**Business Studies**

**Chapter 4- Recording of transaction**

Recording of transaction- I is a process of accounting transactions of the business in several books of accounts like cash book, journal book, a ledger account, profit & loss account, etc. These entries are a source of documents which act as evidence for all the transactions taking place in the company. The main reason for the recording of the transaction- I, is to ascertain the financial status of an organisation at the end of every financial year.

The recording of transaction – I, involve steps like recognising the transaction to register and prepare the source documents which are registered in the basic book called journal. It is then reported in private accounts in the principal book called Ledger.

**Fundamental steps of Recording Of Transaction – I**

|  |
| --- |
| (i) Financial Transaction Identification From voucher |
| (ii) Transaction recording in the original entry In a journal |
| (iii) Arrange in Individual account Report in a ledger account |
| (iv) Plan financial statement Balance Sheet and Profit & Loss account |
| (v) Communicating with various customers |

**Approaches for the rules of Debit & Credit**

**1. Traditional Approach**

Under this approach, all ledger accounts are mainly classified into two categories:-

**(I) Personal Accounts:** It includes all those accounts which are related to any person i.e. Individuals, firms, companies, Banks etc. This can further classified into three categories:-

**1.** **Natural Persons:** All the accounts of human beings / Persons are included such Ram A/C, Shyam A/C etc.

**2.** **Artificial Persons:** This includes all such accounts which are treated as persons in the eyes of law & have separate legal entity such as Reliance Ltd., XYZ Ltd.

**3.** **Representative Persons:** This includes all such accounts which represents some persons such as Capital (Represent Owner) Outstanding Salary (Represent Employee)

**(II)** **Impersonal Accounts:** It includes all those accounts which are not related to any person this can be classified as :-

**1.** **Real Accounts:** Under this all accounts related to assets are included ( except Debtors). These can be Tangible i.e. Machinery, Furniture , Building, Cash etc. and Intangible I.e. Goodwill, Trade Mark, Patents Rights etc.

**2.** **Nominal Accounts :** this includes all the accounts related to Expenses/Losses & Incomes / Gains e.g. Salary, Rent, Commission received etc. they are used to record the transaction in the books of accounts.

**Rules of Debit/Credit under Traditional Approach**

|  |  |
| --- | --- |
| Classification of Accounts | Rules of Dr./ Cr. |
| Personal Accounts (All Personal Accounts) | Debit the receiver, Credit the Giver |
| Real Account | Debit what Comes In, Credit whats Goes Out |
| Nominal Account | Debit all Losses/Expenses, Credit all Income / Gains. |

**SOURCE DOCUMENTS**

A written document which provides evidence of the transactions is called the Source Documents. Source document is the first evidence of a transaction which takes place such as Cash Memo, Bill or Invoice, Receipt, Pay-in-slip, cheques, Debit-Note & Credit -Note.

**(a) Invoice (Bill):** An invoice is prepared by Seller at the time of sale of goods on credit. It contains details such as the goods sold, the party to whom goods are sold, sales amount, date etc.

**(b) Cash Memo :** It is prepared by the Seller at the time of Sale of goods on Cash. It contains details such as goods sold, quantity, amount received, date etc.

**(c) Pay-in-Slip :** It is used to deposit cash or cheque into bank. It has a counterfoil which is returned to the depositor with the Signature of the authorized person.

**(d) Receipt:** it is used when a customer give cash to the Business firm. It is an acknowledgement of payment or cash received by firm.

**(e) Cheque :** A cheque is a order in writing, drawn upon a specified banker and payable on demand.

**(f) Debit Note :** it is prepared when a buyer returned goods to seller or when purchased return transaction is entered in the books of accounts. It is prepared by the buyer of the goods.

**(g) Credit Note :** it is prepared when a seller received goods from buyer or when Sales return transaction is entered in the books of accounts. It is prepared by the Seller of the goods.

**VOUCHER**

A voucher is a document evidencing a business transaction. Recording in books of accounts are done on the basis of voucher. It is an accounting evidence of a business transaction.

**Classification of Accounting Vouchers**

|  |  |  |
| --- | --- | --- |
| Vouchers | Further classification | Purpose |
| Cash Vouchers | Debit VouchersCredit Vouchers | To show Cash PaymentTo show Cash Receipt |
| Non Cash Voucher | Transfer Voucher | To show Transactions not involving cash |

**CASH VOUCHERS**

Cash voucher is prepared to record all the transactions which involve cash either in the form of receipt or payment. Thus cash voucher is further classified into Debit Voucher & Credit Voucher.

**Format of Credit Voucher**

|  |
| --- |
| **M/s Pratibha Furnitures****180, Nai Sarak, Delhi** |
| Voucher No . ………………. Date………………. |
| DEBIT …………………………………………………………………………………………….…………………………………………………………………………………………………………..…………………………………………………………………………………………………………..Total | Amount (In Rs.) |
|  |
|  |
|  |
| Signature Manager SignatureAccountant |

**Transfer Voucher/Non-Cash Voucher**

This type of vouchers are prepared in those transactions which do not involve Cash. Such as Credit Sales, Credit Purchases, Bad Debts, Depreciation charged etc.

**Transfer Voucher**

|  |
| --- |
| **M/s Shyam Traders****156, Subhash Nagar, New Delhi** |
| Voucher No . ………………. Date………………. |
| DEBIT : -…………………………………………………………………………………………..…………………………………………………………………………………………………………..…………………………………………………………………………………………………………..Total | Amount (In Rs.) |
|  |
|  |
|  |
| CREDIT : – ……………………………………………………………………………………….…………………………………………………………………………………………………………..…………………………………………………………………………………………………………..Total | Amount (In Rs.) |
|  |
|  |
|  |
| Signature Manager SignatureAccountant |

**JOURNAL**

The first book in which the transactions of a business unit are recorded is called Journal. Here, business transactions are recorded in chronological order i.e. in the order in which they occur. Each record in a journal is called an entry. As a journal is the first book in which entries are recorded, it is also known as a book of original entry.

**FORMAT OF JOURNAL**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | L.F. | Amount (Rs.)Dr. | Amount (Rs.)Cr. |
|  |  |  |  |  |

Ledger Folio (L.F.): Ledger Folio is the page No. of Ledger on which the Debit A/C & Credit A/C are to be posted.

**TYPES OF ENTRIES**

**1. Simple Entry:**It is that entry in which only two accounts are affected i.e. one account is debited and another account is credited with an equal amount.

**2. Compound Entry :**It is that entry in which more than two accounts are involved. Compound Entries can further be classified into single compound entry and double compound entry.

In **Single Compound Entry** several accounts are to be debited and only one account is to be credited or only one account is to be debited and several accounts are to be credited.

**3. Opening Entry:**The entry passed to record the closing balances of the previous year is called opening entry. While passing an opening entry, all assets accounts are debited and all liabilities accounts are credited.

**Understanding Recording Transaction Rule**

In accounting, to execute recording transaction it is important to understand the financial accounting rule. According to dual entry concept, there are two ways of a transaction, one is a deduction from the total principal amount and also owed to the owner which is known as a debit. The other transaction is credit which refers to an increase in the total principal amount and also owed to the owner.

The three rules are:

* Personal Account- Debit the receiver and credit the giver.
* Real Account- Debit what comes in and credit what goes out.
* Nominal Account- Debit all expenses and losses, credit incomes and gains.

**The principal of Recording Transaction**

* Personal account deals with the credit or lending of money by a company.
* Real account deals with assets, liabilities and equity.
* Nominal account deals with expenses, revenue, gains and losses of a company.

**Important of Source Documents in Transaction**

* The documents are the physical evidence for the transaction that took place.
* It gives all the necessary and key details like the time, date, amount and the nature of the transaction.
* In the court of law, it can act as a proof.
* In the auditing process, the documents help in verifying the transaction
* **BOOKS OF ORIGINAL ENTRY/SPECIAL PURPOSE BOOKS**
* As since the business grows and number of transactions increase, it becomes necessary for the necessary for the business to divide the recording work. The books maintained are illustrated below:

|  |  |  |
| --- | --- | --- |
| Transactions | Further classification | Subsidiary Books Maintained |
| Cash & Bank Related Transactions | Only CashCash & Bank TransactionsCash payment of small amount | Simple Cash BookDouble Column Cash bookPetty Cash Book |
| Transaction Otherthan Cash & Bank | Credit SaleCredit PurchasesSales Returns/ Returns InwardPurchases Returns /Returns outwardAny other transaction | Sales BookPurchases BookSales returns BookPurchases Returns BookJournal Proper |

* **Advantages of Maintaining Subsidiary Books**
* · Division of work
* · Leads to Specialization
* · Easy to maintain Ledger
* · Check on frauds
* · Easy to fix responsibility
* · Quick availability of required information.
* **Cash Book**
* Cash book shows all the transaction related to cash receipt and payments. Cash book serves two purpose. First, all the cash transactions are recorded first time in cash book it becomes Book of original entry. Second, there is no need to prepare Cash a/c in ledger it also play the role of Principal Book.
* **Simple Cash Book**
* All the cash receipts are shown in left hand side i.e. Debit side and all the cash payments are shown in right hand side i.e. Credit Side.
* **Points to Remember**
* · Cash in hand/opening balanced of cash is shown in Dr. side of the Cash book as “To Balance b/d”
* · Only transaction of cash receipts and payments are recorded in this book.
* · This book never shows a credit balance because one can’t pay more than the cash one have.
* **Notes:**One can draw the following conclusions:
* **1.** In a Simple Cash Book only cash receipts and cash payments are recorded. Credit transactions are not recorded. Purchases from Mohan of Rs. 5,000 on 15th Jan is a credit purchase hence, is not recorded in the Cash Book.
* **2.** The debit side is always bigger than the credit side since the payments can never exceed the available cash. This is true even for daily balances.
* **3.** It is like an ordinary account.
* **CASH BOOK WITH DISCOUNT COLUMN**
* Where cash discounts are allowed and received respectively, additional columns are provided on the debit side for discount allowed and on the credit side for discount received. The discount columns in the cash book are not parts of the cash book but are memoranda (provisional) columns because discount account is a nominal account while cash account is a real account. On balancing the cash book, the discount columns are singly totaled but not balanced.
* **CASH BOOK WITH DISCOUNT AND BANK COLUMN**
* In this case the Cash Book is ruled with there amount columns on either side of the cash book namely, “Discount, cash and Bank”. Cash columns in such a case will record actual cash received in the debit side and payments in the credit side. Cheques received should be entered on the debit side of the bank column when it deposited in the bank. The payments by cheques should be entered on the credit side in bank column and also when cash is withdrawn from the bank.
* **IMPORTANT ENTRIES**
* **1. Contra Entries :** These entries affect cash and bank columns both at the same time. To indicate contra entry “C” is mentioned in the L.F column of the cash Book. Following two cases result in Contra entries.
* **(2) Entries relating to cheques :**
* **(a)** When any payment is made by cheque : It will reduce the bank balance and thus bank column will be credited.
* **(b)** When any payment is received in the form of cheque and no information about its deposit into bank is given. In this case it is assumed that the cheque is deposited into bank on the same day, when it is received & so bank A/c will be debited.
* **(c)** When any payment is received in the form of cheque and it is deposited into bank on some other day i.e. when two dates, one for the receipt of cheque and the other for deposit. In this case no entry it to be recorded at the time of receiving the cheque. Entry is to made when cheque deposited in the bank, as bank column debited.
* **Petty Cash Book**
* Business has to incur small expenses which are repetitive in nature. To save the time and efforts of head cashier, business appoints a petty cashier. He is entrusted with the duty of paying these expenses.
* **Imp rest System of Petty Cash Book**
* Under this system, Head cashier gives a fixed amount to petty cashier for a definite period. At the end of given period, Head cashier reimburses the amount actually spent by the petty cashier resulting the same amount with petty cashier which he had in the beginning of the period
* This can be illustrated as under.
* Head Cashier Petty Cashier
* 
* **Advantage of Petty Cash Book**
* · Saving of time and efforts of Head cashier
* · Control on Petty expenses.
* · Less chances of fraud.
* **SPECIAL PURPOSE SUBSIDIARY BOOKS**
* **Purchases Book**
* In this book, only those transactions are recorded which are related to credit purchases of goods in which the business deals in. Recording is made on the basis of Bills/ Invoices issued by the Suppliers.
* **Transactions not recorded in purchases Book**
* · Purchases of goods for cash.
* · Purchases of Assets meant for long term, not for resale.
* **Note:-**
* **1.**Transaction of Aug. 5 is related to credit purchases of furniture i.e. an Asset.
* **2.**On Aug. 17, goods bought for cash, Hence both the transaction are not recorded in Purchases Book.
* **Sales Books/Sales Journal**
* In this book, transactions for credit sales of goods are recorded. The source documents for this book is duplicate copy of invoice/bills issued to the customers.
* **Transactions not recorded in Sales Book**
* Sales of goods for cash
* Sales of Assets.
* **Note:-**
* **1.** Transaction of Julyl5 is related to sale of asset,
* **2.** Sale of Rama Furniture is made for cash, hence not recorded in Sales Book.
* **PURCHASES RETURNS/RETURNS OUTWARD BOOK**
* This book includes only those transactions which are related to returns of goods bought on credit. The goods may be returned due to various reasons such as goods bought being defective, supply of inferior quality goods etc. Entries in this book are made on the basis of Debit Note. A Debit note contains the name of the supplier to whom good are returned, details of goods returned
* **Sales Returns Book**
* This book includes all the returns by customers of credit sales of goods. The Credit Note is used The Credit Note is used for recording entries in this book. The credit note contains the details of customers and goods returned.