ACCOUNTANCY

Chapter 3 : Recording of Transactions-I

Recording of Transactions-I

Source Documents:

Source documents are the first-hand evidence that suggests a particular transaction has taken place. They are always in the form of a written document.

Types of Source Documents:

The types of source documents recording of transactions are:

Invoices: The seller issues it at the time of sale of goods. It contains details like date of sale, quantity, item names, amount, tax rate and amount, etc.

Format of Invoice:

Tax Invoice
Company Name
Address of the Seller Co.
Tax ID - of the Co.

Invoice No. *Date - mm/dd/yyyy*

Quantity	Particulars	Rate	Amount
			Total -

Signature

Debit Notes: Debit notes are essential for passing purchase return entries. Issued by the buyer, they come into the picture when the goods purchased are returned to the seller.

Credit Notes: Credit notes are important for passing sales return entries. They are prepared by the seller when he receives goods that are sold to the buyer

Cash Memo: The seller prepares them at the time of sale of goods for cash.

Format of Cash Memo:

CASH MEMO

(NAME OF THE FIRM)

Address: ____________________

____

No.___ Date: _________

Quantity	Description	Rate ₹	Amount ₹	Amount P.
	Add: VAT @_%			
	No. ____ Debit Purchase Credit Cash			

For Firms Name

Transaction Voucher:

A transaction with one debit and one credit is a simple transaction and the accounting vouchers prepared for such transaction is known as Transaction Voucher.

Transaction Voucher
Name of Firm :

Voucher No :
Date :
Debit account :
Credit account:
Amount (Rs.) :
Narration :

Authorised By : **Prepared By :**

Accounting Vouchers:

Accounting vouchers are crucial for passing entries for business transactions. It is a piece of essential evidence proving the existence of a business transaction.

Types and Classification of Accounting Vouchers

As per the chapter recording of transactions, the following accounting vouchers are explained: -

Cash Vouchers: Cash vouchers are mainly prepared for cash transactions. Cash vouchers are further classified into Debit Vouchers and Credit Vouchers. Debit Vouchers show payments made in cash and Credit Vouchers depict cash receipts.

Non-Cash Vouchers: Such vouchers are called Transfer Vouchers, mainly used for transactions that do not involve cash.

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 effect 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 consists generally Creditors and lenders) or the Owners (which is called Capital).

According to Business entity concept, Business is separate legal entity from its owner thus the amount invested by the owner in the business is liability of the business is called Capital. Accounting equation thus referred to a equation in which total assets is always equal to total Liabilities (i.e. Capital + Liabilities)

Assets = Capital + Liabilities

ANALYSIS OF BUSINESS TRANSACTIONS:

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

1. **Transaction affecting both sides of the equation: A. Commenced business with Cash Rs. 3,00,000.**

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

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

2. **Bought goods from Ram Rs. 30,00 Effect.**

Assets			=	Capital + Liabilities
	Cash Goods			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 is purchased on credit, one effect is that it should be shown in the assets side as Goods & other effect is that goods are purchased on credit so it is to be shown in Liabilities as Creditors.

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

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

Explanation:- The transaction will affect both sides as cash has been received so it is to be added back in cash (Rs 13,000) & Goods are to be reduced by 10,000 as goods has been sold also profit of Rs. 3,000 Is to be added back in Capital. Net effect will remain same for both sides.

4. Paid to creditors Rs. 20,000.

Assets			=	Capital + Liabilities
	Cash Goods			Capital Creditors
Old Equation	3,13,000 + 20,000		=	3,03,000 + 30,000
Transactions	– 20000 + 0		=	+ 3000 + 20,000
N.E.	2,93,000 + 20,000		=	3,03,000 + 10,000

Explanation:- The transaction will affect both sides as cash has been paid so it is to be deducted from cash as well from creditors as payment made to them. Transaction related to Expenses. All the expense or Losses is to born by the owner although business has separate legal entity from its owner as He/ She is the person who has taken risk to do business.

5. Rent paid Rs. 5,000. Effect.

Assets			=	Capital + Liabilities
	Cash Goods			Capital Creditors
Old Equation	3,13,000 + 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 sides as cash has been paid so it is to be reduced as well as Capital is to be reduced because expense is to be born by the owner

Transaction related to Income

Income or Profit is the reward for taking risk, as risk is taken by the owner so it is to be added in Capital.

6. Commission received Rs. 8,000. Effect.

Assets			=	Capital + Liabilities
	Cash Goods			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 sides as cash has been received so it is to be added back in cash as well as in Capital.

Transaction related to Accrued/outstanding Income

Income is to be added back into the capital but as it is not received should be shown in the Assets Side as accrued Income because it meant to be received in this financial year.

1. Accrued Interest Rs. 10,00 Effect.

Assets		=	Capital + Liabilities
	Cash Goods Accured		Capital Creditors
	Income		
Old Equation	2,88,000 + 20,000 + –	=	3,06,000 + 10,000
Transactions	+ 8,000 + 0 + 10,000	=	+10,000 + 0
N.E.	2,96,000 + 20,000 + 10,000	=	3,06,000 + 10,000

Explanation:- The transaction will effect both sides as 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 asset.

Transaction related to Prepaid or Advance Income

As Income received in advance so it is not belong to current financial year, so it cannot be added back to the Capital. It as an amount which is received by the business firm for the future course of activity till the activity not happened it is the Liability of the business.

Assets		=	Capital + Liabilities
	Cash Goods Accured		Capital Creditors Prepaid
	Income		Rent
Old Equation	2,96,000 + 20,000 + 10,000	=	3,06,000 + 10,000 +
Transactions	+ 5,000 + 0 + 0	=	+10,000 + 0 + 5,000
N.E.	3,01,000 + 20,000 + 10,000	=	3,06,000 + 10,000 + 5,000

Explanation:- The transaction will effect both sides as Prepaid Income is a Liability should be shown in the Liability side & Cash received by the business should be added back to the Cash column of 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 Expense paid in advance so it is not belong to current financial year, so it can not be deducted from Capital. It as an amount which is paid by the business firm for the future course of activity till the activity not happened it is the Assets of the business.

A. Prepaid insurance paid Rs. 4,000 Effect.

Assets		=	Capital + Liabilities
	Cash Goods Accured Prepaid		Capital Creditors Prepaid
	Income Expense		Rent
Old Equation	3,01,000 + 20,000 + 10,000 –	=	3,06,000 + 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	=	3,06,000 + 10,000 + 5,000

Explanation:- The transaction will affect both sides as Prepaid expense is a Asset should be shown in the Assets side & Cash paid by the business should be deducted from Cash column of assets side.

B. Purchased Machinery for Cash Rs. 80,000 Effect

Assets		=	Capital + Liabilities
	Cash Goods Accured Prepaid Machinery		Capital Creditors Prepaid
	Income Expense		Rent
Old Equation	2,97,000 + 20,000 + 10,000 + 4,000 –	=	3,06,000 + 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	=	3,06,000 + 10,000 + 5,000

Explanation:- The transaction will affect one side as cash has been paid for purchased of machinery & Machine is an fixed asset so it is separately shown in the asset side as well as cash is to be 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 Goods Accured Prepaid Machinery		Capital Creditors Prepaid Outstanding
	Income Expense		Rent Exp
Old Equation	2,17,000 + 20,000 + 10,000 + 4,000 + 80,000	=	3,06,000 + 10,000 + 5,000
Transactions	– 0 + 0 + 0 + 0 + 80,000	=	– 8,000 + 0 + 0 + 8,000
N.E.	2,17,000 + 20,000 + 10,000 + 4,000 + 80,000	=	3,06,000 + 10,000 + 5,000 + 8,000

Explanation:- The transaction will affect Liability side as outstanding expense is a Liability should be shown in the Liability side & Expense should be deducted from Capital.

Transaction related to Interest on Capital

As interest on capital is the Expense of business it should be shown or deducted in the capital as well as interest of capital is the amount which is to be given to the owner as capital is the amount which is invested by the owner, therefore it is to be added back to Capital.

A. Interest on Capital Rs. 10,000.

Assets		=	Capital + Liabilities
	Cash Goods Accured Prepaid Machinery		Capital Creditors Prepaid Outstanding
	Income Expense		Rent Exp
Old Equation	2,17,000 + 20,000 + 10,000 + 4,000 + 80,000	=	3,06,000 + 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	=	3,06,000 + 10,000 + 5,000 + 8,000

Explanation:- The transaction will affect Liability side as Interest of Capital should be added back & deducted from Capital as both of them belong to the owner.

Transaction related to interest on Drawing

As interest on Drawing is the Income of business it should be shown or added back in the capital as well as interest of Drawing is the amount which is to be given by the owner to the business so it is treated as drawing and deducted from the Capital.

A. Interest on Drawing Rs. 1,000 Effect.

Assets		=	Capital + Liabilities
	Cash Goods Accured Prepaid Machinery		Capital Creditors Prepaid Outstanding
	Income Expense		Rent Exp
Old Equation	2,17,000 + 20,000 + 10,000 + 4,000 + 80,000	=	3,06,000 + 10,000 + 5,000 + 8,000
Transactions	– 0 + 0 + 0 + 0 + 0	=	– 1,000
			+ 1,000 + 0 + 0 + 0
N.E.	2,17,000 + 20,000 + 10,000 + 4,000 + 80,000	=	3,06,000 + 10,000 + 5,000 + 8,000

Explanation:- The transaction will effect Liability side as Interest of Drawing should be added back & deducted from Capital as both of them belong to the owner.

Transaction related to Drawing

As Drawing is the amount withdrawn by owner from business so it is to be deducted from Capital & also from the Cash.

A. Owner withdrew cash of Rs. 10,000.

Assets		=	Capital + Liabilities
	Cash Goods Accured Prepaid Machinery		Capital Creditors Prepaid Outstanding
	Income Expense		Rent Exp
Old Equation	2,17,000 + 20,000 + 10,000 + 4,000 + 80,000	=	3,06,000 + 10,000 + 5,000 + 8,000
Transactions	– 10,000 + 0 + 0 + 0 + 0	=	– 1,000 + 0 + 0 + 0
N.E.	2,17,000 + 20,000 + 10,000 + 4,000 + 80,000	=	3,06,000 + 10,000 + 5,000 + 8,000

Explanation:- The transaction will affect both sides as Drawing should be deducted from Capital & also deducted from Cash as withdraw by owner.

Rules of Debit and Credit

All accounts are divided into five categories for the purposes of recording the transactions:

a) Asset

b) Liability

c) Capital

d) Expenses/Losses, and

e) Revenues/Gains.

Two fundamental rules are followed to record the changes in these accounts:

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

I. "Increase in asset is debited, and decrease in asset is credited."

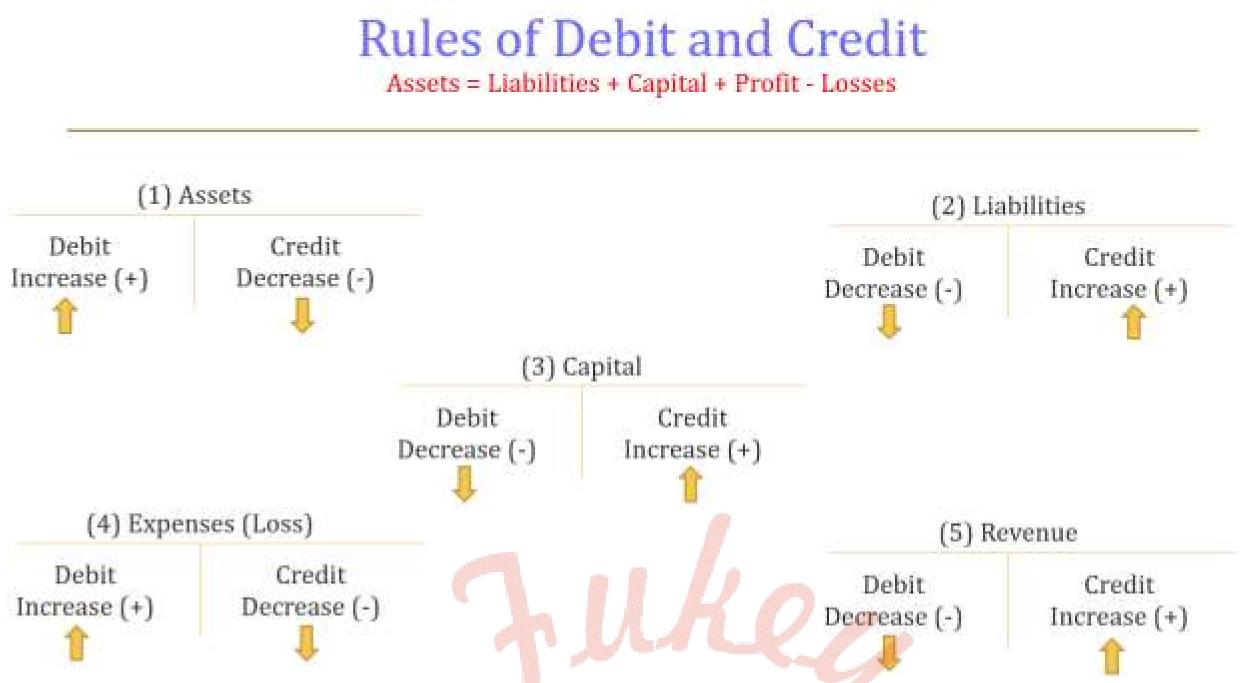
II. "Increase in expenses/losses is debited, and decrease in expenses/ losses is credited."

2) For recording changes in Liabilities and Capital/Revenues (Gains):

I. "Increase in liabilities is credited and decrease in liabilities is debited."

II. "Increase in capital is credited and decrease in capital is debited."

III. "Increase in revenue/gain is credited and decrease in revenue/gain is debited."



Books of Original Entry.

Journal : The book in which the transaction is recorded for the first time is called journal or book of original entry.

I. **Journalising :** The process of recording transactions in journal is called journalising.

II. **Posting :** The process of transferring journal entry to individual accounts is called posting.

The book of original entry: This sequence causes the journal to be called the Book of Original Entry and the ledger account as the Principal Book of entry.

Entry process is like this:

Entry into the Journal (Journalising)

Transfer to the indivisual accounts (Posting to Leader)

(E.g: cash account, sale account, purchage account, bank account)

⇓

The journal is subdivided into a number of books of original entry as follows:

a) Journal Proper

b) Cash book

c) Other day books:

   i. Purchases (journal) book

ii. Sales (journal) book

iii. Purchase Returns (journal) book

iv. Sale Returns (journal) book

v. Bills Receivable (journal) book

vi. Bills Payable (journal) book

JOURNAL AND LEDGER:

JOURNAL: Journal is a book of prime entry or book of original entry in which transactions are first recorded in chronological order.

FEATURES OF A JOURNAL:

- It shows complete record of transactions.
- It is a book of original entry in which transactions are first recorded.
- Day to day transactions are recorded in a journal in chronological order.
- It records both aspects of a transaction i,e. debit and credit.

ADVANTAGES OF JOURNAL:

- It helps to provide accounting data in chronological order.
- It reduces possibility of errors by recording transactions both sides debit as well as credit.
- It provides explanations of transactions along with recording in journal for better understanding of transactions.
- It hepls in ledger posting of transactions.
- It ensures arthmetical accuracy.
- Classification of all transactions become easier.

LIMITATIONS OF JOURNAL:

- It is unsuitable for large volume of transactions.
- It is not a simple system of recording of transactions.
- It is not a substitute of ledger.
- It is time consuming process.

- It does not facilitate internal control, because in journa, l transactions are recorded in chronological order.

Journal Entry Format				
Date	Account Name	L.F.	Debit	Credit
January 1	Debited Account		xxxx	
	-Credited Account			xxxx

Journal is divided into 5 columns.

These are as follows:

- Date
- Particulars
- Ledger Folio
- Debit Amount
- Credit Amount

Example - Mr. A started business and introduced capital of rs. 5,00,000. the transaction is recorded by passing following journnal entry:

Journal Entry				
Date	Account Name	L.F.	Debit	Credit
	Bank A/c		5,00,000	
	To Capital A/c			5,00,000

LEDGER -

- Means a book which contains, in a summerisedand and classified record of all transactions.
- Ledger is called principal book of account.
- Ledger is called book of final entry.

FEATURES OF LEDGER

- It is prepred from journal.
- Trial balance and final accounts are prepared from ledger accounts.

- Ledger accounts shows current balances of all accounts.
- Ledger is a master record of all transactions
- It holds relevent informations at one place relating to a particular account.

UTILITY OF LEDGER

- ledger helps to prepare a separate account for each income and expense.
- It provides complete information about a particular account.
- It helps in prepration of trial balance.
- It also helps in prepration of final accounts. I,e. trading A/c, P&L A/c and balance sheet.

Dr. Name of the ledger account Cr.

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

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Recording Of Transactions - I

Books of Original Entry

Cash Book
- Used for recording all transactions relating to cash receipts and cash payments.
- Can be single column cash book, double-column cash book or triple column cash book.

Meaning

A book of original entry in which the transactions are recorded first of all as and when they take place

Other Day Books
- Purchase Book
- Purchase Return Book
- Sales Book
- Sales Return Book
- Journal Proper

Performa of Journal

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
(1)	(2)	(3)	(4)	(5)

Vouchers

Supporting Vouchers
- External Supporting Vouchers
- Internal Supporting Vouchers

Accounting Vouchers

Cash Vouchers
- Debit Vouchers
- Pay in Slip Vouchers
- Credit Vouchers

Non-Cash Supporting Vouchers
- Invoice or Bill
- Debit Note
- Credit Not

Rules of Debit and Credit
- For Personal A/c Debit the receiver and credit the giver
- For Real A/c Debit what comes in and credit what goes out
- For Nominal A/c Debit all expenses and credit all income

Accounting Equation
- Assets = Equity + Outside Liabilities
- Total Assets = Total Equities
- Assets = External Equities + Internal Equities
- Capital = Assets – Liabilities

Items of Accounting Equations

Debit Items

Assets

Goodwill
Land and Building
Machinery
Furniture
Stock
Investments

Credit Item

Liabilities

Reserves and Surplus
Loan
Overdraft
Creditors
Bills Payable

Performa of Ledger

Dr. Name of the Account Cr.

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

Important Questions

Multiple Choice Questions-

Question 1.Anil, the Petty Cashier of Ebony, has an imprest of Rs.5,000 out of which he pays for petty expenses. He submits the details of payments every 15 days which is reimbursed to him. He submitted the details for 15 days that ended on 15th April, 2012 amounting to Rs. 4,900. He has with him unpaid expense vouchers amounting to Rs.2,200. How much amount should be paid to him?

a) Rs.4,900

b) Rs.5,000

c) Rs.2,200

d) Rs.7,100

Question 2.It is system of paying advance in the beginning and reimbursing the amount spent from time to time to the petty cashier.

a) Imprest System

b) Financial System

c) Analytical System

d) Ordinary System

Question 3.The Sales Book is a part of:

a) Journal

b) Trading A/c

c) Balance Sheet

d) Ledger

Question 4. Which account will be debited in case Life insurance premium is paid by proprietor from business cash?

a) Drawings A/c

b) Capital A/c

c) Insurance A/c

d) Cash A/c

Question 5. While passing an opening entry, all the assets are______while all the liabilities are______

a) Debited , credited

b) Credited, Credited

c) None of the options

d) Credited, Debited

Question 6. Which account will be debited in case wages are paid for installation of machinery?

a) Machinery A/c

b) Installation A/c

c) Wages A/c

d) Cash A/c

Question 7. What are total number of subsidiary books available to record financial transactions?

a) 8

b) 7

c) 6

d) 12

Question 8. Name the transaction that is recorded in both sides of Cash book simultaneously.

a) Contra Entry

b) Dual entry

c) Double entry

d) Single entry

Question 9. All the indirect expenses are closed to_____

a) Profit and loss A/c

b) Cash Flow Statement

c) Balance sheet

d) Trading A/c

Question 10. The Sales Return Book always has ________ balance.

a) Debit

b) Either debit or credit

c) Credit

d) None of the options

Very Short-

1. Define compound voucher.

2 Define a journal voucher.

3. Define a complex transaction.

4. Give three elements of accounting voucher.

5 What does accounting equation signify?.

6. What are the two rule to follow when changing record in assets/expenses (Losses)?.

7. If total assets of a business are Rs 2,60,000 and capital is Rs 1,60,000 calculate the outside liabilities.

8. If total assets of a business are Rs 2,60,000 and net worth is Rs 1,60,000. Calculate the creditors.

9. Do you think that a transaction can break the accounting equation?

10. State when is a capital account debited.

Short Questions-

1. When proprietor withdraws cash for his/her personal use what will be the effect on capital?

2. When an account is said to have a debit balance and credit balance?

3. Why is the evidence provided by source documents important to accounting?

4. What is the two rule to follow when changing record in liabilities and capital change/Revenue(Losses)?

5. State journal entries that are subdivided into a number of books of original entry

6. Give two differences between journal and ledger.

Long Questions-

1. Prepare the accounting equation on the basis of the following

i. Started business with cash Rs 70,000.

ii. Credit purchases of goods Rs 18,000.

iii. Payment made to creditors in full settlement Rs 17,500.

iv. Purchase of machinery for cash Rs 20,000.

2. What entry (debit or credit) would you make to

i. increase revenue,

ii. decrease in expense

iii. record drawings,

iv. record the fresh capital introduced by the owner.

3. 'Analyse the effect of each transaction and prove that the accounting equation(A = L + C) always remains balanced.

i. Introduced Rs 4,00,000 as cash and Rs 25,000 by stock.

ii. Purchased plant for Rs 1,50,000 by paying Rs 7,500 in cash and balance at a later date.

iii. Deposited Rs 3,00,000 into the bank.

iv. Purchased office furniture for Rs 50,000 and made payment by cheque.

v. Purchased goods worth Rs 40,000 for cash and for Rs 17,500 on credit.

vi. Goods amounting to Rs 22,500 was sold for Rs 30,000 on cash basis.

vii. Goods costing to 1 40,000 was sold for 1 62,500 on credit basis.

viii. Cheque issued to the supplier of goods worth Rs 17,500.

ix. Cheque received from customer amounting to Rs 37,500.

x. Withdrawn by owner for personal use Rs 12,500.

Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -

Joe and Jimmy started a bat manufacturing company. They set up a factory in Meerut (UP) on a land purchased for ₹ 40,00,000. They purchased raw material from a trader in Jalandhar (Punjab) for ₹ 5,00,000 at credit. However, they did not like the quality of some of the goods that were sent and therefore decided to return the same. The company were producing premium bats. Even some of the domestic players of Indian cricket team purchased bats from the company and endorsed the same as well. This led to mass orders rolling in frequently. After a year, they also started to get bulk orders from academies, institutes and corporates. On one instance, they were given an order by NPS Public School, one of the largest school chains in the country for bat worth ₹ 2,50,000. The company took a week to fulfil and received half the payment while the other half was due for 6 months later. The company successfully delivered the bats to the head office of NPS Public School in Delhi.

Question:

1. As a result of transaction of ordering raw material, the liabilities of company increased.

   (a) True

   (b) False

   (c) Partially true

   (d) Can't say

2. The company must have received ……… from the seller of raw materials as a source document.

   (a) cash memo

   (b) invoice

   (c) credit note

   (d) receipt

3. What is issued by the company along with the goods returned?

   (a) Credit note

(b) Debit note

(c) Bill

(d) Receipt

4. What was the accounting equation for the transaction of land purchased? (The options are in the format of Assets = Liabilities + Capital)

(a) 40,00,000 = 0 + 40,00,000

(b) 40,00,000 + (40,00,000) = 0 + 0

(c) 0 = 40,00,000 + (40,00,000)

(d) 40,00,000 = 40,00,000 + 0

5. As a result of transaction with NPS school, the company's net assets ………, liabilities ……… and capital ………. (ignore profit/loss).

(a) decreased, decreased, unchanged

(b) increased, increased, unchanged

(c) unchanged, unchanged, unchanged

(d) increased, unchanged, unchanged

2. Read the following hypothetical text and answer the given questions: -

KLR Ltd. is publicly listed company trading in EV batteries. The company is known to have an advanced version of EV battery which can be used in almost all types of EV cars. As a result of onset of EV trend in India, company is getting lot of pre-orders. Recently, one of the largest cab aggregators of India collaborated with the company to get batteries. Against this order, company received an advance of ₹ 10,00,000. When the EV batteries were delivered, company received the rest of the payment of ₹ 5,00,000. The company sent a source document for these goods sold. Consequently, the company deposited the money received in the bank account. To produce and fulfil the further orders, the company decided to purchase a new 3D modular. It was worth ₹ 1,00,000 and company issued a document in writing drawn upon a specified banker and payable on demand. The company also employed an experienced manager to streamline the operations. As a result, company continued to prosper and its stock prices also shot up.

Question:

1. Which document is highlighted in the line, "The company sent a source document for these goods sold"?

(a) Debit note

(b) Credit note

(c) Cash memo

(d) Bill

2. What is the accounting equation for advance received against order? [Use format

Asset = Liabilities + Capital]

(a) 15,00,000 + (15,00,000) = 0 + 0

(b) 10,00,000 + (10,00,000) = 0 + 0

(c) 10,00,000 = 10,00,000 + 0

(d) None of the above

3. Which document must be used to deposit money in the bank?

   (a) Cheque

   (b) Pay-in-slip

   (c) Bill

   (d) Receipt

4. Which of following would be unchanged as a result of transaction of purchasing 3D moulder of ` 1,00,000?

   (a) Capital

   (b) Assets

   (c) Liabilities

   (d) All of these

5. Which document is highlighted in the line, "It was worth `1,00,000 and company issued a document in writing drawn upon a specified banker and payable on demand"?

   (a) Cheque

   (b) Pay-in-slip

   (c) Credit note

   (d) Debit note

MCQ Answers-

1. Answer: Rs.4,900
2. Answer : Imprest System
3. Answer: Journal
4. Answer: Drawings A/c
5. Answer: Debited , credited
6. Answer: Machinery A/c
7. Answer: 8
8. Answer: Contra Entry
9. Answer: Profit and loss A/c

10.Answer: Debit

Very Short Answers-

1. **A**ns. Compound vouchers are those vouchers which record different single or multiple debit/credit transactions.
2. Ans Journal voucher is a document that contains essential information pertaining to a accounting transaction.l
3. Ans. Transactions that consist of a series of events leading to its completion is called complex transaction.
4. Ans. he three elements of accounting voucher are.
    - Name of the company should be printed on the top
    - The voucher number should be mentioned in the serial order
    - Debit and credit amount should be written in figures against the amount
5. Ans. Accounting equation implies that the assets of a company are regularly equivalent to the total of its liabilities and capital (owner's equity).
6. Ans. The two rules to follow while recording differences in Assets/Expenses (Losses) are.
    - A rise in an asset is debited, and the drop in the asset is credited.
    - A Rise in expenses/losses is debited, and the drop in expenses/ losses is credited.
7. Ans: Total Assets = Capital + Outside Liabilities
    - 2,60,000 = 1,60,000 + Outside Liabilities
    - 2,60,000 – 1,60,000 = Outside Liabilities
    - Outside Liabilities = 1,00,000
8. Ans. Total Assets = Net worth – Creditors
    - Creditors = Total Assets – Net worth
    - Creditors = 2,60,000 – 1,60,000
    - Creditors = Rs. 1,00,000
9. Ans. No, any transaction can only change the equation but can't break it. The Accounting equation remains equal..
10. Ans. A capital account is debited when there is a loss and when the owner makes drawings.

Short Answers-

1. Ans. Decrease in capital. A drawing account is an accounting record maintained to track money withdrawn from a business by its owners.

2. Ans. The difference between the sum of the two sides of an account is called the

balance. This is the most important part of an account as it shows value or position of asset, liability, capital, income or expenses of which the account is a record. If the total of the debit side exceeds the total of credit side then this would be represented by a debit balance and opposite is true for a credit balance.

3. Ans. A source document is the original document that contains the details of a business transaction. A source document captures the key information about a transaction, such as the names of the parties involved, amounts paid (if any), the date, and the substance of the transaction. Source documents are frequently identified with a unique number, so that they can be differentiated in the accounting system. The pre-numbering of documents is particularly useful, since it allows a company to investigate whether any documents are missing. Source documents are critical to auditors, who use them as evidence that recorded transactions actually occurred. A source document is also used by companies as proof when dealing with their business partners, usually in regard to a payments.

4. The two rules to follow when changing record in liabilities and capital change/Revenue(Losses) are.

- A rise in the liabilities is credited and the drop in liabilities is debited.
- A rise in the capital is credited and the drop in the capital is debited.

5. Ans. The journal is subdivided into a number of books of original entry are.

- Journal Proper
- Cashbook
- Other books:
    - Purchases (journal) book
    - Sales (journal) book
    - Purchase Returns (journal) book
    - Sale Returns (journal) book
    - Bills Receivable (journal) book
    - Bills Payable (journal) book

6. The two differences between journal and ledger are.

- For a transaction, journal is the intial book of entry. And the ledger is a second book of entry.
- The recording process in the journal is known as journalising. The recording process in the ledger is known as posting..

Long Answers-

1. The fundamental accounting equation, also called the balance sheet equation, represents the relationship between the assets, liabilities, and owner’s equity of a person or business. It is the foundation for the double-entry book keeping system. For **each**

transaction, the total debits equal the total credits.

Accounting equation

Transaction	Assets					=	Liabilties	+	Capital
	Cash	+	Stock	+	Machinery	=	Creditors	+	Capital
(i)Started business with cash Rs 70,000	70,000	+	0	+	0	=	0	+	70,000
New equation	70,000	+	0	+	0	=	0	+	70,000
(ii) Credit purchases of goods Rs 18,000	0	+	18,000	+	0	=	18,000	+	0
New equation	70,000	+	18,000	+	0	=	18,000	+	0
(iii) Payment made to creditors in full settlement Rs 17,500	(17,500)	+	0	+	0	=	(18,000)	+	500
New Equation	52,500	+	18,000	+	0	=	0	+	70,500
(iv) Purchase of machinery for cash Rs 20,000	(20,000)	+	0	+	20,000	=	0	+	0
Final	32,500	+	18,000	+	20,000	=	0	+	0

equation									

2. **The following entry will be made in the above case**

i. Increase Revenue-Revenue account have always credit balance so credit entry will be made to record increase in revenue.

ii. Decrease in Expense- Expense account always have a debit balance so credit entry will be made to record decrease in expenses.

iii. Record Drawings- Drawings is a reduction of capital balance so debit entry will be made in capital account to record drawings.

iv. Record the fresh Capital Introduced by the Owner- Capital account always have a credit balance so credit entry will be made to record increase in capital.

Case Study Answer-

1. Answer:
    1. (a) True
    2. (b) invoice
    3. (b) Debit note
    4. (b) 40,00,000 + (40,00,000) = 0 + 0
    5. (c) unchanged, unchanged, unchanged
2. Answer:
    1. (c) Cash memo
    2. (c) 10,00,000 = 10,00,000 + 0
    3. (b) Pay-in-slip
    4. (d) All of these
    5. (a) Cheque