book of original entry** or book of prime entry in which transactions are recorded in the order in which they occur. It is the book of accounting transaction in a chronological order.

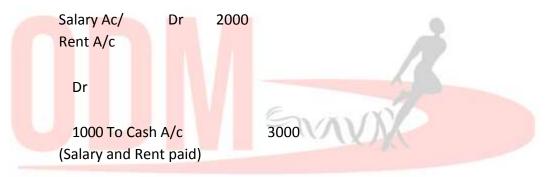
The process of recording transaction in a journal is termed as **journalizing** and the transactions entered in the journal are called **journal entry**. It is also known as the day book because it records daily transactions in the order in which they took place.

### Format of a Journal

| Date | Particulars | L/F | Debit<br>Amount Rs. | Credit<br>Amount Rs. |
|------|-------------|-----|---------------------|----------------------|
|      |             |     |                     |                      |
|      |             |     |                     |                      |
|      |             |     |                     |                      |

L/F = Ledger Folio (page number in ledger)

**Compound entry** – When there are two or more transactions of similar nature occurring on the same day and the entry for the same have more than one debit or credit, it is called compound entry. For example, Salary paid Rs. 2000 and rent paid Rs. 1000 on 1-1-2014:



**Discounts** – Discounts are the deduction allowed either on the selling price or on the amount due.

- Trade Discount When the goods are purchased in bulk quantities, the seller may
  give concession in price to the purchases. The concessions so given by the seller to
  the buyer is called trade discount or quantity discount. The trade discount is
  deducted from the actual price and the net amount is shown in invoice. Therefore,
  trade discount will not come in the books of accounts.
- 2. Cash Discount It is a deduction granted by the creditor to the debtor as an inducement for making prompt payment. This discount is a loss to the creditor and a gain to the debtor. It will be shown in the books of accounts.

E.g. Cash received from Jayaram Rs.4900 and allowed his discount Rs.100

| Cash             | Dr | 4900 |      |
|------------------|----|------|------|
| Discount allowed | Dr | 100  |      |
| To Jayaram       |    |      | 5000 |

### **Banking Transactions**

| Transactions   | Debit          | Credit           |
|--|----------------|------------------|
| 1. Cash deposited into bank  | Bank A/c       | Cash A/c         |
| 2. Cash withdrawn from bank  | Cash           | Bank             |
| 3. Cheque issued to a person   | Person's A/c   | Bank             |
| 4. Cheque received from a person (Cheque received is to be                       |                |                  |
| treated as cash received – it may not affect our bank                            | Cash           | Person's A/c     |
| account if the amount is collected from that person's bank directly by us)       |                |                  |
| <ol><li>Cheque received from a person deposited in bank for collection</li></ol> | Bank           | Cash             |
| 6. A customer remits cash directly to our bank a/c                               | Bank           | Customer A/c     |
| 7. Bank allows interest on deposit balance                                       | Bank           | Interest         |
|  | Dank           | received         |
| 8. Bank charges charged by bank  | Bank           | Bank             |
|  | charges        | Dank             |
| 9. Cheque received from a person deposited with bank                             | Person's a/c   | Bank             |
| for c <mark>ollection</mark> is <mark>dish</mark> onoured                        | T CISOTI S U/C | -                |
| 10. If discount has already been allowed while receiving                         |                | Bank A/c         |
| cheq <mark>ue</mark> an <mark>d l</mark> ate <mark>r di</mark> shonoured         | Person's A/c   | Discount A/c (to |
| SIMILAR  |                | write back       |
|  |                | the              |
|  |                | discount)        |

**Ledger –** <u>A ledger is a collection of accounts</u>. It is the main or principal book of account of a business. It is a book where transactions of similar nature are grouped together in one place in the form of an account. As all the transactions are finally entered in this book, it is also called **book of final entry** or secondary entry whereas journal is a book original entry.

Classification of ledger accounts – Ledger accounts are put into five categories namely, assets, liabilities, capital, revenues/gains and expenses/losses. All these may further be put into two groups, i.e. permanent accounts and temporary accounts. All permanent accounts are balanced and carried forward to the next accounting period. The temporary accounts are closed at the end of the accounting period by transferring them to the trading and profit and loss account. All permanent accounts appear in the balance sheet. Thus all assets, liabilities and capital accounts are permanent accounts and all revenues and expense accounts are temporary accounts.

### Differences between Journal and ledger

| Journal  | Ledger  |
|--|---|
| 1. It is a book of first entry as all              | It is a book of final entry as all transactions are |
| transactions are recorded first in the             | recorded finally in the ledger.                     |
| journal.   |   |
| Transactions are recorded in a chronological order | Transactions are recorded in an analytical manner   |
| 3. Transactions are recorded on the basis          | Posting is done on the basis of journal (book       |
| of source documents                                | of original entry)                                  |
| 4. Balancing is not done                           | All ledger accounts are balanced                    |
| 5. The process of recording entries in the         | The process of recording entries in the ledger is   |
| books of original entry is called                  | called posting                                      |
| journalizing                                       |   |

**Posting** – The process of transferring the entries recorded in the journal into appropriate accounts in the ledger is called posting.

Example: Cash Received from Abhijith Rs.1000

Journal entry: Cash A/c

Dr

1000 To Abhijith

The above entry will be posted to both the cash account and Abhijith account as follows:

### Cash

### Account

| Date | Particulars     | J.F/k | Amount | Date | Particulars | J.F | Amount |
|------|-----------------|-------|--------|------|-------------|-----|--------|
|      | To Abhijith A/c |       | 1000   |      |             |     |        |
|      |                 |       |        |      |             |     |        |

1000

### **Abhijith**

#### Account

| Date | Particulars | J.F | Amount | Date | Particulars | J.F | Amount |
|------|-------------|-----|--------|------|-------------|-----|--------|
|      |             |     |        |      | By Cash A/c |     | 1000   |
|      |             |     |        |      |             |     |        |

**Balancing an account** – The process of ascertaining the balance of each and every account in the ledger at the end of accounting period (at the end of each month or any time if required) is called balancing. The difference between the two sides of an account is known as account balance. If the debit side is heavier than the credit side, it shows a debit balance. If the credit side is heavier than the debit side, it means a credit balance.

**Opening and Closing balances** – While closing the ledger accounts, we can ascertain the balances – either debit or credit balances – at the end of the accounting period. These are known as closing balances. This will be the first item in the next accounting period as the opening balance in that account.

#### Accounts to be maintained under GST

- Input CGST a/c Tax paid on purchase of goods intra-state treated as asset advance tax to be set off against Output CGST.
- Output CGST a/c Tax collected on sale of goods intra-state treated as liability –
  payable to Central Govt.
- Input SGST a/c Tax paid on purchase of goods intra-state treated as asset advance tax to be set off against Output SGST.
- Output SGST a/c Tax collected on sale of goods intra-state treated as liability –
  payable to State Govt.
- Input IGST a/c Tax paid on purchase of goods inter-state treated as asset advance tax to be deducted from Output IGST.
- Output IGST a/c Tax collected on sale of goods inter-state treated as liability payable to Central Govt.
- Electronic Cash Ledger to be maintained on Government GST portal to pay GST.

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