

Class 11

Accountancy

Chapter 3

Recording of Transactions - 1

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

Business Transactions and Source Documents

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

Business Transactions and Source Documents

The verifiable objective principle of accounting requires that each recorded transactions must have a supporting document as evidence

Cash Memos

The source document is the origin of a transaction and it initiates the accounting process

Eg: Invoices, vouchers, receipts, cash memos, bills etc.

Accounting Vouchers

Accounting Vouchers

Vouchers are classified as cash vouchers, debit vouchers, credit vouchers, journal vouchers etc.

ABC Stores Kalpetta, Wayanad			
<i>Transaction Voucher</i>			
Voucher No.	: 101	Date:	31/01/2019
Debit Account	: Rent A/c		
Credit Account	: Cash A/c		
Amount Rs.	: 1000		
Narration	: Rent Paid by cash		
Authorised by	: Mr. Abhijith	Prepared by:	Mr. Deva Kiran

A transaction with one debit and one credit is a simple transaction and the voucher prepared for it is known as
Transaction Voucher

Accounting Vouchers

Transactions with multiple debits / credits and one debit / credit are called compound transactions

ABC Stores Kalpetta, Wayanad				
<u>Debit Voucher</u>				
Voucher No.	:	102	Date:	31/01/2019
Credit Account	:	Cash A/c		
Amount Rs.	:	15000.00		
<u>Debit Accounts</u>				
Sl No.	Code	Account Name	Amount Rs.	Narration
1	A1	Furniture A/c	5000.00	Furniture purchased
2	A2	Machinery A/c	10000.00	Machinery purchased
Authorised by		: Mr. Abijith	Prepared by:	Mr. Deva Kiran

Voucher prepared for such transaction is **compound voucher**

A compound voucher may be Debit Voucher or Credit Voucher

Accounting Vouchers

Debit Voucher

A voucher which records for a transaction which has two or more debits and one credit is called Debit Voucher

ABC Stores Kalpetta, Wayanad				
<u>Debit Voucher</u>				
Voucher No.	:	102	Date:	31/01/2019
Credit Account	:	Cash A/c		
Amount Rs.	:	15000.00		
<u>Debit Accounts</u>				
Sl No.	Code	Account Name	Amount Rs.	Narration
1	A1	Furniture A/c	5000.00	Furniture purchased
2	A2	Machinery A/c	10000.00	Machinery purchased
Authorised by		: Mr. Abijith	Prepared by:	Mr. Deva Kiran

Usually it is used for expenses or expenditures

Accounting Vouchers

Credit Voucher

A voucher which records for a transaction with two or more credits and one debit is called Credit Voucher

ABC Stores Kalpetta, Wayanad				
<u>Credit Voucher</u>				
Voucher No.	:	103	Date:	31/01/2019
Debit Account	:	Cash A/c		
Amount Rs.	:	10000.00		
<u>Credit Accounts</u>				
Sl No.	Code	Account Name	Amount Rs.	Narration
1	B 10	Commission A/c	4000.00	Commission Received
2	B 11	Dividend A/c	6000.00	Dividend Received
Authorised by	:	Mr. Abijith	Prepared by:	Mr. Deva Kiran

It is used to record incomes and gains

Accounting Vouchers

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>Debit Accounts</u>				
Sl No.	Code	Account Name	Amount Rs.	Narration
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>Credit Accounts</u>				
Sl No.	Code	Account Name	Amount Rs.	Narration
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	:	Mr. Abijith	Prepared by:	Mr. Deva Kiran

Rules for Debit and Credit

Every transaction has a dual aspect

The receiving aspect is called Debit and the giving aspect is called Credit



**Receiving &
Giving Aspects**

In order to record transactions in the books of original entry, it is necessary to identify the debit and credit aspects of each transaction

Rules for Debit and Credit

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.

Rules for Debit and Credit











Type of Account	If Debited	If Credited
Asset	Increases	Decreases
Expenses	Increases	Decreases
Capital	Decreases	Increases
Liabilities	Decreases	Increases
Incomes	Decreases	Increases

Rules for Debit and Credit

ACCOUNT	INCREASED BY	DECREASED BY
Assets	Debit	Credit
Expenses	Debit	Credit
Liabilities	Credit	Debit
Equity	Credit	Debit
Revenue	Credit	Debit

Rules for Debit and Credit

Debits/Credits Rules

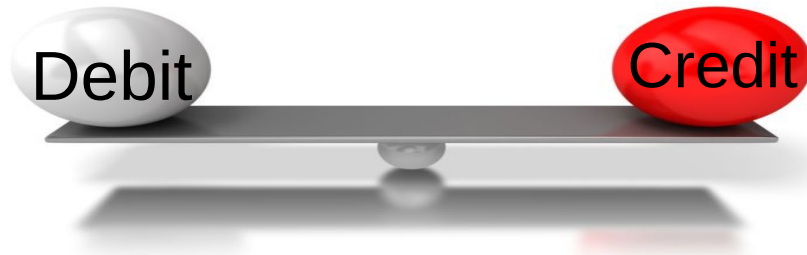
	<u>Balance Sheet</u>			<u>Income Statement</u>	
	<u>Asset</u>	=	<u>Liability</u> + <u>Equity</u>	<u>Revenue</u>	- <u>Expense</u>
Debit			 		
Credit			 		

Double Entry Book Keeping

The background features a gradient from dark blue on the left to deep purple on the right. A horizontal line of light separates the upper and lower halves. On the right side, there are dynamic light trails and a trail of small, glowing particles that curve upwards and to the right. The top left corner is filled with a field of small, white, star-like dots.

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)

Book Keeping

Book keeping here means, keeping the books of accounts in a systematic manner



Book Keeping

Accounting under double entry system is divided into two stages:

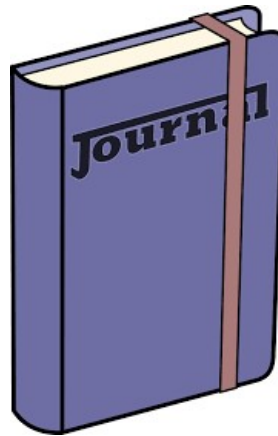
1. Preparation of Journal.
2. Preparation of Ledger.



Books of Original Entry **(Journal)**

Journal

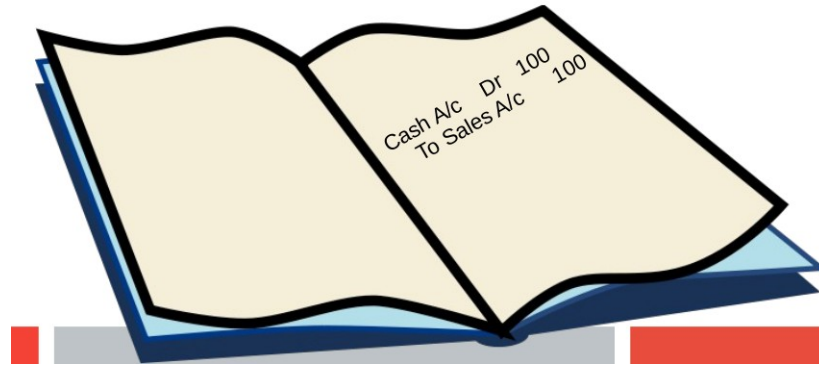
It is the book of prime entry in which transactions are recorded in the order in which they occur



It is the book of accounting transaction in a chronological order

Journal

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 Amount Rs.	Credit Amount Rs.

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

Simple Journal Entry

Journal Entry is the basic record of a business transaction

When only two accounts are involved to record a transaction it is called a **simple journal entry**

E.g: **Cash** received from **Raju** Rs.1000

Cash A/c	Dr	1000	
To Raju A/c			1000

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**

E.g: Salary paid Rs.2000 and Rent paid Rs. 1000 on 1-1-2015

Salary	A/c	Dr	2000	
Rent	A/c	Dr	1000	
	To Cash	A/c		3000

Account

An account is a formal record of all transactions relating to changes in a particular item

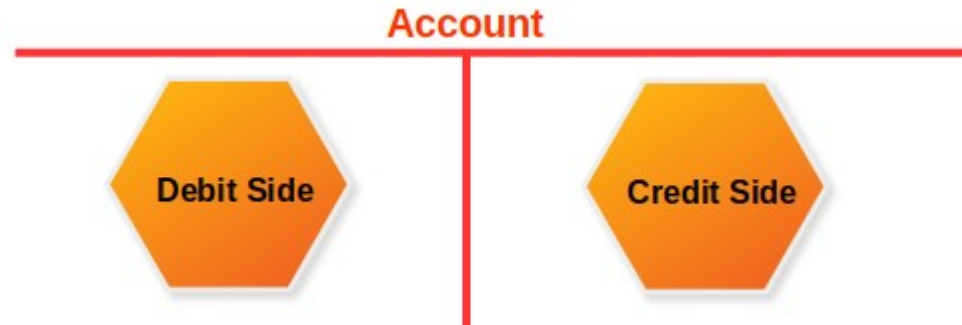
Purchase Account

It brings together transaction of similar nature at one place in a book called the **ledger**

Account

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 Rs.	Date	Particulars	Folio	Amount Rs.

* Folio – Page number in journal

Posting

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

JOURNAL				
Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
	Cash A/c Dr. To Sales A/c		1000	1000

Cash A/c			
Particulars	Amount	Particulars	Amount
To Sales	1000		

Sales A/c			
Particulars	Amount	Particulars	Amount
		By Cash	1000

Balancing an account

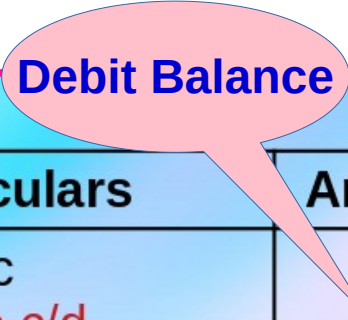
The process of ascertaining the balance of each and every account in the ledger at the end of accounting period (at the end of each month or any time if required) is called balancing

Cash A/c			
Dr		Cr	
Particulars	Amount	Particulars	Amount
To Sales	1000	By Rent A/c	500
To Kiran	2000	By Balance c/d	2500
	3000		3000

Balancing an account

The difference between the two sides of an account is known as account balance

Cash A/c			
Dr		Cr	
Particulars	Amount	Particulars	Amount
To Sales	1000	By Rent A/c	500
To Kiran	2000	By Balance c/d	2500
	3000		3000



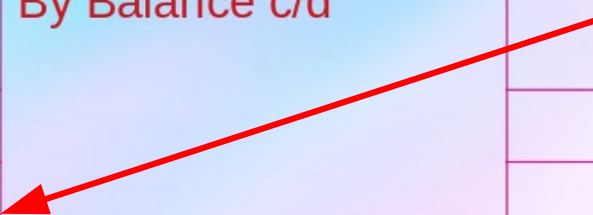
If the debit side is heavier than the credit side, it shows a debit balance

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

Dr		Cash A/c		Cr	
Particulars	Amount	Particulars	Amount	Particulars	Amount
To Sales	1000	By Rent A/c	500		
To Kiran	2000	By Balance c/d	2500		
	3000				3000
To Balance b/d	2500				



These are known as closing balances

This will be the first item in the next accounting period as the opening balance in that account



Ledger

Ledger

A ledger is a collection of accounts

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

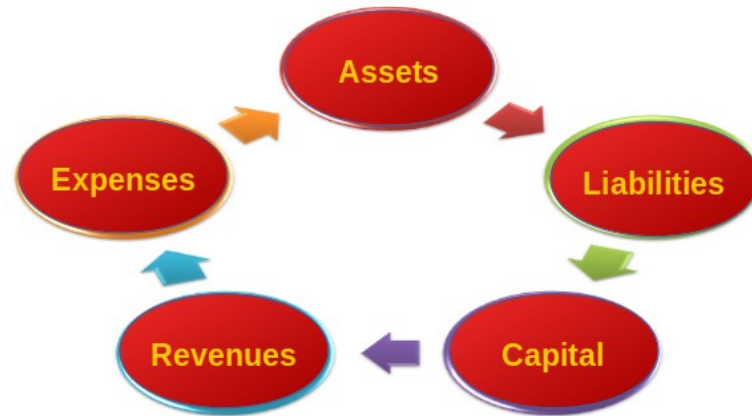
Ledger

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 of original entry



Classification of Ledger Accounts

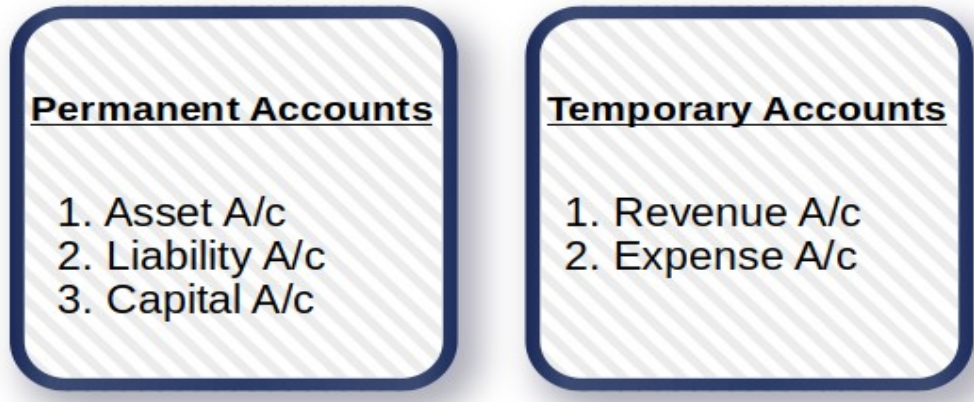
Ledger accounts are put into five categories namely, assets, liabilities, capital, revenues/gains and expenses/losses



All these may further be put into two groups, i.e. permanent accounts and temporary accounts

Classification of Ledger 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

Classification of Ledger Accounts

All permanent accounts appear in the balance sheet

Balance Sheet			
Liabilities	Amount	Assets	Amount
Capital	60,000	Land & Building	50,000
Sundry Creditors	10,000	Furniture	10,000
		Sundry Debtors	3,000
		Cash	7,000
	70,000		70,000

All assets, liabilities and capital accounts are permanent accounts and all revenues and expense accounts are temporary accounts

Differences between Journal and ledger

1

Differences

Journal

Book of first entry
(original entry)

Ledger

Book of second entry

2

Differences

Journal

Chronological record

Ledger

Analytical record

3

Differences

Journal

More importance as it is the book of source entry

Ledger

Less importance as it is the book of second entry

4

Differences

Journal

The process of recording in the journal is **Journalising**

Ledger

The process of recording in the ledger is **Posting**

5

Differences

Journal

Balancing is not done
in books of original
entry

Ledger

All ledger accounts are
balanced

**Accounts to be maintained
under GST**

Accounts to be maintained under GST

1

Input CGST a/c

Central
Govt.

Tax paid on purchase of goods intra-state
Treated as asset
Advance tax to be set off against Output CGST.

2

Input SGST a/c

State
Govt.

Tax paid on purchase of goods intra-state
Treated as asset
Advance tax to be set off against Output SGST

3

Input IGST a/c

Central & State
Govt.

Tax paid on purchase of goods inter-state
Treated as asset
Advance tax to be deducted from Output IGST.

Accounts to be maintained under GST

4

Output CGST a/c

Tax collected on sale of goods intra-state

Treated as liability

Payable to Central Govt.

5

Output SGST a/c

Tax collected on sale of goods intra-state

Treated as liability

Payable to State Govt.

6

Output IGST a/c

Tax collected on sale of goods inter-state

Treated as liability

Payable to Central Govt.

Accounts to be maintained under GST

7

Electronic Cash Ledger

To be maintained on Government GST portal
to pay GST

IGST is applicable for Imported Goods

**Petroleum Products & Alcohol are not come
under GST, but in Sales Tax**

GST Rates

PRESENT GST RATE STRUCTURE

Rate slab	No. of items	Items
0%	183	mostly agricultural produce
5%	308	branded cereals, edible oils, insulin, footwears up to ₹1,000
12%	178	Butter and other fats, pasta, diabetic foods, mobile phones, bicycles
18%	517	Vinegar, marbles, paints, plywood
28%	28	Cement, auto parts, ACs, tobacco, aerated drinks

Note: Besides, there are two more slabs of 3 per cent levied on gold, silver, semi-precious stones, and 0.25% on diamonds and others

Source: EY India Central Board of Indirect Taxes and Customs

Accounting Treatments Under GST

Accounting Treatments Under GST

Purchased goods for cash/credit (intra-state)

Purchase A/c	Dr
Input CGST A/c	Dr
Input SGST A/c	Dr
To Cash / Creditor's A/c	

Accounting Treatments Under GST

Purchased goods for cash/credit (inter state)

Purchase A/c	Dr
Input IGST A/c	Dr
To Cash / Creditor A/c	

Accounting Treatments Under GST

Sold goods for cash/credit (intra-state)

Cash / Debtor's A/c Dr
 To Sales A/c
 To Output CGST A/c
 To Output SGST A/c

Accounting Treatments Under GST

Sold goods for cash/credit (inter state)

Cash / Debtor's A/c Dr
 To Sales A/c
 To Output IGST A/c

Accounting Treatments Under GST

**Bought an asset (eg: Furniture) for cash
(intra-state)**

Furniture A/c	Dr
Input CGST A/c	Dr
Input SGST A/c	Dr
To Cash A/c	

Accounting Treatments Under GST

Insurance premium paid (service availed) (intra-state)

Insurance A/c	Dr
Input CGST A/c	Dr
Input SGST A/c	Dr
To Cash A/c	

Accounting Treatments Under GST

**In case of incomes
(eg: Commission received)
(intra-state)**

Cash A/c Dr

 To Commission Received A/c

 To Output CGST A/c

 To Output SGST A/c

Accounting Treatments Under GST

Set-off against SGST

Output SGST A/c Dr
 To Input IGST A/c
 To Input SGST A/c

Note: Output SGST is set-off first from Input IGST and then from Input SGST as per set-off rules by GST Council

Accounting Treatments Under GST

Set-off against CGST

Output CGST A/c Dr
 To Input IGST A/c
 To Input CGST A/c

Note: Output CGST is set-off first from Input IGST and then from Input CGST as per set-off rules by GST Council

Accounting Treatments Under GST

Set-off against IGST

Output IGST A/c Dr
 To Input IGST A/c
 To Input CGST A/c
 To Input SGST A/c

Note: Output IGST is set-off first from Input IGST and then from Input CGST and Input SGST as per set-off rules by GST Council

Accounting Treatments Under GST

Final Settlement through GST Portal

Output CGST A/c	Dr
Output SGST A/c	Dr
Output IGST A/c	Dr
To Electronic Cash Ledger A/c	

In case excess amount in Output CGST, Output SGST and Output IGST A/c after set-off

Accounting Treatments Under GST

Set-off Rule under GST

If **input tax credit is higher** than the output tax, the balance amount will be **carried forward to the next month** for set-off and it will be transferred to a separate account called **Electronic Credit Ledger**

Discount

A solid red shape with a wavy, irregular top edge, resembling a stylized wave or a decorative footer element, positioned at the bottom of the page.

Discount

Trade Discount

When the goods are purchased in bulk quantities, the seller may give concession in price to the purchases

DISCOUNT
15%

The concessions so given by the seller to the buyer is called trade discount or quantity discount

Trade 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

INVOICE (extract)	
Goods total	£575.00
Trade discount @ 10%	£57.50
Net total	£517.50
VAT @ 20%	£99.36
Total payable	£616.86
<i>Terms: 4% settlement discount for payment within 14 days</i>	

Discount

Cash Discount

It is a deduction granted by the creditor to the debtor as an inducement for making prompt payment



Cash Discount

This discount is a loss to the creditor and a gain to the debtor

It will be shown in the books of accounts

Discount

Cash Discount

Eg: Cash received from Jayaram Rs.4900 and allowed him 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

Banking Transactions

Transactions	Debit	Credit
4. Cheque received from a person (Cheque received is to be treated as cash received – it may not affect our bank account if the amount is collected from that person's bank directly by us)	Cash	Person's A/c
5. Cheque received from a person deposited in bank for collection	Bank	Cash

Banking Transactions

Transactions	Debit	Credit
6. A customer remits cash directly to our bank a/c	Bank	Customer A/c
7. Bank allows interest on deposit balance	Bank	Interest received
8. Bank charges charged by bank	Bank charges	Bank

Banking Transactions

Transactions	Debit	Credit
9. Cheque received from a person deposited with bank for collection is dishonoured	Person's a/c	Bank
10. If discount has already been allowed while receiving cheque and later dishonoured	Person's A/c	Bank A/c Discount A/c (to write back the discount)

