ΣXEMPLAR POINT® PVT. LTD.
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CLASS XI

ACCOUNTS

THEORY & ASSIGNMENT

ON

RECORDING OF TRANSACTIONS

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Unit	PART – A **(52)**	Marks
1.	**Introduction to Accounting**	**(12a)**
	Lesson – 1 (Introduction to Accounting) Lesson – 2 (Basic Accounting Terms)	
2.	**Theory Base of Accounting**	**(12b)**
	Lesson – 3 (Theory Base of Accounting and Accounting Standards & Ind-AS) Lesson – 4 (Basis of Accounting)	
3.	**Recording of Business Transactions**	**(40a)**
	Lesson – 5 (Accounting Equation) Lesson – 6 (Accounting Procedures – Rules of Debit and Credit) Lesson – 7 (Origin of Transactions – Source Documents and Preparation of Voucher) Lesson – 8 (Journal and Ledger) Lesson – 9 (Ledger) Lesson – 10 (Special Purpose Books I – Cash Book) Lesson – 11 (Special Purpose Books II – Other Book)	
4.	**Preparation of Ledger, Trial Balance and Bank Reconciliation Statement**	**(40b)**
	Lesson – 12 (Bank Reconciliation Statements) Lesson – 13 (Trial Balance)	
5.	**Depreciation, Provision and Reserves**	**(40c)**
	Lesson – 14 (Depreciation) Lesson – 15 (Provisions and Reserves)	
6.	**Accounting for Bills of Exchange Transactions**	**(40d)**
	Lesson – 16 (Accounting for Bills of Exchange)	
7.	**Rectification of Errors**	**(40e)**
	Lesson – 17 (Rectification of Errors)	
	Total	**52**
Unit	PART – B **(28)**	
8.	**Financial Statements of Sole Proprietorship**	**(20a)**
	Lesson – 18 (Final A/c without Adjustments) Lesson – 19 (Final A/c with Adjustments)	
9.	**Accounts from Incomplete Records**	**(20b)**
	Lesson – 20 (Single Entry System)	
10.	**Computers in Accounting**	**(08)**
	Lesson – 21 (Computers in Accounting) Lesson – 22 (Tally)	
	Total	**28**
11.	**Project Work**	**(20)**

	Total	**100**

Lesson – 5 (Accounting Equation)

An Accounting Equation is a statement of equality between assets and the claims against these assets. In other words, an accounting equation is a formula of accounting which shows the assets and liabilities of a firm as equal.

An Accounting Equation is based on the dual aspect concept. In the dual aspect concept, we discussed that every business transaction has a two-sided effect, that is, on the assets and also claims on assets.

The total claims '**Equities**' (those of outsider and of the proprietors) will always equal the total assets of the firm.

The claims, also known as equities, are of two types:

1. Owner's capital or equity and
2. Liabilities or amounts due to outsiders.

Assets = Capital + Liabilities

Or

Capital = Assets – Liability

Or

Liability = Assets – Capital

➔ **Accounting Equation**

Assets		**Liabilities + Capital**
Cash, Bank, Stock, Furniture, Machinery, Building, Bills Receivable, Debtors, Prepaid Expenses, Accrued Income	**Is equal to**	Creditors, Loan, Outstanding Expenses, Income received in advance, Bills Payable, Bank Overdraft

The Accounting Equation is the basis for Double Entry System of accounting.

An Accounting Equation always holds true with every change that occurs due to a transaction taking place. It is because of this reason that it is based on the dual aspect concept of accounting which holds that for every debit or credit there is equal credit or debit.

A transaction may **effect both sides** of the equation by the same amount or **one side** of the equation only, by both increasing or decreasing it by equal amounts.

Transactions from the Accounting Equation viewpoint, can be divided into two, i.e.,

1. Transactions Affecting Two Items; and
2. Transactions Affecting More Than Two Items.

I. Transactions Affecting Two Items: As the title suggests, these are those transactions that affect two items. Such transactions have 9 possible combinations, **4 affecting the opposite side** of the balance sheet and **5 affecting the same side** of the balance sheet.

A. Transactions affecting opposite side are:

i. **Increase in Assets, Increase in Liabilities:** For example, credit purchases and loan from bank. Credit purchases increase asset (stock) and also increase liability (loan). Similarly, loans from bank increase asset (cash) and also increase liability (loan)

ii. **Decrease in Liabilities, Decrease in Asset:** For example, payment to a creditor. It decreases liability (creditor) and also reduces asset (cash or bank).

iii. **Increase in Asset, Increase in Owner's Equity:** For example, introduction of capital by the proprietor. It increase asset (cash or bank) and also liability (capital)

iv. **Decrease in Owner's Capital, Decrease in Asset:** For example, drawings by the proprietor. It decreases liability (capital) and also asset (cash or bank).

B. Transactions affecting same side but in opposite direction are:

i). **Increase in Asset, Decrease in another Asset:** For example, cash purchases or receipt from debtors. It increases one assets (goods and cash or bank, respectively) and decrease another asset (cash or bank and debtors)

ii). **Decrease in Liabilities, Increase in another Liabilities:** For example, settlement of creditor by issue of Bill of Exchange. It decreases a liability (creditor) and also increases another liability (Bill of Exchange).

iii). **Decrease in Owner's Equity Item, Increase in Owner's another Equity Item:** For example, issue of bonus shares. It decreases reserves and increases share capital.

iv). **Decrease in Owner's Equity Item, Increase in Liability:** For example, it decreases reserves and increases liability to pay dividend.

v). **Decrease in Liability, Increase in Owner's Equity Item:** For example, redemption of debenture by conversion into shares.

II. Transactions Affecting More Than Two Items: Some transactions affect more than two items of a balance sheet. For example, when a sale is made in cash for ₹ 30,000, it is made at cost (₹ 25,000) plus profit (₹ 5,000). Cost of goods (₹ 25,000) reduces asset (stock of goods); cash increases by ₹ 30,000 and the owner's capital increases by the profit (₹ 5,000). It should be noted that profit increases the owner's capital and loss decreases it.

We shall follow the following procedure to workout an accounting equation:

1. Analyse the transaction in terms of such variables as assets, liabilities, capital revenues and expenses.

2. Decide the effect of the transactions in terms of increase or decrease on variables mentioned in 1.

3. Record the effect on the relevant side of the equation.

4. Find out new equation.

5. Prepare Balance Sheet.

I. Find out Total Assets.

1) Total Assets = Capital + Outside Liabilities (External Equities)
2) **Total Assets = Capital + …………….. + Profit or (– Loss) – ……………**
3) Total Assets = Net Worth (Capital) – Loss + Liabilities (Creditors)
4) **Total Assets = ……………. Capital + Creditor + Re……….. – Ex…………**
5) Total Assets = Owner's Equity + Outsider's Claims

II. Find out Closing Capital.

1) **Closing Capital = Total ……………. – Closing ………………**
2) **Closing Capital = Opening ………. + Additional ………… + ……… – Drawing.**
3) Closing Capital = Opening Capital + Additional Capital – **Loss** – Drawing.
4) Closing Capital = Opening Capital + Profit.
5) **Closing Capital = Total Assets – Profit + Loss – Creditor.**

III. Find out Profit.

1) **Profit = Closing ………….. – Opening ……………..**
2) Profit = Closing Capital + Drawing – Opening Capital – Additional Capital.
3) Profit = Total Assets – Closing Capital – Liabilities.
4) Profit = Revenue – Expenses.

IV. Find out Total Equity.

1) **Total Assets = Owner's Equity + …………… + Creditor – …………….**
2) Total Equity = Opening Owner's Equity + Creditor's Equity.

V. Find out Closing Owner Equity.

1) Closing Owner Equity = Opening Owner's Equity + Creditor + Revenue – Expenses.

ACCOUNTING EQUATION

Particular	ASSETS									LIABILITIES +					CAPITAL
	Cash	+ Stock	+ Furniture	+ Machinery	+ Debtor	+ Bank	+ Prepaid Exp.	+ Accrued Income	+ B/R	B/P	+ Creditor	+ O/S Exp.	+ Loan	+ Prepaid Income	+ Capital
1.Started Business with Cash	+														+
2.Business Started with Bank cash, stock, furniture, machinry	+	+	+	+		+									+
3.Introduce Additional Capital	+														+
4.Purchased Goods for Cash	−	+													
5.Purchased Goods on credit		+									+				
6.Purchase Machinery for cash	−			+											
7.Purchase furniture on credit			+								+				
8.Sold Goods for cash	+	−													
9.Sold Goods on credit		−			+										
10.Sold furniture for cash	+		−												
11.Sold furniture on credit			−		+										
12.Sold Goods at Profit	+	−													+
13.Sold Good on credit at Loss		−			+										−
14. Paid into Bank	−					+									
15. Withdrew from Bank	+					−									
16.Withdrew from office	−														−
17.Paid any Expenses	−														−
18.Any Loss	−														−
19.Any Profit	+														+
20.Any Income Received	+														+
21.Drawing	−														−
22.Paid to Creditor Mukesh Sir	−										−				
23.Cash received from Debtors	+				−										
24.Depreciation on Machinery				−											−
25.Outstanding Expenses												+			−
26.Prepaid Expenses	−						+								

ACCOUNTING EQUATION

	ASSETS									LIABILITIES +					CAPITAL
Particular	Cash	Stock	Furniture	Machinery	Debtor	Bank	Prepaid Exp.	Accrued Income	B/R	B/P	Creditor	O/S Exp.	Loan	Prepaid Income	Capital
27.Purchase return to Creditor		−									−				
28.Sale return by Debtor		+			−										
29.Prepaid Income	+													+	
30.Accrued Income								+							+
31.Interest on Capital															−,+
32.Interest on Drawing															−,+
33.Accepted a Bill Payable										+	−				
34.Accepted a Bill Receivable					−				+						
35.Received B/R on maturity	+								−						
36.Paid B/P on maturity	−									−					
37.Goods destroyed by fire		−													−
38.Conversion of Loan into Capital													−		+
39.Sold goods on Cash and Some on Credit to Rakshit	+	−			+										
40.Purchase goods on Cash and Some on Credit from Tithi	−	+									+				
41.Transfer share from one shareholder to another holder															−,+
42. Paid to creditors Mukesh Sir in full settlement.	−										−				+
43. Took goods from business for personal use.		−													−
44. Paid Interest on Loan and Instalment of loan.	−												−		−

☻ BALANCE SHEET OF SAI CO. LTD. (HORIZONTAL FORM)

As on ….

EQUITY & LIABILITIES	₹	ASSETS	₹
I. Share holders Funds		**I. Non – Current Assets**	
a. SHARE CAPITAL:		**1. Non Current Assets:**	
(i) Authorised / Issued /Subscribed Capital		(i) Land & Buildings	
Equity or Preference Share Capital		Less: Depreciation ….	…
Captial ..…		(ii) Plant & Machinery ….	
Add: Net Profit ..…		Less: Depreciation ….	…
Less : Drawings ..…		(iii) Furniture & Fittings	
Less: Net Loss ..…	..…	Less: Depreciation ….	…
		(iv) Patents, Trade Marks and Designs	
b. RESERVES AND SURPLUS:		(v) Investments, Goodwill,	
(i) General Reserves, Any Funds		(vi) Govt. Bonds	
(ii) Profit & Loss A/c (**Cr.** Balance)			
Less: Profit & Loss A/c (**Dr.** Balance)		**II. Current Assets**	
		1. Cash in Hand &	
II. Non-Current Liabilties		2. Cash at Bank	
(i) % Debentures		3. Sundry Debtors ….	
(ii) Loans from Bank (Bank Loan)		Less: Provision for Doubtful Debt ….	…
(iii) Fixed Deposits / Public Deposits		4. Bills Receivable	
		5. Closing Stock / Inventory	
III. Non-Current Liabilties		6. Loans & advances	
(i) Sundry Creditor		7. Prepaid Expenses	
(ii) Bills Payable /Acceptances		8. Accrued Income	
(iii) Bank Overdraft, Loan		9. Advances and Loans to Subsidiaries	
(iv) Outstanding Expenses Salary, Rent		10. Input CGST ….	
(v) Income Receive in Advance		Less: Output CGST …..	…
(vi) Provision for Taxation		11. Input SGST ….	
		Less: Output SGST …..	…
		12. Input IGST ….	
		Less: Output IGST …..	…

Examination Problems

Q1. Briefly Explain the Accounting Equation.

Q2. What is owner's equity? Give an equation for calculating owner's equity.

Q3. "Accounting Equation (A = L + C) always holds good under all circumstances." Explain with the help of two examples.

Q4. Given an example for each of the following types of transactions:

a) Increase in one asset, decrease in another asset.

b) Increase in asset, increase in owner's capital.

c) Increase in asset, increase in liability.

d) Decrease in asset, decrease in liability.

e) Decrease in asset, decrease in owner's capital.

f) Increase in one liability, decrease in another liability.

g) Increase in liabilities, decrease in owner's capital.

Lesson – 6 (Accounting Procedures – Rules of Debit and Credit)

An account is a summarised record of relevant transactions at one place relating to a particular head. It records not only the amount of transactions but also their effect and direction.

An account is divided into two parts, i.e., **debit and credit**.
It is usually in a **"T"** form and the commonly used layout of an account is as follows:

Dr. **Account Format** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To				By		

1. The **name** of the **account** is written at the **top**.
2. The account is **divided** into **two** identical halves.
3. The **left** hand side is called the **'debit'** side and **right** hand side is called the **'credit'** side.
4. The **date**, i.e., the date of the **transaction** is entered in the date column.
5. In the **'Particulars'** column, the **name** of the other **account** involved in the transaction is entered.
6. The **Journal Folio** column is used as a **referencing system** where the original entry was recorded in the journal book.
7. In the **last** column, the **amount** transacted is written.

Meaning of Debit and Credit

➔ **Debit** refers to the left side of an account and **Credit** refers to the right side of an account. In the abbreviated form Dr. stands for debit and Cr. stands for credit.

An item recorded on the debit side of an account is said to be debited to the account and a balance resting on this side is said to be a **debit balance**.

An item recorded on the credit side of an account is said to be credited to the account and the balance resting on this side is said to be a **credit balance**.

CLASSIFICATION OF ACCOUNTS

1) Accounting Equation Approach or Modern Approach & 2) Traditional Approach

I. The Modern approach, classifies accounts into five categories:

i) Assets Accounts: These accounts are accounts of assets and properties such as Cash, Land & Building, etc.
Rule of Debit and Credit: Increase in assets are debits; decreases are credits.

ii) Liabilities A/c: These accounts are accounts of creditors, Loan, O/S expenses etc.
Rule of Debit and Credit: Increase in Liabilities are credits; decreases are debits.

iii) Capital A/c: They refer to the accounts of the proprietor/Partners who invested money in the business.
Rule of Debit and Credit: Increase in owner's capital are credits; decreases are debits.

iv) Revenue A/c: These are accounts of incomes and gains like sales, interest received etc.
Rule of Debit and Credit: Increase in Revenues/Incomes are credits; decreases are debits.

v) Expenses A/c: The accounts which show the amount spent or even lost in carrying on business operations like Purchase, wages paid, depreciation etc.
Rule of Debit and Credit: Increase in Expenses are debits; decreases are credits.

II. Traditional Approach, classifies accounts into two categories:

A. Personal A/c: Accounts which relate to persons, i.e., individuals, firms, companies, etc., debtors or creditors are personal accounts.

Rule of Debit and Credit: Debit the receiver, Credit the giver.

Personal A/c can be classified into three categories:

i. Natural Personal A/c: The term 'Natural Persons' means persons who are creations of God. Ex . Tithi, Rakshit

ii. Artificial Personal A/c: These accounts include accounts of corporate bodies or institutions which are recognised as persons in business dealings. Ex. Ltd Company, Club or Cooperative Society.

iii. Representative Personal A/c: These are accounts which represent a certain person or a group of persons. Ex. If rent is due to the landlord, an outstanding rent account will be opened.

B. Impersonal Accounts: Those accounts are Impersonal A/c, which are not personal A/c. like Cash, Machinery, Rent, Salary etc.

These can be further sub-divided into two accounts:

i) Real A/c: A/cs which will relate to tangible or intangible assets of the firm (excluding bank & debtors).

Examples of tangible assets are: Land, building, Investments, Plant and machinery, stock.

Examples of Intangible assets are: Goodwill, Patents and Trademark.

Rule of Debit and Credit: Debit what comes in, Credit what goes out.

ii) Nominal Accounts: Accounts which relate to expenses, losses, gains, revenue, etc. These are Sale, purchase, Rent, Salary, commission received, etc.

Rule of Debit and Credit: Debit all expenses and losses, Credit the incomes and gains.

BALANCING AN ACCOUNT

At the end of each month or year or on any particular day, it may be necessary to ascertain the balance in an account. This is not a very difficult thing to do.

To ascertain the balance in any account the two sides are totalled and the difference ascertained. The difference is the balance.

If the credit side is larger than the debit side, it will be a credit balance. In the other case, it will be a debit balance. The credit balance is written on the debit side as "To Balance carried down or 'To Balance c/d". After this, the two sides will be equal. Then the credit balance is written on the credit side as 'By Balance brought down or 'By Balance b/d". This is the opening balance for the new period.

The debit balance similarly is written on the credit side as "By Balance carried down or 'By Balance c/d". The totals then are written on the two sides as shown above and the debit balance written on the debit side as, "To Balance brought down or 'To Balance b/d" as the opening balance for the new period.

It should be noted that nominal accounts are not balanced. In fact, the balances in them are transferred to the Profit and Loss A/c.

Accounts related to goods (e.g. Purchases A/c, Sales A/c, Purchases and Sales Return) are transferred to the Trading A/c.

Balances of direct expenses account are also transferred to the Trading Account.

Only Personal and real accounts ultimately show balances.

Debit Balance of Cash A/c shows how much money the businessman has kept in cash.

Credit Balance of the Capital A/c discloses how much money is due to the owner of the business or how much money the owner has invested in the business.

A Debit Balance is either An Asset (cash, bank, etc) or An Expense (salary, rent, etc).

A Credit Balance shows the Income earned or Liability or the amount Invested by the Proprietor.

Debit	Credit
Assets / Debtors / Stock All Expenses and Losses, Drawings, Expenses (Dr.) **Purchases / Sales Return** **Input CGST / SGST / IGST** **Advance Expenses / Accrued Income** Provision on Liabilities like disc. on creditor	All Incomes & Gains, Income (Cr.) Capital, Creditors, Liabilities, Bank overdraft, Loan, **Sales / Purchase Return** **Output CGST / SGST / IGST** **Outstanding Expenses / Advance Income** Provision on Assets like Doubtful Debt

Account depends on these three golden Rules:

I. **Debit** the **Receiver** and **Credit** the **Giver**. (Personal A/c)

II. **Debit** what **Comes In** and **Credit** what **Goes Out**. (Real A/c)

III. **Debit** All **Expenses & Losses** and **Credit** All **Gains & Incomes**. (Nominal A/c)

Outstanding / Due / ……….. / Arr…….. / ………… OR

Ad………. / Pre…………. / ………..pired

……………. Expenses = Expenses Paid in ……………… / Unexpired Expenses

……………. Income = ……………. due but not yet received

Outstanding ……………. = Expenses due but ……… yet paid / ………….. Expenses / Expenses Payable

Prepaid …………….. = Income …………….. in Advance / Unearned …………….

RULES OF DEBIT AND CRDIT

I. **ASSETS A/C**

……….. **(Dr.) (……)**	…………. **(Cr.) (…….)**

II. **EXPENSES (LOSS) A/C**

……….. **(Dr.) (……)**	…………. **(Cr.) (…….)**

III. **CAPITAL A/C**

……….. **(Dr.) (……)**	…………. **(Cr.) (…….)**

IV. **LIABILITIES A/C**

……….. **(Dr.) (……)**	…………. **(Cr.) (…….)**

V. **INCOME / REVENUE (PROFIT) A/C**

……….. **(Dr.) (……)**	…………. **(Cr.) (…….)**

CLASSIFICATION OF ACCOUNTS TO MODERN APPROACH

Assets A/c	Liabilities A/c	Capital A/c	Expenses A/c	Income / Revenue
………. in Hand …….. Cash in Hand Cash at ……….. Cheques in Hand ……. & Machinery Equipment Land & ………… ………. Premises …………. Premises ………… & Fittings Vehicles / …….. car Computer Inve………… …………… / SAI (Customer) Bills ………….. Trade Receivable G……ds Stock / In……….. Loose ……. ………..will Trade Mark / …… ……..right / Patents ……….. Expenses (………… Rent) …………… to Suppliers Laon …………… Loan **…….** ……….. Income Accrued …………	………….. / Tithi (Supplier) Bills …………… ……….. Payable Any Payable A/c Bank ………….. …….. from Bank Loan **………** Deb……….. ………tgage ……….. from Partner ………….. Exp. ………… Income	Capital ………ner …….prietor Net ……… ………… Current A/c **Drawings** **(………….** **Capital)**	Rent / …………. paid ……….. / Wages & ……… Pur………. ……….……ssion paid Transportation / Trade Expen ………… Inward or Outward Freight Inward or ……….. ………… Inward or Outward ……….. on Purchase or Sale Factory or Office ………… …………………. Expenses Coal / G…. / W…… & Oil Po…… / Electricity / Grease …………. & Lighting / Fuel Postage / Stationery / Charity Telephone / Travelling Expe. ……….. or Interest Allowed ……………. on Debtors ……….. on Loan or Capital Subscription / Ro…….. Paid Bank ………... / Conveyance Insurance ………….. & Tax …………….tion / …….pair ……………… written off ……………. by Fire / …….. ……….. Duty / Custom …… Clearing ………. / Octroi Income ……. /.Dock Charges …….. CGST / SGST / IGST …….tisement /…... Samples ………. Promotion Expenses …………….ment Expenses Miscellaneous / ……… Exp. **(…………….. Expenses)** **Purchase ………… /** ………. Outward / ….. Bal.	Rent ………… or Cr. ……… received or Cr ……….. Interest Received or Cr. Discount ………….. …… Debt recovered Commission Received or ……. Subscription Received or ……. Interest on ……………… Royalty ………….. Apprenticeship ………….. Miscellaneous or Sundry ………. Grant Received ………… Claim Received …………. CGST …………. SGST …………. IGST ………… ……………. from operations **(………… Revenue)** **………… Return /** Return ……… or Return ……. Bal.

CLASSIFICATION OF ACCOUNTS TO TRADITIONAL APPROACH

Personal A/c **Impersonal A/c**

Personal A/c	Real A/c	Nominal A/c
Person Name A/c ……………/ SAI (Customer) Creditors / Tithi (Supplier) Bank A/c …………….. Overdraft A/c Capital A/c / Current A/c ………………. A/c Loan from Bank ……….. / Debentures / Mortgage Loan from Partner Outstanding Expenses A/c …………… Expenses (Prepaid Rent / salary) Advance to Suppliers ……………. Income Accrued Interest / rent Income Received in Advance A/c	All …………….. (**With……… …………., Bank, ………….. & …………**) Cash in Hand Petty Cash in Hand Plant & Machinery Vehicles / Computer Loose Tool Land & Building Freehold & lease Hold Premises Furniture & Fittings Investments Goodwill / Trade Mark, Patents Stock / Goods Horses & Carts Bills Receivable	All …………… & Expenses A/c Salary, Rent Received/Paid Wages Received/Paid Freight/Carriage/Cartage In/Out Commission Received/Paid Discount Allowed/ Received Subscription Received/Paid Sales Promotion Expenses Entertainment Expenses Insurance Premium Depreciation / Repair Charity / Bank Charges Bad Debt written off Interest on Loan / Capital Interest on Drawings Loss by Fire / Theft Purchases, Sales Miscellaneous or Sundry Expenses / Receipt Interest received Bank Interest received Bad Debt recovered Royalty received

Dr. Capital A/c Cr.

Particulars	₹	Particulars	₹
To D……………. To I……………. To L…………….. To I…………….. To Balance c/d		By Balance b/d By C…………… By C…………… By P…………… By I…………… By S…………… By ……………	

Examination Problems

Q1. What do you understand by 'debit' and 'credit'?

Q2. Give the rules of debit and credit and explain them with imaginary examples.

Q3. Write a Short note on Traditional classification of Accounts.

Q4. Write a Short note on Modern classification of Accounts.

Q5. Write a short note on Balancing an Accounts.

Debit Balance	Credit Balance
All Expenses and Losses, Assets, Purchases	All Incomes & Gains, Capital, Liabilities, Sales
1. Rent / Salary paid 2. Wages / Wages and Salaries 3. Carriage / Carriage Inward 4. Freight / Freight Inward 5. Cartage / Cartage Inward 6. Octroi / Dock Charges / Custom Duty 7. Power, Coal, Gas, Water & Oil 8. Grease, Fuel, Heating & Lighting 9. Excise Duty / Clearing Charges 10. Manufacturing Expenses 11. Discount & Interest Allowed 12. Postage / Stationery 13. Electricity / Telephone 14. Insurance Premium 15. Income Tax / Input GST 16. Input CGST / SGST / IGST 17. Repair / Office Expenses 18. Travelling Expenses 19. Discount on Debtors 20. Carriage on Sales 21. Carriage on Purchases 22. Provision on Liabilities 23. Commission / Bank Charges 24. Miscellaneous Expenses 25. Purchases 26. Cash in Hand / Petty Cash in Hand 27. Cash at Bank / Cheques in Hand 28. Plant & Machinery / Vehicles / Computer 29. Land & Building / Furniture & Fittings 30. Freehold Premises/ Lease Hold Premises 31. Debtors / B/R / Trade Receivable 32. Goods / Stock / Inventory / Loose Tools 33. Goodwill / Trade Mark / Copyright / Patents 34. Prepaid Expenses / (Prepaid Rent) 35. Investments / Advance to Suppliers 36. Accrued Income / Accrued Interest / rent 37. Provision on Liabilities 38. Provision for discount on creditors **39. Sales Return** **40. Drawing**	**1.** Sales 2. **Purchase Return (Decrease Expenses)** 3. Return Outward or Return Cr. Bal. 4. Discount Received 5. Interest Received 6. Reserve on Assets 7. Bad Debts Recovered 8. Commission Received 9. Rent Received 10. Royalty received 11. Apprenticeship Premium A/c 12. Capital 13. Proprietor 14. Current A/c 15. General Reserve 16. Profit & Loss A/c 17. Loan / Debentures 18. Bank Overdraft 19. Creditor 20. Bills Payable 21. Any Payable A/c 22. Outstanding Exp. 23. Prepaid Income 24. Output CGST / SGST 25. Provision on Assets 26. Provision for Depreciation 27. Provision for Doubtful Debts

Lesson – 7 (Business Transaction – Voucher)

Transactions are recorded in the books of account on the basis of an evidence such as bills of purchases, invoices for sales, debit and credit notes, etc. These evidences being the basis of recording entry, are known as **'source documents'**. Rules of debit and credit are applied to each transaction and a voucher is prepared before recording in the books of original entry.

A source document is of prime importance in accounting because accounting is based on factual financial information, i.e., documentary evidence. For example, a cash memo showing cash sale, an invoice showing sale of goods on credit, bills of purchases showing purchase of goods on credit, a receipt made out by the receiver for cash received, etc.

These documents are called **Source Documents** and are evidence in support of a transaction.
The most common source documents:

1. Cash Memo (Cash Transaction of Goods): Cash Memo is prepared by the seller of goods when goods are sold against cash. It has details with respect to description of goods sold, quantity, rate of each item and the total amount received, besides the date of transaction and other terms and conditions, if any. It is an evidence for the purchaser for goods purchased against cash, and for the enterprise, it is an evidence of sale of cash. A specimen cash memo is given below:

CASH MEMO
RAKSHIT SUTING & SHIRTING
MOHAN SINGH PALACE, CANAUGHT PLACE
Outer Circle Road, New Delhi

No. … Dated: **30.2.2020**

Quantity	Description	Rate ₹	Amount ₹
10	Suits	2,000	20,000
4	Shirts	2,000	8,000
			28,000
	Add: CGST @ 6%	1,680	
	Add: SGST @ 6%	1,680	3,360
	(Rupees thirty one thousand and three hundred sixty)		
	GST No. of the Purchaser		31,360

Goods once sold will not be taken back For Saagar Silk & Sarees

2. Invoice or Bill (Credit Transaction of Goods): An Invoice or Bill is prepared by the seller of goods when the goods are sold on credit. It has details with respect to the name of the party to whom goods are sold, the description of goods sold and the total sale amount.
The original copy of the sales invoice is sent to the purchaser and a duplicate copy is retained as an evidence of the sale for recording in the books of account and also for future reference.
From the purchaser's point of view, purchases are evidenced by credit bills received from the supplier.
A specimen invoice or bill is given below:

ELECTRONIC PLAZA LTD.
Dealers in Everything Electrical
No. 1234 420, Kalkaji , New Delhi 110019 Date **21.8.2010**

Ideal Customer **GSTIN:**
Fandu Road, Dirty City …U.P…. **07ABCD921XZ**

Quantity	Particulars	Rate ₹	₹	P.
2	T.V (51" cm)	16,000	32,000	…
10	Mixer	2,200	22,000	…
			54,000	…
	Add: IGST @ 12%		6,480	…
	Total		60,480	…

Rupees Sixty thousand and four hundred eighty only
E.&.O.E. Sales Manager

3. Receipt (Cash Transaction / Receipt): A specimen receipt is given below:

OM SAI RAM SUPPLIERS LTD.
Dealers in All kind Building Material
2233, Black Street, Delhi 110011
No. 8890 GSTIN: 07ABCD921XZ Date: **16.11.2020**

Received with thanks from **M/s. Ideal Customer, Dirty City** a sum of Rupees **Sixty One Thousand only** in Cash/ Cheque No. **987654** dated **16.11.2020** drawn on **Kangal Bank, Loot Vihar,** on account of invoice No. **1234** date **21.8.2020**

Authorised Signatory

Note: Cheques are subject to realisation.

3. <u>Receipt (Cash Transaction / Receipt)</u>: When cash is received from a customer, a receipt is issued as an acknowledgment. The receipt is prepared in duplicate. The original copy is handed over to the party tendering the payment and the duplicate is kept for record.
This source document contains details regarding the date, amount, name of the party and the nature of the payment.

4. <u>Pay–in–Slip</u>: This source document relates to bank transactions. A Pay-in-Slip is a form available from a bank for depositing cash and cheques, etc., in a bank account.
It has a counterfoil which is returned to the depositor with cashier's signature, as receipt.
Now-a-days, banks usually place a box in which cheques alongwith the filled pay-in-slips can be dropped.

5. Cheque: A Cheque is a document in writing drawn upon a specified banker and payable on demand. The bank supplies cheque forms. The name of the party to whom payment is to be made is written after the words 'Pay To'. Then the amount is written – both in words and figures.
A cheque must be dated and signed by the drawer. Each cheque has a counterfoil. The same details are entered on the counterfoil which remains with the account holder for future reference.
The counterfoil forms the source document for entries to be recorded in the account books.
A specimen Cheque is given below:

Date ……. **20**..

PAY TO ……………………………………………………………………………………………….
………………….……………………………………………………………………………….. Or BEARER
RUPEES …………………………………………………………………………… **₹** …………………..

A/C No.		L.F.		INTLS.	

KANGAL BANK
Blank Road, Dirty Vihar, N.D.110420
"4209211" 1122334455 19

6. <u>Debit Note (Goods return to Supplier / Cash will receive)</u> : A Debit Note is made out evidencing that a debit has been made to the account of the party named in the debit note. For example, a seller of goods will make a debit note if he finds that's his goods have been undervalued.
Similarly, a purchaser of goods will make a debit note if the goods have been overvalued or he has returned the goods or the seller has allowed a lower discount, etc.
The effect of a debit note is that the indebtedness to the supplier is reduced or, if the account is already settled, goods can be purchased further without payment. A specimen Debit Note is given below:

M/s. Sultan Chand
420, Green Park, New Delhi 110030
GSTIN: 07ABCD921XZ

No. 123 **DEBIT NOTE** Date: 6th December, 2020

Against: M/s Tithi Naagar, New Delhi

Goods returned as per delivery Challan No. 66		₹ 5,500
Add: CGST @ 6%	₹ 330	
Add: SGST @ 6%	₹ 330	₹ 660
		₹ 6,160

GSTIN: 07ABCD921XZ — Mukesh Naagar
(Rupees Six thousand One hundred and sixty only) — Manager

Distinction between Debit Note and Credit Note

S.No.	Debit Note	Credit Note
1.	Debit Note is prepare by the customer on the supplier.	Credit Note is prepared by the supplier.
2.	Debit Note is an intimation for debit made in the account of supplier containing the reasons for it.	Credit Note is an intimation of credit made in the account of the customer containing the reasons for it.
3.	In case of return of goods, it is the basis of recording entry in Purchases Return Day Book or Purchases Journal Book,	In case of return of goods, it is the basis of recording entry in Sales Return Day Book or Sales Journal Book,

7. <u>Credit Note (Goods return by Debtor / Cash will pay)</u>: A Credit Note is made out evidencing that credit has been granted to a debtor.

For example, if a customer returns goods previously invoiced, a credit noted is issued or the customer is allowed further discount, or the customer has returned the goods.
The effect of a credit note is that the amount of the customer's indebtedness is reduced or, if it is already settled, to enable the customer to purchase goods to the value of credit without further payment.
A specimen Credit Note is given below:

RAKSHIT CAKE PLAZA
A/10, Devli Ext. Saket, Delhi 110062
GSTIN: 07ABCD921XZ

No. 111	**CREDIT NOTE**		Date **24.4.2020**
M/s. Mukesh Sir Co. Pushp Vihar, Delhi GSTIN: 07XYZW921AB			
Goods received as per delivery Challan No. 9211 dated. 20.4.2010 valued			₹. 15,000
Add: CGST @ 6%		₹ 900	
Add: SGST @ 6%		₹ 900	₹ 1,800
			₹ 16,800
(Rupees Sixteen thousand eight hundred only)		Manager	

VOUCHER

Voucher: A voucher is a document providing evidence of a business transaction.
Such evidences are Source Documents. Example of Source Documents are Cash Memo, Invoice or Bill, Receipt, Pay-in-Slip, Cheque and Debit and Credit Notes, etc. On the basis of Source Documents, a voucher detailing the accounts that are debited and credited is prepared.

TYPES OF ACCOUNTING VOUCHERS

1. Source Voucher or Source Documents or Supporting Vouchers;

2. Accounting Vouchers

I. <u>Supporting Vouchers</u> = Source Vouchers which come into existence when a transaction takes place. Examples of this are issue of cash memo on cash sale, issue of credit memo (Invoice) on credit sale, issue of rent receipt on receipt or rent and so on.
These vouchers generally follow a business transaction. If in any situation the supporting voucher for a transaction cannot be made available, then it has to be created or generated.
For instance, if taxi fare is paid for business purposes, it is not always possible to get a cash receipt from the taxi driver. In such a case, the person making the payment should generate the supporting voucher.

Features of a Source Voucher are:

1) It is a written document.
2) It contains complete details of the transaction.
3) It is a proof of a transaction having taken place.
4) It is generally for a business transaction.
5) It is signed by the maker.

II. <u>Accounting Vouchers</u> = An accountant has with him supporting vouchers for cash payments, cash receipts, invoices for credit purchases and sales. Yet, before recording in the books of accounts, these source vouchers are analysed to determine which account or accounts are to be debited and credited. The decision is recorded on a document termed 'Accounting Voucher'.
Thus, we can say that an 'Accounting Voucher' is a written document containing an analysis of business transactions for accounting and recording purposes, prepared by the accountant on the basis of supporting vouchers and signed by another authorised person.

Features of an Accounting Voucher are:

1) It is a written document.
2) It is prepared on the basis of evidence of the transaction.
3) It is an analysis of a transaction.
4) In the case of Cash / Bank voucher, it is a receipt.
5) It is prepared and signed usually by an accountant and countersigned by the authorised signatory.

Types of Accounting Vouchers:

1. Cash Vouchers : (a) Credit Vouchers And (b) Debit Vouchers

II. Non-Cash Vouchers : Transfer Vouchers

I. Cash Vouchers: Cash vouchers refer to the voucher prepared at the time of receipt or payment of cash and includes receipt and payment through cheques.

Cash Vouchers can be of the following two types namely

a) Credit Voucher and **b) Debit Voucher**

A. <u>Credit Voucher</u>: Credit Vouchers are prepared when cash is received. Cash may be received against.

1. Sale of goods;
2. Sale of Fixed assets / Investment;
3. Receipts from debtors / Income;
4. Withdrawal from bank

A) **Credit Voucher**

(1) Name & Address of Co. GSTIN: 07ABCD921XZ **(3)** Voucher No. ….		**(2)** Date 21-8-21 Amount (₹)
Credit: **(4)** …Sales A/c ….		**(5) ₹**…….
Output CGST @ 6%	₹ 000	
Output SGST @ 6%	₹ 000	**₹** 000
(**(6)** Being the goods sold charged CGST and SGST vide……. Bill No…. **(9)**)	Total	**₹**……..
(8) Sd/- Manager		**(7)** Sd/- Accountant

☺ Opposite to Cash / Bank (When Cash / Bank will be debited)

The Credit Voucher gives the following information:

(1) Name, Address and GST number of the Organisation
(2) Date of Preparing the Voucher
(3) Accounting Voucher Number
(4) Title of the Account Credited
(5) Net Amount of the Transaction
(6) Narration (i.e, a brief description of the transaction)
(7) Signature of the Person preparing it
(8) Signature of the Authorised Signatory
(9) Supporting Voucher Number

B. <u>Debit Vouchers</u>: Debit Vouchers are prepared when payment is made. Payment may be made against.

1. Purchase of Goods;
2. Purchase of Fixed assets / Investment
3. Payment to Creditors / Expenses;
4. Deposits into bank

B) **Debit Voucher**

<table>
<tr><td rowspan="3">Received ₹ ...</td><td colspan="2">(3) Voucher No. ….   (1) Name & Address of Co.
GSTIN: 07ABCD921XZ   (2) Date 21-8-21
Amount (₹)</td></tr>
<tr><td>Debit: (4) …Purchase A/c ….
Input CGST @ 6% ₹ 000
Input SGST @ 6% ₹ 000
((6) Being the goods purchased, Paid CGST and SGST vide…….
Memo No…. (9)) Total</td><td>(5) ₹ …..
₹ 000
₹……..</td></tr>
<tr><td>(8) Sd/-
Manager</td><td>(7) Sd/-
Accountant</td></tr>
<tr><td>Revenue Stamp (10)</td><td colspan="2"></td></tr>
</table>

☺ **Opposite to Cash / Bank (When Cash / Bank will be credited)**

The Credit Voucher gives the following information:

(1) Name and Address of the Organisation (2) Date of Preparing the Voucher

(3) Accounting Voucher Number (4) Title of the Account Credited

(5) Net Amount of the Transaction (6) Narration (i.e, a brief description of the transaction)

(7) Signature of the Person preparing it (8) Signature of the Authorised Signatory

(9) Supporting Voucher Number (10) A Document in lieu of the Supporting Voucher.

II. <u>Non-Cash Vouchers (Transfer Vouchers)</u>: Non-Cash Vouchers refer to vouchers prepare for transaction not involving cash.

Non-Cash Vouchers are prepared for the transactions of

1. Credit sale,
2. Credit purchase,
3. Goods returned (both Inwards and Outward),
4. Rectifying the mistakes.
5. Depreciation on Assets

C) **Transfer Voucher**

<table>
<tr><td colspan="2">Voucher No. ….   Name & Address of Co.
GSTIN: 07ABCD921XZ   Date 21-8-21
Amount (₹)</td></tr>
<tr><td>Debit: …Purchase A/c ….
Input CGST @ 6% ₹ 000
Input SGST @ 6% ₹ 000</td><td>₹ …….
₹ 000
₹…….</td></tr>
<tr><td>Credit: …SAI… A/c
(Being purchased goods, CGST and SGST payable vide bill no. 123)</td><td>₹ …….
₹ …….</td></tr>
<tr><td>Sd/-
Manager</td><td>Sd/-
Accountant</td></tr>
</table>

☺ **Without Cash and Bank**

Examination Problems

Q1. What is a Source Document?

Q2. What are the types of Accounting Vouchers?

Q3. What is a Voucher? Prepare an imaginary Specimen of Voucher.

Q4. What is a Compound Voucher?

Q5. Explain:- 1) Cash Memo; 2) Invoice; 3) Receipt; 4) Pay-in-slip; 5) Cheques; 6) Debit Note and 7) Credit Note.