Revision Notes

Chapter-3 Recording of Transactions

Learning Objectives

After studying this chapter, you should be able to:

- Explain how to prepare accounting Vouchers.
- Apply accounting equation to explain the effect of transactions.
- Record transactions using rules of debit and credit.
- Record transactions in journal and other subsidiary books.
- Explain the purpose of maintaining a cash book.

Suggested Method: Discussion Method, Illustration method, problem solving method etc.

Accounting Equation

An Accounting equation is based on the dual concept of accounting, according to which, every transaction has two aspects namely Debit and Credit. It means that every transaction in accounting affects both Debit (Dr.) and Credit (Cr.) side equally.
Total assets of the business firm are financed through the funds raised from either the outsiders (which generally consist of Creditors and lenders) or the Owners (which is called Capital).
According to Business entity concept, Business is a legal entity separate from its owners and thus the amount invested by the owner in the business (called Captial) is a liability for the business. Accounting equation thus refers to an equation in which total assets are always equal to the total Liabilities (i.e. Capital + Liabilities)
Assets = Capital + Liabilities

Analysis of Business Transactions

Business transactions may affect either both sides of the equation or one side of the equation but the ultimate effect must be equal on both the sides. All the effects are as follows:-

1. Transaction affecting both sides of the equation:

A. Commenced business with cash Rs 3,00,000

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Assets		=	Capital + Liabilities
	Cash		Capital
Transactions	3,00,000	=	3,00,000

Explanation:- As Cash is invested by the owner, it should be shown as the Capital (anything which is brought in by the owner is termed as Capital) & the business is receiving an asset in the form of cash, so it is to be shown on the Assets side as Cash.

B. Bought goods from Ram Rs. 30,000

Effect

Assets		=	Capital+Liabilities
	Cash + Stock		Capital + Creditors
Old Equation	3,00,000 + _	=	3,00,000 + _
Transactions	0 + 30,000	=	0 + 30,000
N.E.	3,00,000 + 30,000	=	3,00,000 + 30,000

Explanation:- As goods have been purchased on credit, one effect is that it should be shown on the assets side as goods & the other effect is that since goods have been purchased on credit, so it is to be shown in Liabilities as Creditors.

C. Sold goods (costing Rs. 10000) for cash at Rs. 13000

Effect

Assets		=	Capital + Liabilities
	Cash + Stock		Capital + Creditors
Old Equation	3,00,000 + 30,000	=	3,00,000 + 30,000
Transactions	13000 - 10,000	=	3000 + 0
N.E.	3,13,000 + 20,000	=	3,03,000 + 30,000

Explanation:- The transaction will affect both the sides as cash has been received, so it is to be added to cash (Rs. 13,000) & Goods are to be reduced by Rs 10,000 as goods have been sold.

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Also profit of Rs. 3,000 is to be added to Capital. Net effect will remain same for both sides

D. Paid to creditors Rs. 20,000

Effect

Assets		=	Capital+Liabilities
	Cash + Stock		Capital + Creditors
Old Equation	3,13,000 + 20,000	=	3,03,000 + 30,000
Transactions	-20000 + 0	=	0 - 20,000
N.E.	2,93,000 + 20,000	=	3,03,000 + 10,000

Explanation:- The transaction will affect both the sides as cash has been paid, so it is to be deducted from cash and also from the creditors as the payment has been made to them.

Transaction related to Expenses

All the expenses and Losses are to be borne by the owner. Although business is a legal entity separate from its owners but He/She is the person who has taken the risk to do business.

E. Rent paid Rs. 5,000.

Effect

Assets		=	Capital+ Liabilities
	Cash + Stock		Capital + Creditors
Old Equation	2,93,000 + 20,000	=	3,03,000 + 10,000
Transactions	-5,000 + 0	=	-5000 + 0
N.E.	2,88,000 + 20,000	=	2,98,000 + 10,000

Explanation:- The transaction will affect both the sides as cash has been paid, so it is to be reduced and also the capital is to be reduced because the expense is to be borne by the owner.

Transaction related to Income

Income or Profit is the reward for taking risk, as the risk is taken by the owner, so the income

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or profit is to be added to the Capital.

F. Commission received Rs. 8,000.
Effect

Assets		=	Capital + Liabilities
	Cash + Stock		Capital + Creditors
Old Equation	2,88,000 + 20,000	=	2,98,000 + 10,000
Transactions	+ 8,000 + 0	=	+ 8000 + 0
N.E.	2,96,000 + 20,000	=	3,06,000 + 10,000

Explanation:- The transaction will affect both the sides as cash has been received, so it is to be added to cash and also to the Capital.

Transaction related to Accrued/Outstanding Income
Income is to be added to the capital but as it has not been received should be shown on the Assets Side as accrued Income because it is meant to be received in the current financial year.

A. Accrued Interest Rs. 10,000
Effect

Assets		=	Capital + Liabilities
	Cash + Goods + Accured Income		Capital + Creditors
Old Equation	2,96,000 + 20,000 + _	=	3,06,000 + 10,000
Transactions	0 + 0 + 10,000	=	+10,000 + 0
N.E.	2,96,000 + 20,000 + 10,000	=	3,16,000 + 10,000

Explanation:- The transaction will affect both the sides as the Accrued Income has been added back to the capital & as it is not received so it is to be shown in the assets side as an assets.

Transaction related Advance Income

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As the Income has been received in advance, it does not belong to the current financial year and thus it cannot be added to the Capital. It as an amount which has been received by the business firm for an activity to be performed in the future. Till the time that activity is not performed, it is a liability for the business.

A. Rent received in advance Rs. 5000

Effect

Assets		=	Capital + Liabilities
	Cash + Goods + Accured Income		Capital + Creditors + Advance Rent
Old Equation	2,96,000 + 20,000 + 10,000	=	3,16,000 + 10,000 + _
Transactions	+5,000 + 0 + 0	=	+0 + 0 + 5,000
N.E.	3,01,000 + 20,000 + 10,000	=	3,16,000 + 10,000 + 5,000

Explanation:-The transaction will affect both the sides as the advance Income is a Liability and should be shown on the Liabilities side. The Cash received by the business should be added to the Cash column on the assets side.

2. Transaction affecting one side of the equation:

(I) Transaction affecting Assets side of the equation:

Transaction related to Prepaid or Advance Expense

As the expense has been paid in advance so it does not belong to the current financial year, so it can not be deducted from the Capital. It as an amount which has been paid by the business firm for a service/benefit to be availed/received in the future. Till the time that service/benefit is not availed/received, it is an Asset for the business.

A. Prepaid insurance Rs. 4,000

Effect

Assets		=	Capital+Liabilities
	Cash+Stock+Accured Income+Prepaid Expense		Capital+Creditors+Advance Rent
Old			

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Equation	3,01,000+20,000+10,000 + _	=	3,16,000+10,000+5,000
Transactions	-4,000+0+0+4,000	=	+0+0+0
N.E.	2,97,000+20,000+10,000+4,000	=	3,16,000+10,000+5,000

Explanation:- The transaction will affect only one side as the prepaid expense is an Asset and should be shown on the Assets side & the Cash paid by the business should be deducted from the Cash column on the assets side.

B. Purchased Machinery for Cash Rs. 80,000

Effect

Assets		=	Capital+Liabilities
	Cash+Stock+Accured Income+Prepaid Insurance+Machinery		Capital+Creditors+Advance Rent
Old Equation	2,97,000+20,000+10,000+4,000+ _	=	3,16,000+10,000+5,000
Transactions	-80,000+0+0+0+80,000	=	+0+0+0
N.E.	2,17,000+20,000+10,000+4,000+80,000	=	3,16,000+10,000+5,000

Explanation:- The transaction will affect only one side as cash has been paid for purchased of machinery & Machine is a fixed asset, so it is shown separately on the assets side and also the cash has been reduced.

(II) Transaction affecting Liability side of the equation:

Transaction related to outstanding Expense

As Expense not paid yet or Outstanding but belong to current financial year so it is deducted from Capital & business has to pay it in near future so it is the liability of the firm.

A. Salary outstanding Rs. 8,000

Effect

Assets		=	Capital+Liabilities
	Cash+Stock+Accured Income		Capital+Creditors

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	+Prepaid Exp.+Machinery		+Advance Rent+Outstanding Exp
Old Equation	2,17,000+20,000+10,000+4,000+80,000	=	3,16,000+10,000+5,000 + _
Transactions	0+0+0+0+0	=	-8,000+0+0+8,000
N.E.	2,17,000+20,000+10,000+4,000+80,000	=	3,08,000+10,000+5,000+8,000

Explanation:- The transaction will affect only one side. Outstanding expense is a Liability and should be shown on the Liabilites side & the expense should be deducted from the capital.

Transaction related to Interest on Capital

As interest on capital is an expense for the business, it should be deducted from the capital. Also, interest on capital is the amount which is to be paid to the owner as the capital has been invested by him, therefore it is to be added back to the capital.

A. Interest on Capital Rs. 10,000

Effect

Assets		=	Capital+Liabilities
	Cash+Stock+Accured Income +Prepaid Exp.+Machinery		Capital+Creditors +Advance Rent+Outstanding Exp.
Old Equation	2,17,000+20,000+10,000+4,000+80,000	=	3,08,000+10,000+5,000+8,000
Transactions	+0+0+0+0+0	=	-10,000
			+10,000+0+0+0
N.E.	2,17,000+20,000+10,000+4,000+80,000	=	3,08,000+10,000+5,000+8,000

Explanation:- The transaction will affect only one side. The Interest on Capital should be added to as well as deducted from the capital resulting in no impact on the previous accounting equation.

Transaction related to interest on drawings

As interest on drawings is an income for the business, it should be added to the capital. Also the interest on drawings is the amount which is to be paid by the owner to the business, so it

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is treated as drawings and deducted from the capital.

A. Interest on drawings Rs. 1,000

Effect

	Assets	=	**Capital + Liabilities**
	Cash+Stock+Accured Income +Prepaid Exp.+Machinery		Capital+Creditors +Advance Rent+Outstanding Exp
Old Equation	2,17,000+20,000+10,000+4,000+80,000	=	3,08,000+10,000+5,000+8,000
Transactions	-0+0+0+0+0	=	-10,000
			+10,000+0+0+0
N.E.	2,17,000 + 20,000 + 10,000 + 4,000 + 80,000	=	3,08,000 + 10,000 + 5,000 + 8,000

Explanation:- The transaction will affect only the liabilities side. Interest on drawings should be added to as well as deducted from the capital as both of them belong to the owner.

Transaction related to drawings

As drawings is the amount withdrawn by the owner from the business, so it is to be deducted from the capital & also from the asset which has been withdrawn.

A. Owner withdrew cash Rs. 10,000

Effect

	Assets	=	**Capital + Liabilities**
	Cash+Goods+Accured Income +Prepaid Exp.+Machinery		Capital+Creditors +Advance Rent+Outstanding Exp
Old Equation	2,17,000+20,000+10,000+4,000+80,000	=	3,08,000+10,000+5,000+8,000
Transactions	-10,000+0+0+0+0	=	-10,000+0+0+0
N.E.	2,07,000+20,000+10,000+4,000+80,000	=	2,98,000+10,000+5,000+8,000

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Explanation:- The transaction will affect both the sides as drawings should be deducted from the capital & also from the cash.

Rules of Debit and Credit

Every business transaction affects two or more accounts. An account is a summarised record of transactions related to a particular head at one place . An account is divided into two parts i.e., debit and credit. Debit refer to the left side of an account and Credit refers to the right side of an account

Approaches to 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. It can further be classified into three categories:-
   1. **Natural Persons:** All the accounts of human beings / Persons are included such as Ram A/C, Shyam A/C etc.
   2. **Artificial Persons:** This includes all such accounts which are treated to 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 and can be classified as :-
   1. **Real Accounts:** Under real accounts 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	Debit the receiver, Credit the Giver

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Accounts)	
Real Account	Debit what Comes In, Credit whats Goes Out
Nominal Account	Debit all Losses/Expenses, Credit all Income / Gains.

Rules of Debit/Credit under Modern Approach.
Modern Rules of Debit and Credit

i. Increase (+) in assets are debits; decreases (-) are credits.
ii. Increase in expenses (+) are debits; decreases (-) are credits.
iii. Increase (+) in liabilities are credits; decreases (-) are debits.
iv. Increase (+) in revenues are credits; decreases (-) are debits
v. Increase (+) in owner's capital are credits; decreases (-) are debits.

DEBIT-CREDIT-MATHEMATICS OF ACCOUNTS
"Debit" and "Credit" are like "Plus" and "Minus"
But a very Important Difference is there....
"PlUS" alway means .... to 'ADD'
"Minus" always means ...... to 'SUBSTRACT'
Whereas, MEANING (use) of DEBIT & CREDIT depends upon the NATURE OF ACCOUNT.
In case of : Assets and Expense
"Debit" is "Plus" & "Credit" is Minus"

	For Increase (Plus) +	For Decrease (Minus) -
Assets	Debit ↑	Credit ↓
Expenses	Debit ↑	Credit ↓

For Liabilities, Capital and Revenue
"Credit" means "Plus" & "Debit" means "Minus"

	For Increase (Pluse) +	For Decrease (Minus) -
Liabilites	Credit ↑	Debit ↓
Revenue	Credit ↑	Debit ↓

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Capital	Credit ↑	Debit ↓

NOTE:- The accounts of Assets and Expenses show Debit Balance and accounts of Liabilities, Capital and Revenue shown Credit Balance.

Source Documents

A written document which provides evidence of the transactions is called the Source Document. 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 an order in writing, drawn upon a specified banker and payable on demand.
f. **Debit Note :** it is prepared when a buyer returns 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**
	Debit Vouchers	To show Cash Payment

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Cash Vouchers	Credit Vouchers	To show Cash Receipt
Non Cash Voucher	Transfer Voucher	To show Transactions not involving cash

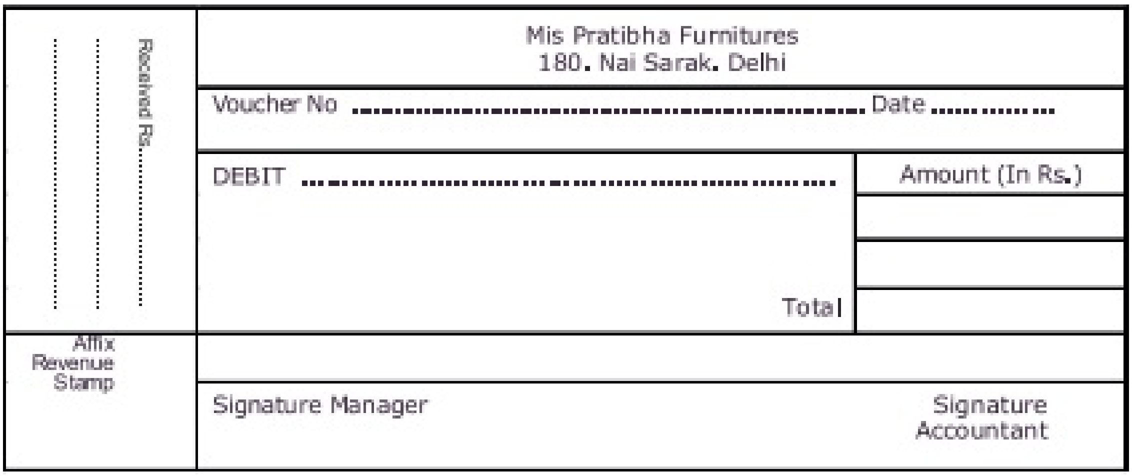
Cash Vouchers

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.

Debit Voucher

Debit voucher is prepared for all cash payment made by the business firm such as Payment of Rent payment of salary, payment for purchase of goods etc.

Format of Debit Voucher



Received Rs. ....

Mis Pratibha Furnitures
180. Nai Sarak. Delhi

Voucher No .... Date ....

DEBIT	Amount (In Rs.)
Total	

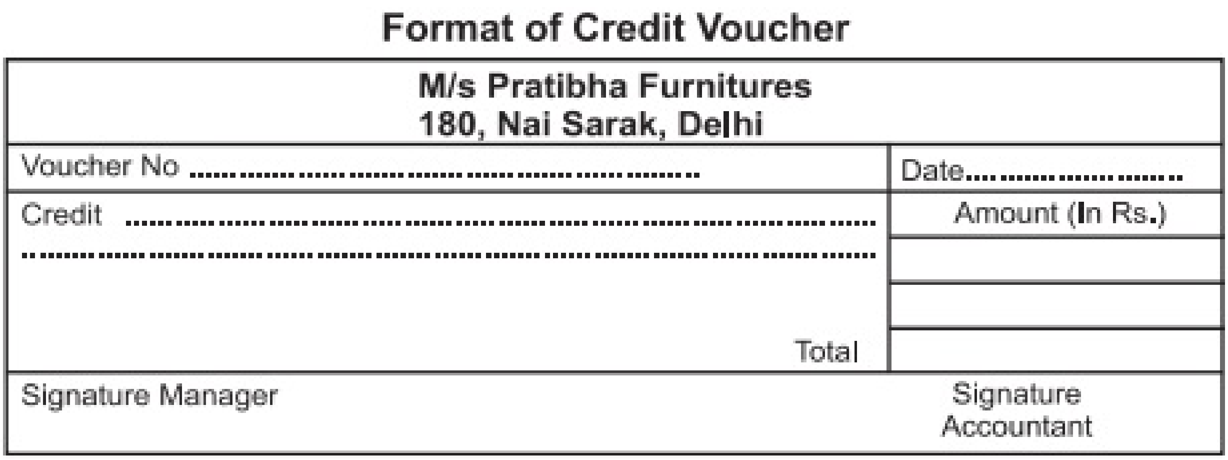
Affix Revenue Stamp

Signature Manager — Signature Accountant

Credit Voucher

Credit voucher is prepared for cash received by the business firm Such as Sale of goods for Cash, Payment received from any of Debtors, Income received etc.

Format of Credit Voucher



Format of Credit Voucher

M/s Pratibha Furnitures
180, Nai Sarak, Delhi

Voucher No	Date..........................
Credit	Amount (In Rs.)
....	
Total	

Signature Manager — Signature Accountant

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Transfer Voucher/Non-Cash Voucher

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

Transfer Voucher

Shyam traders 156, Subhash Nagar, New Delhi	
Voucher No –	Date: ....-
DEBIT:-	Amount (Rs.)
Total	
CREDIT:	Amount (Rs.)
Total	
Signature Manager	Signature Accountant

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 the 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.

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3. 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.
4. **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.

Transaction related to Goods

1	Goods purchased for cash Purchase A/c Dr. To Cash A/c (Being goods purchased for cash)	2	Goods purchased from ram on Credit Purchase A/c Dr. To Ram (Being goods purchased from Ram on credit)
3	Goods sold for cash Cash A/C Dr. To Sales A/c (Being goods sold for cash)	4	Goods sold on credit to Mohan Mohan Dr. To Sales A/c (Being goods sold to Mohan on credit)
5	Withdrawal of goods by owner for personal use Drawings A/c Dr. To Purchase A/c (Being goods withdrew by owner for personal use)	6	Goods distributed as free samples Advertisement A/c Dr. To Purchase A/c (Being goods distributed as free samples)
7	Goods given as charity Charity A/c Dr. To Purchases A/c (Being goods given as charity)	8	Goods lost by fire/flood/theft etc. Loss by fire/theft A/c Dr. To Purchase A/c (Being goods lost by fire/flood/theft)

Note : Purchases A/c is credited in the above mentioned entries at S. No. 5 to 8 because the goods are going out of our business on cost and it is not a sale hence, deducted from the purchases A/c.

Transaction related to Bank

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1	Cash deposited into the bank Bank A/c Dr. To Cash A/c (Being cash deposited to bank)	2	Cash withdrawn for office use Cash A/c Dr. To Bank A/c (Being cash withdrew from bank for office use)
3	When cheque is received from customer and deposited into bank same day. Bank A/c Dr. To Customer's personal A/c (Being cheques deposited into bank)	4	Cash withdrawn for personal use by owner. Cash A/c Dr. To Bank A/c (Being cash withdrew for personal use)
5	When cheque is received from customer and not deposited into bank same day. Cheque-in-hand A/c Dr. To customer's personal A/c	6	When above cheque (Point 5) is deposited later into bank Bank A/c Dr. To cheque-in-hand A/c (Being cheques deposited into bank received from .... On ....)
7	When payment is made through cheque Personal A/c Dr. To Bank A/c (being payment made to .... by cheque)	8	When expense is paid through cheque. Expense A/c Dr. To Bank A/c (Being expense paid by cheque)
9	When interest is allowed by the bank. Bank A/c Dr. To Interest A/c (Being interest allowed by bank)	10	When Bank charges for the services provided. Bank Charges A/c Dr. To Bank A/c (Being Bank charges deducted)

Note:- Bank A/C will be debited if the amount is deposited/credited by bank & Bank A/C will be credited if the amount is withdrawn/debited by bank.
Note:- Cash will also be debited if business receives it & Credited if Business paid it.

Transaction related to Expense or Income

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1	Expense paid by bank / Cash by the Business Expense A/c Dr. To Cash / Bank A/c (Being expense paid by cash/Bank)	2	Expense is outstanding during a Current F.Y. Expense A/c Dr. To Outstanding Exp. A/c (Being expense is due but not paid)
3	Expense paid in advance Prepaid Expense A/c Dr. To Cash/Bank A/c (Being expense paid in advance by cash/ Bank)	**4**	Income received in Cash/Bank Cash/Bank A/c Dr. To Income A/c (Being Income received in cash / bank)
5	Income due but not received Accured/Outstanding Income A/c Dr. To Income A/c (Being Income due but not received)	**6**	Income received in cash/Bank in advance. Cash/Bank A/c Dr. To Prepaid Income A/c (Being income received in advance)

Transactions related to Assets/Liabilities

1	When Assets is purchased in Cash/Bank Assets A/c Dr. To Cash / Bank A/c (Being Assets purchased in cash/Bank)	2	Depreciation charged on assets Depreciation A/c Dr. To Assets A/c (Being Depreciation charged on assets @ .... %)
3	Assets Sold by the business Cash/Bank A/C Dr. To Assets A/c (Being Assets sold in cash/Bank)	**4**	Liabilty arise when business raise funds. Cash/Bank A/c Dr. To Liability A/c (Being fund raised)
5	Payment of Liability Liability A/c Dr. To Cash/Bank A/c (Being Liability paid in Cash/Bank)		

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Some other Journal Entries

1	Bad Debts (when Debtors fail to pay due) Bad Debts Dr. To Debtors A/c (Being amount Bad Debts)	2	Bad Debts Recovered Cash / Bank A/c Dr. To Bad Debts Recovered A/c (Being bad debts recovered)
3	Debtors Become insolvent Cash/Bank A/c Dr. (Amt. Received) Bad Debts Dr. (Amt. not rec.) To Debtors A/C (the due amt) (Being Debtors become insolvent could pay only …….. paise in a Rupees)	**4**	Interest on Capital Interest on Capital A/c Dr. To Capital A/c (Being Interest on capital credited by business in capital A/c)
5	Interest on drawing Capital A/C Dr. To Interest on Drawing A/c (Being interest on Drawing charged by business from capital A/c)		

Goods and Serices tax (GST)

Gst is an indirect tax levied on the sale of goods and rendering of services.

GST came into effect from July 1, 2017 and replaced existing multiple cascading taxes levied by the Central and State Governments.

GST is levied at every step in the production process, but is refunded to all parties in the chain of production other than the final consumer.

Goods and Services are divided into five tax slabs for collection of tax i.e. 9%, 5% 12%, 18% and 28% except petroleum products and alcoholic drinks.

Characteristics of GST

1. Most of the indirect taxes of the Centre and states are integrated under the GST.
2. The Centre and States will store GST tax revenues at 50:50 ratio (except the IGST). The GST going to the centre is called Central GST and that goes to the states is known as State GST.
3. GST belongs to the VAT family as tax revenues are collected on the basis of value added

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i.e. GST paid (Input GST) is SET OFF AGAINST GST COLLECTED (OUTPUT GST) and thus GST is levied on the incremental value of goods or services supplied.

4. GST integrates goods and service taxes into one unified tax regime. Earlier goods and services were imposed and administered differently.
5. GST proposes a four-tier rate structure. The tax slabs are fixed at 5%, 12%, 18% and 28% besides the 0% tax on essentials.

Objectives of Goods and Services Tax

i. GST has eased the doing of business as most of the indirect taxes of centre and states are integrated under it (GST).
ii. GST reduces the cost of goods as GST paid (input GST) is set off against GST collected (output GST) and thus tax on tax is eliminated.
iii. GST ensure timely collection of taxes and electronic return filing which reduces the possibilities of tax evasion.
iv. Introduction of GST and removal of multiple indirect taxes will increase foreign direct investment also in the country.
v. GST integrates goods and service taxes into one unified tax regime by eliminating various unnecessary indirect taxes.

Types of Taxes Under GST

GST is levied under following three types

i. Central GST (CGST)
ii. State GST (SGST)
iii. Integrated GST (IGST)

Both CGST and SGST are levied on intra-state supply (i.e. sales within the state) at half of the prescribed rate of tax. Suppose the rate of GST is 18% then 9% will be levied as CGST and 9% as SGST. In fact, CGST indicate the share of Central Government while SGST indicate the share of State Government. In case of Union Territory like Delhi, Chandigarh etc. Union territory GST (UTGST) is levied instead of SGST alongwith CGST.

Integrated GST (IGST) is levied on inter state supply (i.e. sales out side the state) and the entire amount will go to Central Government. Suppose, a dealer of Gujarat Sell Goods of Worth Rs.10,000 to a dealer of Maharastra and IGST rate is 18%, the Rs. 1800 will be charged

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as IGST by the Seller and the whole amount will go to Central Government.
GST paid is categorised into input CGST, input SGST/UTGST and input IGST while GST collected is categorised into output CGST, output SGST/UTGST and output IGST.
GST paid is set off against GST collected in the prescribed order as given in the diagram.

Input IGST paid	**Input CGST paid**	**Input SGST paid**
↓	↓	↓
Set off against	Set off against	Set off against
Output IGST	Output IGST	Output IGST
Output CGST	Output IGST	Output IGST
Output SGST	Output IGST	Output IGST

Note: Input IGST is first set off against output IGST, then against output CGST and then against output CGST, if required.
Input CGST is first set off against output CGST & then against output IGST.
Similarly Input SGST is set off first against output SGST and then against output IGST, if required.

Accounting Entries/Jounral Entries involving GST

(i)	For Purchas of GoodsFor Purchas of Goods	
	Purchase A/c	Dr.
	Input CGST A/c	Dr.
	Input SGST A/c	Dr.
	To Creditors/Bank A/c	
(ii)	For Sale of Goods	
	Debtors/Bank A/c	Dr.
	To Sales A/c	
	To output CGST A/c	
	To output SGST A/c	

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(ii)	For payment of expense	
	Expense A/c	Dr.
	Input CGST A/c	Dr.
	Input SGST	Dr.
	To Bank A/c	
(iv)	For distributing goods as free samples	
	Advertisement A/c	Dr.
	To Purchases A/c	
	To Input CGST A/c	
	To Input SGST A/c	
(v)	For Purchase returns	
	Creditor's A/c	Dr.
	To purchase returns A/c	
	To Input CGST A/c	
	To Input SGST A/c	
(vi)	For Sales Returns	
	Sales Return A/c	Dr.
	Output CGST A/c	Dr.
	Output SGST	Dr.
	To Debtor's A/c	
(vii)	For Purchase of Fixed Assets.	
	Fixed Asset A/c	Dr.
	Input CGST A/c	Dr.
	Input SGST A/c	Dr.
	To Bank/Vendor A/c	

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(viii)	For setting off Input CGST against output CGST.	
	Output CGST A/c	Dr.
	To Input A/c	
(ix)	For setting off input SGST against output SGST.	
	Output SGST A/c	Dr.
	To Input SGST	
(x)	For setting off input IGST against output IGST	
	Output IGST A/c	Dr.
	To Input IGST A/c	
(xi)	For payment of GST to Government.	
	Input CGST A/c	Dr.
	Input SGST A/c	Dr.
	Input IGST A/c	Dr.
	To Bank A/c	

Books of Original Entry/Special Purpose Books

As 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 Cash	Simple Cash Book
	Cash & Bank Transactions	Double Column Cash book
	Cash payment of small amount	Petty Cash Book
Transaction Other than Cash &	Credit Sale	Sales Book
	Credit Purchases	Purchases Book

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Bank	Sales Returns/ Returns Inward	Sales returns Book
	Purchases Returns /Returns outward	Purchases Returns Book
	Any other transaction	Journal 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 transactions related to cash receipts and payments. Cash book serves two purposes. 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 balance of cash is shown in Dr. side of the Cash book as "To Balance b/d"
- Only transactions 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.

Cash Book with Cash and Bank Column

In this case the Cash Book is ruled with two amount columns on either side of the cash book namely, "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

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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.

(a) Depositing cash into Bank Rs. 1,000 It will increase bank balance, so bank column is debited and flash balance will decrease, so cash column is credited.

Dr.	Cash Book (with Cash & Bank Column)												Cr.
Date	**Particulars**	**V.N.**	**L.F.**	**Cash Rs.**	**Bank Rs.**	**Discount**	**Date**	**Particulars**	**V.N.**	**L.F.**	**Cash Rs.**	**Bank Rs.**	**Discount**
2015 Apr 01	To Cash A/c				1,000		2015	By Bank A/c		C	1,000		

(b) Withdrawn from Bank for office use Rs. 1,000. It will increase cash balance, so cash column is debited and bank balance will decrease, so bank column is credited.

Dr.	Cash Book (with Cash & Bank Column)												Cr.
Date	**Particulars**	**V.N.**	**L.F.**	**Cash Rs.**	**Bank Rs.**	**Discount**	**Date**	**Particulars**	**V.N.**	**L.F.**	**Cash Rs.**	**Bank Rs.**	**Discount**
2015 Apr 01	To Bank A/c		C	1,000			2015	By Cash A/c		C		1,000	

(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.

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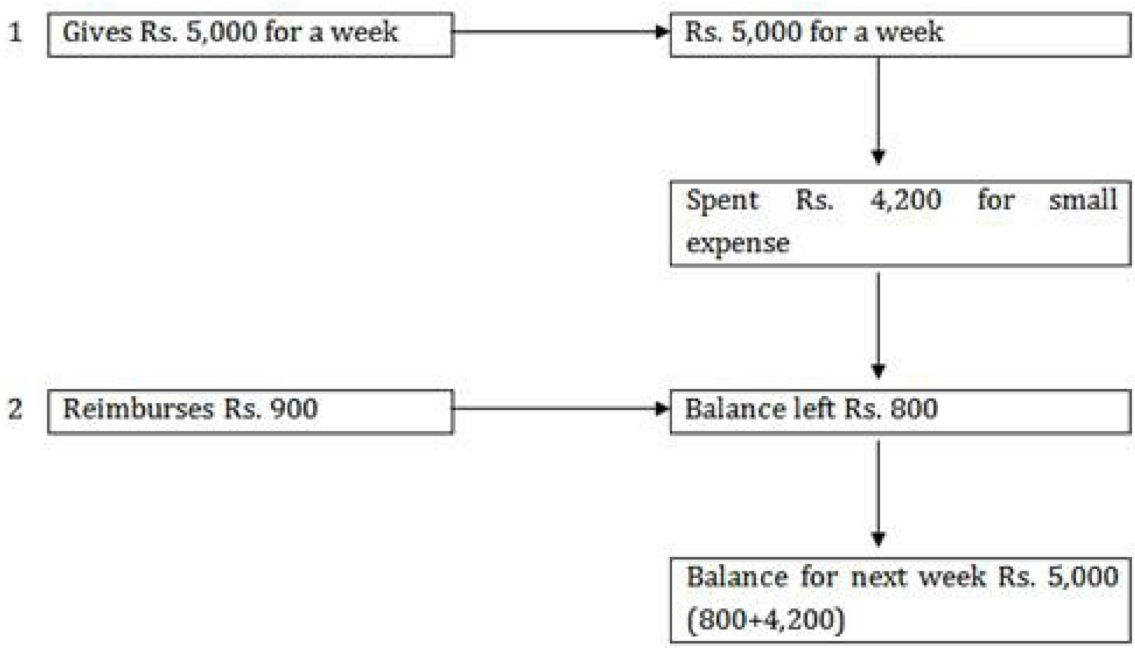
c. When any payment is received in the form of cheque and it is deposited into bank on same day than bank A/c will be debited.
When payment is receive in the form of cheque on one day & its is deposited into Bank on other day i.e. when two dates, one for the receipt of cheque and the other for deposit. 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 is 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.

Impress 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

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- 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.

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.

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 for recording entries in this book. The credit note contains the details of customers and goods returned.

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