

## Chapter: 3

# RECORDING OF TRANSACTIONS-I

## SOURCE DOCUMENTS

According to Objectivity concept, each and every transactions recorded in the books of accounts must be supported by various source documents

‘Source document’ / ‘Voucher’ is a document which provides evidence and complete information regarding the transaction

# VARIOUS SOURCE DOCUMENTS

Electricity bill, School fee receipt, Telephone bill, Sales invoices etc. are some of the source documents which are familiar in our daily life.

## SOURCE DOCUMENTS USED IN BUSINESS

**INVOICE** : Prepared on sale of goods

**RECEIPTS** : It is a receipt acknowledging cash received

**DEBIT NOTE** : Prepared on Purchase returns

**CREDIT NOTES** : Prepared on sales returns etc..

# ACCOUNTING EQUATION

Mrs. Sobha commenced business with cash Rs. 50,000 and raised a bank loan of Rs. 30,000. She purchased machinery for cash Rs. 40,000 and goods worth Rs. 30,000. See the following questions and their answers-

What are the assets of the business

Machinery	40,000
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Stock of goods	30,000
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Cash	10,000
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Total assets	80,000
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ASSETS = 80,000

What is the liability of the business

Bank Loan	30,000
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Total liability	30,000
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What is the Capital of the business

Capital	50,000
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Total Capital	50,000
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LIABILITIES + CAPITAL = 80,000

# ACCOUNTING EQUATION

Accounting equation states that...

The total assets will be always equal to the total of capital and liabilities

$$\text{ASSETS} = \text{CAPITAL} + \text{LIABILITIES}$$

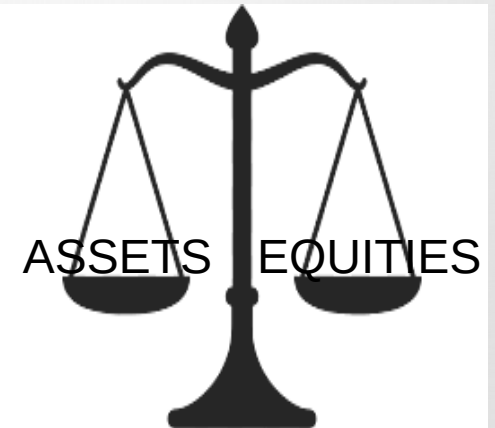
The total assets of a business are always equal to the total of its equities

$$\text{ASSETS} = \text{EQUITIES}$$

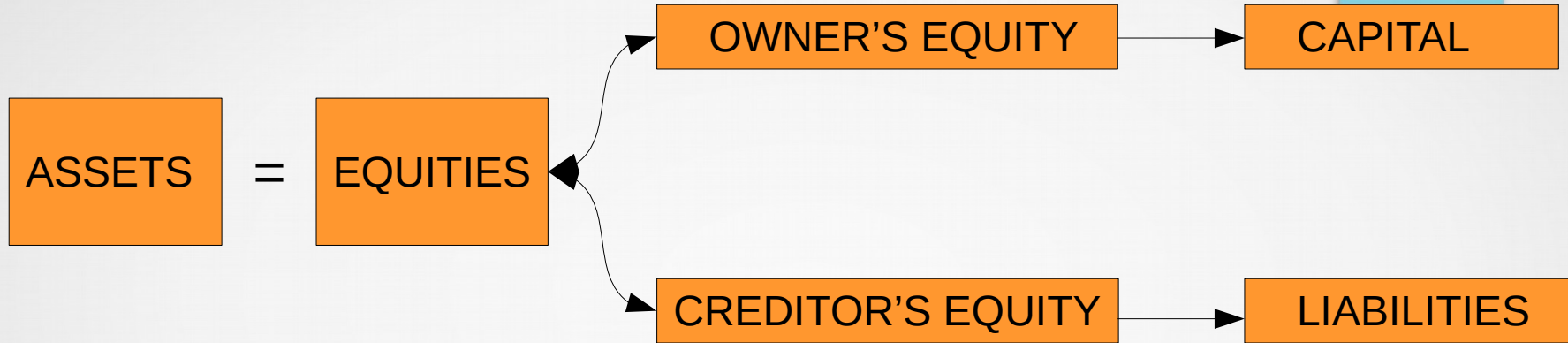


'Assets' are the economic resources owned by a business.

Equities are the other's claim on the assets of a business



# ACCOUNTING EQUATION



Everything the business owns = Everything the business owes

## BASIC ACCOUNTING EQUATION

ASSETS = CAPITAL + LIABILITIES

CAPITAL = ASSETS – LIABILITIES

LIABILITIES = ASSETS - CAPITAL

ASSETS	CAPITAL + LIABILITIES	
10,000	7,000	+ ?
20,000	?	+ 12,000
?	30,000	+ 15,000

## ACCOUNTING EQUATION

According to Double entry concept, every transaction has two aspects.

When both the aspects are recorded,

The total assets will be equal to the total of capital and liabilities.

$$\text{ASSETS} = \text{CAPITAL} + \text{LIABILITIES}$$

**Illustration:** See the effect of each transaction on the assets, liabilities and capital of the firm.

1. Arun started business with cash Rs. 50,000

CAPITAL + LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital	50,000	Cash	50,000
Total	50,000	Total	50,000

## ACCOUNTING EQUATION

Previous balances			
CAPITAL + LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital	50,000	Cash	50,000
Total	50,000	Total	50,000

### 2. Purchased furniture for cash Rs. 10,000

CAPITAL + LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital	50,000	Cash	40,000
		Furniture	10,000
Total	50,000	Total	50,000

## ACCOUNTING EQUATION

Previous balances			
CAPITAL + LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital	50,000	Cash	40,000
		Furniture	10,000
Total	50,000	Total	50,000

3. Opened a bank account with Rs. 20,000

CAPITAL + LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital	50,000	Cash	20,000
		Furniture	10,000
		Bank	20,000
Total	50,000	Total	50,000



## ACCOUNTING EQUATION

Previous balances			
CAPITAL + LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital	50,000	Cash	20,000
		Furniture	10,000
		Bank	20,000
Total	50,000	Total	50,000

### 4. Purchased goods for cash Rs. 5,000

CAPITAL + LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital	50,000	Cash	15,000
		Furniture	10,000
		Bank	20,000
		Stock of goods	5,000
Total	50,000	Total	50,000

Previous balances

**ACCOUNTING EQUATION**

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital	50,000	50,000	Cash	15,000	
			Furniture	10,000	
			Bank	20,000	
			Stock of goods	5,000	
Total	50,000	Total	50,000		

5. Purchased goods from Sarath on credit Rs. 10,000

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital	50,000	50,000	Cash	15,000	
Creditors (Liability)	10,000	10,000	Furniture	10,000	
			Bank	20,000	
			Stock of goods	15,000	
Total	60,000	60,000	Total	60,000	

Previous balances

## ACCOUNTING EQUATION

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital		50,000	Cash		15,000
			Furniture		10,000
Creditors (Liability)		10,000	Bank		20,000
			Stock of goods		15,000
Total		60,000	Total		60,000

5. The proprietor withdrew cash for personal use Rs. 5,000

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital		45,000	Cash		10,000
			Furniture		10,000
Creditors (Liability)		10,000	Bank		20,000
			Stock of goods		15,000
Total		55,000	Total		55,000

Previous balances

## ACCOUNTING EQUATION

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital		45,000	Cash		10,000
Creditors (Liability)		10,000	Furniture		10,000
			Bank		20,000
			Stock of goods		15,000
Total		55,000	Total		55,000

7. Sold goods for cash Rs. 2,500 (Cost Rs.2,000)

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital		45,500	Cash		12,500
Creditors (Liability)		10,000	Furniture		10,000
			Bank		20,000
			Stock of goods		13,000
Total		55,500	Total		55,500

Previous balances

## ACCOUNTING EQUATION

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital		45,500	Cash		12,500
			Furniture		10,000
Creditors (Liability)		10,000	Bank		20,000
			Stock of goods		13,000
<b>Total</b>		<b>55,500</b>	<b>Total</b>		<b>55,500</b>

8. Sold goods to Anil on credit Rs. 3,500 (Cost Rs. 3,000)

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital		46,000	Cash		12,500
			Furniture		10,000
Creditors (Liability)		10,000	Bank		20,000
			Stock of goods		10,000
			Debtors		3,500
<b>Total</b>		<b>56,000</b>	<b>Total</b>		<b>56,000</b>

## Previous balances

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital	46,000		Cash	12,500	
			Furniture	10,000	
Creditors (Liability)	10,000		Bank	20,000	
			Stock of goods	10,000	
			Debtors	3,500	
Total	56,000	Total	56,000		

## 9. Paid salary Rs. 500

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital	45,500		Cash	12,000	
			Furniture	10,000	
Creditors (Liability)	10,000		Bank	20,000	
			Stock of goods	10,000	
			Debtors	3,500	
Total	55,500	Total	55,500		

Previous balances

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital	45,500		Cash	12,000	
			Furniture	10,000	
			Bank	20,000	
Creditors (Liability)	10,000		Stock of goods	10,000	
			Debtors	3,500	
			<b>Total</b>	<b>55,500</b>	<b>Total</b>

10. Bank allowed interest on deposit Rs. 400

CAPITAL + LIABILITIES		AMOUNT	ASSETS		AMOUNT
Capital	45,900		Cash	12,000	
			Furniture	10,000	
			Bank	20,400	
Creditors (Liability)	10,000		Stock of goods	10,000	
			Debtors	3,500	
			<b>Total</b>	<b>55,900</b>	<b>Total</b>

## Illustration:

Show the impact of the following transactions on the accounting equation

1. Started business with cash Rs. 10,000
2. Purchased furniture Rs. 1,000
3. Purchased goods for cash Rs. 5,000
4. Purchased goods on credit Rs. 3,000
5. Sold goods for cash Rs. 2,000
6. Deposited cash in bank Rs. 2,000
7. Paid cash to creditors Rs. 1,000



Trn. No.	ASSETS				CAPITAL + LIABILITIES	
	CASH	FURNITURE	STOCK	BANK		
1	+10,000				+10,000	0
<b>N E</b>	<b>10,000</b>				<b>10,000</b>	<b>0</b>
2	-1,000	+1,000			0	0
<b>N E</b>	<b>9,000</b>	<b>1,000</b>			<b>10,000</b>	<b>0</b>
3	-5,000	0	+5,000		0	0
<b>N E</b>	<b>4,000</b>	<b>1,000</b>	<b>5,000</b>		<b>10,000</b>	<b>0</b>
4	0	0	+3,000		0	+3,000
<b>N E</b>	<b>4,000</b>	<b>1,000</b>	<b>8,000</b>		<b>10,000</b>	<b>3,000</b>
5	+2,000	0	-2,000		0	0
<b>N E</b>	<b>6,000</b>	<b>1,000</b>	<b>6,000</b>		<b>10,000</b>	<b>3,000</b>
6	-2,000	0	0	+2,000	0	0
<b>N E</b>	<b>4,000</b>	<b>1,000</b>	<b>6,000</b>	<b>2,000</b>	<b>10,000</b>	<b>3,000</b>
7	-1,000	0	0	0	0	-1,000
<b>N E</b>	<b>3,000</b>	<b>1,000</b>	<b>6,000</b>	<b>2,000</b>	<b>10,000</b>	<b>2,000</b>
	<b>12,000</b>				<b>12,000</b>	

## RULES OF DEBIT AND CREDIT

According to 'Double entry system' of accounting, every business transaction involves two aspects; a receiving aspect and a giving aspect.

Both these aspects must be recorded in the books of accounts.

Example: Purchased Machinery for cash Rs. 10,000

Receiving aspect : Machinery **Rs. 10,000**

Giving aspect : Cash **Rs. 10,000**

**Machinery account**

Debit Side	Credit Side

**Cash account**

Debit Side	Credit Side

# ACCOUNT

# RULES OF DEBIT AND CREDIT

An 'Account' is a summarised statement of all transactions relating to a particular item for a particular period

For example, Cash account is a summarised statement of all cash receipts and payments during a particular period

Dr				Name of account				Cr
Date	Particulars	LF	Amount	Date	Particulars	LF	Amount	
<b>D E B I T     S I D E</b>				<b>C R E D I T     S I D E</b>				

**Debiting an account means writing the amount and other details of the transaction on the debit side of an account**

**Crediting an account means writing the amount and other details of the transaction on the credit side of an account**

## RULES OF DEBIT AND CREDIT

Example of an account:

Dr				Cash account				Cr			
Date	Particulars	LF	Amount		Date	Particulars	LF	Amount			
2020 Jan-1	Capital a/c		50,000		2020 Jan-2	Purchases a/c		30,000			
5	Sales a/c		20,000		4	Furniture a/c		2,000			
10	Commission received a/c		2,000		10	J&J suppliers a/c		20,000			
15	Santhosh's a/c		5,000		18	Bank a/c		10,000			
25	Bank a/c		3,000		30	Rent a/c		3,000			
					31	Balance c/d		15,000			
			80,000					80,000			

**Debiting an account means writing the amount and other details of the transaction on the debit side of an account**

**Crediting an account means writing the amount and other details of the transaction on the credit side of an account**

According to '**Duality principle**', every transaction involves two aspects-  
**Debit aspect** and **Credit aspect**.

The Debit aspect means the account to be debited  
The Credit aspect means the account to be credited

To decide the Debit and Credit aspect of each transaction,  
the accounts are classified into five categories

**ASSETS**

**LIABILITIES**

**CAPITAL**

**EXPENSES**

**REVENUE**

## Classify the following accounts into-

**ASSETS**

**LIABILITIES**

**CAPITAL**

**EXPENSES**

**INCOMES**

Name of accounts                      Category

Cash a/c

Furniture a/c

Bank Loan a/c

Building a/c

Salary a/c

Capital a/c

Arun's a/c (Debtor)

Name of accounts                      Category

Bank a/c

Interest received a/c

Gopi's a/c (creditor)

Purchases a/c

Sales a/c

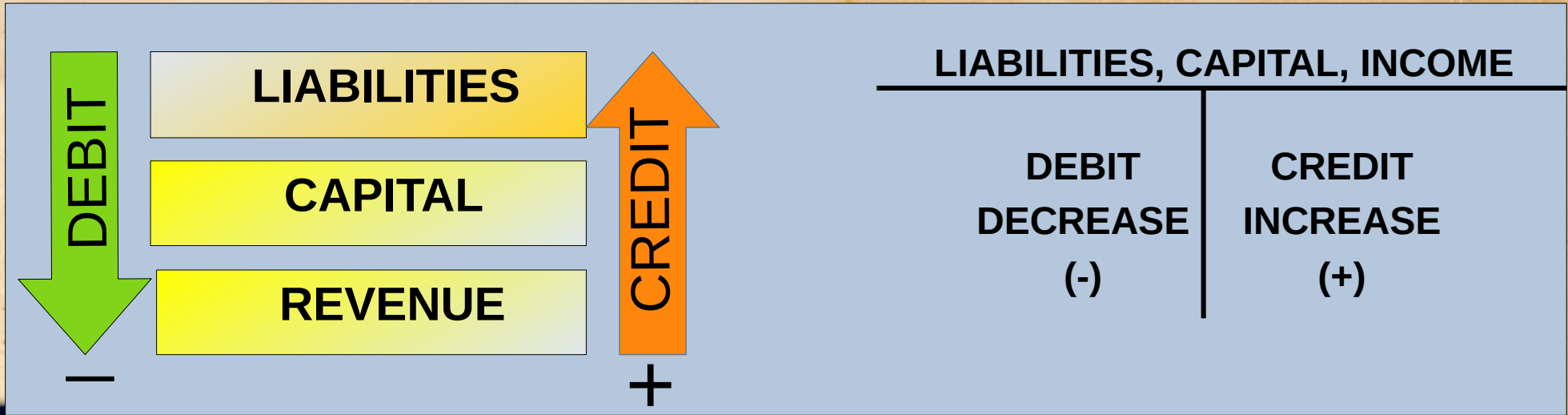
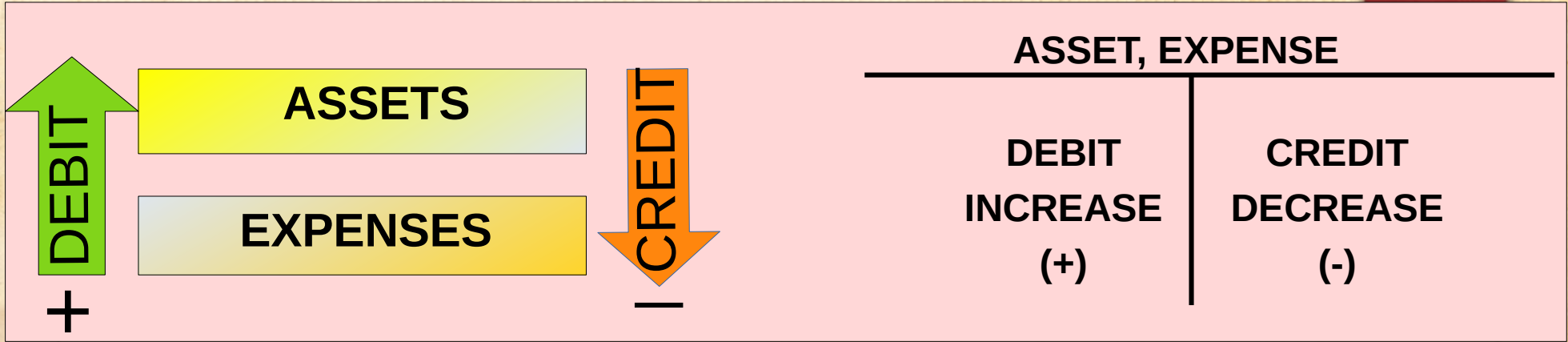
Drawings a/c

Insurance a/c

From the following transactions, determine the name of accounts involved and classify them into **Assets**, **Liabilities**, **Capital**, **Expense** and **Revenue**

No	Transaction	Name of accounts involved	Type of Account
1	Thomas started business with cash Rs. 25,000	<b>Capital a/c</b>	<b>Capital</b>
		<b>Cash a/c</b>	<b>Asset</b>
2	Purchased goods for cash Rs. 15,000	<b>Purchases a/c</b>	<b>Expense</b>
		<b>Cash a/c</b>	<b>Asset</b>
3	Purchased furniture Rs. 5,000	<b>Furniture a/c</b>	<b>Asset</b>
		<b>Cash a/c</b>	<b>Asset</b>
4	Purchased goods on credit from P&B Ltd Rs.1,000	<b>Purchases a/c</b>	<b>Expense</b>
		<b>P&amp;B Ltd a/c (Creditor)</b>	<b>Liability</b>
5	Sold goods for cash Rs. 7,000	<b>Cash a/c</b>	<b>Asset</b>
		<b>Sales a/c</b>	<b>Revenue</b>
6	Sold goods to Ravi on credit Rs. 6,000	<b>Ravi's a/c (Debtor)</b>	<b>Asset</b>
		<b>Sales a/c</b>	<b>Revenue</b>

# RULES OF DEBIT AND CREDIT





## RULES OF DEBIT AND CREDIT

### ASSET

Increase in asset is debited

Decrease in asset is credited

### ASSET a/c

DEBIT  
INCREASE  
(+)

CREDIT  
DECREASE  
(-)

Eg. Purchased Machinery for cash Rs. 10,000

Machinery Rs. 10,000 (asset) increases

Cash Rs. 10,000 (asset) decreases

Dr		Cr	
Particulars	Amount	Particulars	Amount

Dr		Cr	
Particulars	Amount	Particulars	Amount

## RULES OF DEBIT AND CREDIT

### LIABILITY

Increase in liability is credited

Decrease in liability is debited

### LIABILITY a/c

DEBIT DECREASE (-)	CREDIT INCREASE (+)
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Eg. Received a Bank loan Rs. 1,00,000

Cash Rs. **1,00,000** (asset) increases

Bank loan Rs. **1,00,000** (Liability) Increases

Dr		Cr	
Particulars	Amount	Particulars	Amount

Dr		Cr	
Particulars	Amount	Particulars	Amount

## RULES OF DEBIT AND CREDIT

### CAPITAL

Increase in capital is credited

Decrease in capital is debited

### CAPITAL a/c

DEBIT DECREASE (-)	CREDIT INCREASE (+)
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Biju Started business with cash Rs. 1,00,000

Cash Rs. **1,00,000** (asset) increases

Capital Rs. 1,00,000 (Capital) Increases

Dr		Cr	
Particulars	Amount	Particulars	Amount

Dr		Cr	
Particulars	Amount	Particulars	Amount

## RULES OF DEBIT AND CREDIT

### EXPENSE

Increase in expense is debited

Decrease in expense is credited

### EXPENSE a/c

DEBIT  
INCREASE  
(+)

CREDIT  
DECREASE  
(-)

Eg. Paid salary Rs. 5,000

Salary Rs. 5,000 (expense) increases

Cash Rs. 5,000 (asset) decreases

Dr		Cr	
Particulars	Amount	Particulars	Amount

Dr		Cr	
Particulars	Amount	Particulars	Amount

## RULES OF DEBIT AND CREDIT

### REVENUE

Increase in Revenue is credited

Decrease in Revenue is debited

### REVENUE a/c

REVENUE a/c	
DEBIT DECREASE (-)	CREDIT INCREASE (+)

Received commission Rs. 2,500

Cash Rs. **2,500** (asset) increases

Commission : Rs. 2,500 (Revenue) Increases

Dr		Cr	
Particulars	Amount	Particulars	Amount

Dr		Cr	
Particulars	Amount	Particulars	Amount

## Determine the debit and credit aspects of the following transactions-

No	Transaction	Name of Accounts	Type of Accounts	Increase/ decrease	Debit / Credit	Amount
1	Commenced business with cash Rs. 1,00,000	Cash a/c	Asset	Increase	Debit	1,00,000
		Capital a/c	Capital	Increase	Credit	1,00,000
2	Purchased furniture Rs. 5,000	Furniture a/c	Asset	Increase	Debit	5,000
		Cash a/c	Asset	Decrease	Credit	5,000
3	Purchased goods for cash Rs. 50,000	Purchase a/c	Expense	Increase	Debit	50,000
		Cash a/c	Asset	Decrease	Credit	50,000
4	Credit purchase from Balu Rs. 20,000	Purchase a/c	Expense	Increase	Debit	20,000
		Balu's a/c	Liability	Increase	Credit	20,000
5	Cash sales Rs. 25,000	Cash a/c	Asset	Increase	Debit	25,000
		Sales a/c	Income	Increase	Credit	25,000
6	Credit sales to Remya Rs. 5,000	Remya's a/c	Asset	Increase	Debit	5,000
		Sales a/c	Income	Increase	Credit	5,000
7	Paid salary Rs. 2,000	Salary a/c	Expense	Increase	Debit	2,000
		Cash a/c	Asset	Decrease	Credit	2,000

Complete the following table

No	TRANSACTION	DEBIT		CREDIT	
		ACCOUNT	AMOUNT	ACCOUNT	AMOUNT
1	Started business with cash Rs. 10,000	Cash a/c	10,000	Capital a/c	10,000
2	Bought machinery from P&Co Rs.5,000	Machinery a/c	5,000	P&Co a/c	5,000
3	Bought goods for cash Rs. 6,000	Purchases a/c	6,000	Cash a/c	6,000
4	Bought furniture Rs. 2,000	Furniture a/c	2,000	Cash a/c	2,000
5	Sold goods to Jose Rs. 2,000	Jos a/c	2,000	Sales a/c	2,000
6	Cash sales Rs. 3,000	Cash a/c	3,000	Sales a/c	3,000
7	Paid cash to P & Co Rs. 2,000	P&Co a/c	2,000	Cash a/c	2,000
8	Cash taken for personal use Rs. 500	Drawings a/c	500	Cash a/c	500
9	Goods taken for personal use Rs. 600	Drawings a/c	600	Purchase a/c	600
10	Cash received from Jose Rs. 1,000	Cash a/c	1,000	Jose a/c	1,000

## **DOUBLE ENTRY BOOK KEEPING**

The Double entry book keeping is a system of accounting which records both the aspects of a transaction in the books of accounts.

This system may be summarised as follows-

- 1. There are two aspects to each transaction, namely- a debit aspect and a credit aspect.**
- 2. Both the aspects must be systematically recorded in the books of accounts.**
- 3. For every debit there is a corresponding credit.**



## **ADVANTAGES OF DOUBLE ENTRY BOOK KEEPING**

- 1. The accounts prepared under double entry system are more reliable and accurate**
- 2. The arithmetical accuracy of accounting work can be tested through the device of Trial balance .**
- 3. We can arrive at the following equation-**  
**ASSETS = CAPITAL + LIABILITIES**
- 4. Correct Profit or Loss can be ascertained**
- 5. Financial position of the business can be ascertained through the preparation of Balance sheet**



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