Chapter – 3
Recording Of Transactions- 1

Accounting Equations

Accounting equation shows the relationship between the assets, liabilities and owner's capital of a person or business

A=L+C

Where A= assets

L= liabilities

C= capital

The above equation can be presented in the following forms as its derivatives to enable the determination of missing figures of Capital(C) or Liabilities(L)

(i) A – L = C

(ii) A – L = C

Since the accounting equation shows the fundamental relationship among the items of the balance sheet, it is also called the Balance Sheet Equation

The claim of the proprietors is called capital and that which is taken from another person from the outside is known as liabilities.

The asset side of the balance sheet records all the assets of the business. The liabilities side of the balance sheet is the detailed list of owner's capital and outsider's claims.

Let us take an example :-

Payal started the business with a capital of Rs 10.00,000. From the accounting point of view, the resources of this business entity is in the form of cash, i.e.Rs. 10,00,000. Sources of this business entity are the contribution by payal (Proprietor) Rs. 10,00,000 as Capital.

If we put this detail in the form of equality of resources and sources, the picture will emerge somewhat as follows:-

In the Books of Payal

Balance sheet as on… .. ..

Liabilities	Amount	Assets	Amount
Liabilities	10,00,000	Asset	10,00,000

In the above balance sheet the total of assets is equal to the total of liabilities

Now we will analyse the transactions listed in example 1 and its effect on different elements and you will observe that the accounting equation always remain balanced:-

(1) Opened a bank account in bank of India with an amount of Rs. 500000
(Analysis of transaction: This transaction increases the cash at bank (assets) and decreases cash (asset) by Rs. 500000.)

(2) Bought furniture for Rs. 100000 and a cheque was issued on the same day.
(Analysis of transaction: This transaction increases furniture (assets) and decreases bank (assets) by Rs. 100000.)

(3) Bought plant and machinery for the business for Rs. 1,10,000 and an advance of Rs. 10,000 in cash is paid to M/s Ramjilal.
(Analysis of transaction: This transaction increases plant and machinery (assets) by Rs. 1,10,000, decreases cash by Rs. 10,000 and increases liabilities (M/s Ramjilal as creditor) by Rs. 1,00,000.)

(4) Goods purchased from M/s Akshay Traders for Rs. 55,000.
(Analysis of transaction: This transaction increases goods (assets) and increases liabilities (M/s Akshay Traders as creditors) by Rs. 55,000.)

(5) Goods costing Rs. 15,000 sold to Samit Enterprises for Rs. 25,000. Analysis of transaction: This transaction decreases stock of goods (assets) by Rs. 15,000 and increases assets (Samit Enterprises as debtors Rs. 25,000) and capital (with the profit of Rs. 10,000)

In the Books of Payal

Journal entries for the year ending…….

Date	**Particulars**	**L.F**	**Debit**	**Credit**
1.	Bank a/c. Dr. To cash a/c (Being a/c opened in the bank.)		5,00,000	5,00,000
2.	Furniture a/c. Dr. To bank a/c (Being furniture purchased and Payment made through the bank.)		1,00,000	1,00,000

3.	Plant and machinery a/c. Dr. To cash a/c To Ramjilal a/c (Being plant and machinery purchased on credit and some amount is paid in cash)		1,10,000	 10,000 1,00,000
4.	Purchases a/c. Dr. To Akshay Traders a/c (Being goods purchased on credit from Akshay traders.)		55,000	 55,000
5.	Cash a/c Dr. To sales a/c To profit and loss a/c (Being goods sold on profit)		25,000	 15,000 10,000

The final equation as per the above transactions analysis table can be summarised in the form of balance sheet :-

Balance sheet as on…

Liabilities	**Amount (Rs.)**	**Assets**	**Amount(Rs.)**
Outsiders liability (creditors)	1,55,000	Cash	4,90,000
		Bank	4,00,000
		Furniture	1,00,000
		Debtors	25,000
Capital	10,10,000	Stock	40,000
		Plant and machinery	1,10,000
	11,65,000		11,65,000

Using debit and credit

- In the double entry system, every transaction affects two sides of the account.
- The right side of the T shape account is credit side and the left side is debit.

Rules of debit and credit:-

Every accounts are categorized into five types for the purposes of recording the transactions:

(a) Asset (b) Liability (c) Capital (d) Expenses/Losses, and (e) Revenues.

The two fundamental rules to be followed while recording the changes in these accounts:

(1) For recording changes in Assets/Expenses (Losses):

(i) "Increase in asset is to be debited, and decrease in asset is to be credited."

(ii)"Increase in expenses/losses is to be debited, and decrease in expenses/ losses is credited.

The rules applicable to the various kinds of accounts that have been summarised in the below charts:

Assets

(Increase) + Debit	(Decrease) - Credit

Liabilities

Decrease - Debit	Increase + Credit

Capital

Decrease - Debit	Increase + Credit

Expenses/losses

Increase + Debit	Decrease - Credit

Gains/revenue

Decrease - Debit	Increase + Credit

Books of original entry:- The process of recording transaction in the journal is called Journalising
After the completion of Journalising there after they are transferred to another account and that process is called posting

Journal is further divided into some number of books of original entry :-
1. **Journal proper**
2. **Cash book**
3. **Other day books:-**
(a) **Purchase book**
(b) **Sales book**
(c) **Purchase return book**
(d) **Sales return book**
(e) **Bills receivable book**
(f) **Bills payable book**

Journal:
In this book transactions are recorded in chronological order as and when they take place.
Each transaction is debited as well credited with same amount

Let us have a look at the format of the journal.
Journal

Date	Particulars	L. F	Debit amount	Credit amount

Let us take an example, for clearance of the journal format
Example:- sale of goods worth ₹ 10000
The golden rule says that debit what comes in and credit what goes out
Here, we are selling goods, and in return we receiving cash
So debit what comes in i.e. cash and credit what goes out i.e. goods ,

Here is tubular represent of this transaction:-

Date	Particulars	L. F	Debit	Credit
---	Cash a/c		10000	

	To sales a/c (Being goods sold)			10000

Now, refer to example 1 which we have done already, let's record the transition in the books of Miss Payal.
In the Books of Payal
Journal Entries
for the year ending…….

Date	Particulars	L. F	Debit	Credit
1	Cash a/c		1000000	
	To Capital a/c (business started with cash)			1000000
2	Bank a/c		500000	
	To cash a/c (Cash deposited in bank)			500000
3	Furniture a/c		1,00,000	
	To bank a/c (Being furniture purchased)			1,00,000
4	Plant and machinery a/c		1,10,000	
	To cash a/c To Ramjilal a/c (Being plant and machinery purchased on credit and some amount is paid in cash)			10,000 1,00,000
5	Purchases a/c		55,000	
	To m/s Akshaya Traders a/c (Being goods purchased on credit)			55,000
6	Samit enterprises a/c		25,000	
	To sales a/c (Being goods sold on credit)			25,000

Discount

There are two types of discount that are explained below:

1. **Trade discount:-** Trade discount is allowed by wholesalers and manufacturers to the retailers at a fixed percentage. Trade discount is not to be shown in the books,

2. Cash discount:- Cash discount is allowed to the customers for making an early payment

Example: If a retailer sells goods of list price Rs.10000 at 10% trade discount and 2% cash discount

Ans:

List price 10000

Less: trade discount @10% (1000)

9000

Less: cash discount @2%. (180)

(9000×2÷100)

8,820

Accounting entries under goods and services tax:

Record necessary Journal entries assuming CGST @ 5% and SGST @ 5% and all transactions have occurred within Delhi

(I) Amit bought goods Rs. 5,00,000 on credit

(II) He sold them for Rs. 100000 in the same state on credit

(III) He paid for railway transport Rs. 4000

(IV) He bought a computer printer for Rs.10000

(V) Paid postal charges Rs. 1000

Journal Entries for the year ending

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
1	Purchases a/c Dr. Input CGST a/c Dr. Input SGST a/c Dr. To creditors a/c (Purchased goods on credit)		500000 25000 25000	 550000
2	Debtors a/c Dr. To sales a/c To output CGST a/c To output SGST a/c (Sales goods on credit)		1100000	 100000 50000 50000
3	Transportation charges a/c Dr. Input CGST a/c Dr. Input SGST a/c Dr. To bank a/c		40000 2000 2000	 44000

	(Being transport charges paid)			
4	Computer printer a/c Dr. Input CGST a/c Dr. Input SGST a/c Dr. To bank a/c (Being Computer printer purchased)		10000 500 500	 11000
5	Postal charges a/c Dr. Input CGST a/c Dr. Input SGST a/c Dr. To bank a/c (Being Postal charges paid)		1000 50 50	 1100
6	Output CGST a/c Dr. Output SGST a/c Dr. To input CGST a/c To input SGST a/c To electronic ledger a/c (Being output CGST, SGST and input CGST, SGST adjusted)		50000 50000	 27550 27550 44900

Ledger:

Business transactions are first recorded in a journal and thereafter the next step is transferring the entries to the respective accounts in the ledger.

The left-hand side is known as the debit side and the right-hand side is the credit side.

This account is in 'T' shape.

Format of ledger account

Dr. **Cr.**

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount

Example:-

1. Capital introduced- Rs. 100000 on 1/4/2019

2. Furniture purchased- Rs. 15000 on 1/4/2029

3. Goods purchases- Rs. 75000 on 1/4/2019

4. Salaries paid- Rs. 10000 on 30/4/2019

5. Sold goods- Rs. 95000 in April 2019
Journal Entries
For the year ending…..

Date	**Particulars**	**L .F**	**Debit**	**Credit**
1/4/2019	Cash a/c Dr.		1,00,000	
	To capital a/c			1,00,000
	(Being capital invested)			
1/4/2019	Furniture and equipment a/c Dr.		15,000	
	To cash a/c			15,000
	(Being furniture and equipment purchased)			
1/4 /2019	Purchase a/c Dr.		75,000	
	To cash a/c			75,000
	(Being goods are purchased)			
30/4/2019	Salaries a/c Dr.		10,000	
	To cash a/c			10,000
	(Being salaries paid)			
April 2019	Cash a/c Dr.		95,000	
	To sales a/c			95,000
	(Being goods are sold)			

Ledger Accounts
Cash account

Date	**Particulars**	**J. F**	**Amount**	**Date**	**Particulars**	**J. F**	**Amount**
1/4/2019	To balance b/d		-	1/4/2019	By furniture and equipment		15000
1/4/2019	To capital		1,00,000	1/4/2019	By purchases		75000
April 2019	To sales		95000	30/4/2019	By salaries		10000
				30/4/2019	By balance c/d		95000
			1,95,000				1,95,000

Capital account

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
				1/4/2019	By balance b/d		-
30/4/2019	To balance c/d		1,00,000	1/4/2019	By cash		1,00,000
			1,00,000				1,00,000

Furniture account

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
1/4/2019	To balance b/d		-				
1/4/2019	To cash a/c		15,000	30/4/2019	By balance c/d		15,000
			15,000				15,000

Purchases account

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
1/4/2019	To balance b/d		-				
1/4/2019	To cash a/c		75,000	30/4/2019	By balance c/d		75,000
			75,000				75,000

Sales account

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
				1/4/2019	By balance b/d		-

30/4/2019	To balance c/d		95,000	30/4/2019	By cash a/c		95,000
			95,000				95,000

Salaries account

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
				1/4/2019	By balance b/d		10,000
30/4/2019	To balance c/d		20,000	30/4/2019	By cash a/c		10,000
			20,000				20,000