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Recording of Transactions – I

CBSE · Class 11 · Accountancy — exam notes

This chapter takes a business transaction from its paper proof (the source document and voucher) all the way to its first formal records — the journal and the ledger. You learn the accounting equation, the rules of debit and credit, how to write journal entries (including GST entries), and how to post and balance ledger accounts.

Key terms & definitions

Source Document
The original written or digital proof that a transaction has actually taken place — for example an invoice, cash memo, receipt, debit note, credit note or pay-in slip. It is the basis on which every entry is recorded; the rule is 'no document, no entry'.

Voucher
A written document, prepared on the basis of a source document, that records the accounts to be debited and credited for a transaction. A transaction voucher captures the source data, while an accounting voucher analyses the debit and credit aspects before recording.

Accounting Equation
The fundamental relationship Assets = Liabilities + Capital (Owner's Equity). It must remain balanced after every single transaction because every transaction affects at least two items by equal amounts.

Double-Entry System
A method of recording in which every transaction has two equal and opposite aspects — one account is debited and another is credited by the same amount — so total debits always equal total credits.

Debit (Dr) and Credit (Cr)
Debit is the left side of an account and credit is the right side. They are only directions of entry; whether a debit increases or decreases an account depends entirely on the type of account, not on cash going in or out.

Account
A summarised, T-shaped record of all transactions relating to one item — such as Cash A/c, Capital A/c or Salaries A/c — having a debit (left) side and a credit (right) side.

Journal
The book of original (first) entry in which transactions are recorded date-wise (chronologically) as and when they occur, in the form of journal entries with a narration.

Journal Entry
The record of a transaction in the journal, showing the date, the account(s) debited (written first) and credited (written below, indented), the amounts in the debit and credit columns, and a narration explaining the entry.

Narration
A short explanation of the transaction written in brackets just below each journal entry, beginning with the word 'Being'. CBSE examiners read narrations, so they must always be written.

Compound Journal Entry
A single journal entry that involves more than two accounts — i.e. more than one account is debited or more than one is credited — usually when several transactions of the same date and nature are combined.

Ledger
The principal book (book of final entry) in which transactions are classified and grouped account-wise, so that the complete effect on each account and its balance can be seen at a glance.

Posting
The process of transferring the debit and credit entries from the journal into the respective accounts in the ledger.

Balancing of an Account
Finding the difference between the total of the debit side and the total of the credit side of a ledger account. The difference is written on the shorter side as 'Balance c/d' to make both sides equal, and carried forward to the next period as 'Balance b/d'.

Source Documents — proof of a transaction

- A source document is the original evidence that a transaction has occurred; it states what happened, the date, the amount and the parties involved.
- Common source documents: cash memo (for cash sale/purchase), invoice or bill (for credit sale/purchase), receipt (proof of cash received), pay-in-slip (cash/cheque deposited into bank), cheque, debit note and credit note.
- A debit note is prepared by the buyer when goods are returned to the supplier (purchase return); a credit note is prepared by the seller when goods are received back from the customer (sales return).
- Source documents are the legal evidence behind the accounts. Under the Companies Act 2013 (Section 128) a company must keep its books for at least 8 years; GST-registered businesses keep records for 72 months under the CGST Act.
- Golden rule of recording: 'No document, no entry.'

Vouchers — analysing the transaction before recording

- A voucher is prepared on the basis of a source document and shows the accounts to be debited and credited.
- Transaction voucher: records data from a single source document where one account is debited and one credited.
- Accounting vouchers are of two broad kinds: Cash vouchers and Non-cash (Transfer) vouchers.
- Cash voucher records transactions involving cash/bank. It is of two types: Debit voucher (for cash payments, e.g. paying rent, buying an asset for cash) and Credit voucher (for cash receipts, e.g. cash sales, cash received from a debtor).
- Transfer (non-cash) voucher records transactions that do not involve any cash — e.g. credit purchases, credit sales, return of goods, depreciation and bad debts.
- Essentials of a voucher: name of the firm, date, voucher number (in serial order), accounts debited/credited with amounts in figures, a short description, and the signatures of the person who prepared it and the authorising person.

The Accounting Equation

- Every transaction obeys: Assets = Liabilities + Capital. This is also written as Capital = Assets – Liabilities, or Liabilities = Assets – Capital.
- Assets are resources owned by or owed to the business: cash, bank balance, stock, furniture, machinery, debtors.
- Liabilities are amounts owed to outsiders: bank loan, creditors, bills payable, outstanding expenses.
- Capital is the owner's investment in the business; it increases with profit and fresh capital, and decreases with losses and drawings.
- Profit increases capital, loss decreases capital, revenue increases capital, and an expense decreases capital — because all of these ultimately belong to the owner.
- After every transaction both sides of the equation must remain equal; this is the test that the recording is arithmetically correct.

Rules of Debit and Credit (Modern / Accounting-Equation approach)

- Assets: increase is debited, decrease is credited (e.g. cash received → debit Cash).
- Expenses and Losses: increase is debited, decrease is credited (e.g. rent paid → debit Rent).
- Liabilities: increase is credited, decrease is debited (e.g. loan taken → credit Loan).
- Capital: increase is credited, decrease is debited (e.g. capital introduced → credit Capital; drawings → debit Drawings, which reduces capital).
- Revenues and Gains: increase is credited, decrease is debited (e.g. commission earned → credit Commission Received).
- Memory aid: Assets and Expenses go UP on the DEBIT side; Liabilities, Capital and Revenue go UP on the CREDIT side. For every transaction, total debit = total credit.

Traditional approach — Golden Rules of Accounts

- Accounts are classified as Personal, Real and Nominal.
- Personal account (persons, firms, banks, debtors, creditors): Debit the receiver, Credit the giver.
- Real account (assets — cash, furniture, machinery, goods): Debit what comes in, Credit what goes out.
- Nominal account (expenses, losses, incomes, gains): Debit all expenses and losses, Credit all incomes and gains.
- The traditional golden rules and the modern rules always give the same debit/credit result for any transaction.

Journal — the book of original entry

- The journal records transactions in chronological order, as and when they happen; it is therefore called the book of original (first) entry.
- Each journal entry shows: Date, Particulars (account debited written first against the margin with 'Dr', account credited written on the next line indented, preceded by 'To'), Ledger Folio (L.F.), Debit amount and Credit amount.
- A narration — a brief explanation beginning with 'Being…' — is written in brackets below every entry.
- A compound (combined) entry is used when more than two accounts are involved, or when several same-day same-nature transactions are recorded together.
- Opening entry: at the start of a new year, the closing balances of the previous year's assets are debited and liabilities and capital are credited to open the books.
- Goods bought for resale are recorded in the Purchases A/c and goods sold are recorded in the Sales A/c — never as Stock — while assets bought for use (furniture, machinery) go to the respective Asset account.

GST in journal entries (Input and Output GST)

- GST collected on sales is Output GST (a liability owed to the government); GST paid on purchases/expenses is Input GST (an asset — it can be set off against output GST).
- Within one state the tax is split into CGST and SGST; for inter-state transactions a single IGST is charged.
- On a purchase: debit Purchases and debit Input CGST & Input SGST (or Input IGST), credit Cash/Creditor for the total.
- On a sale: debit Cash/Debtor for the total, credit Sales and credit Output CGST & Output SGST (or Output IGST).
- Input GST appears on the assets side and Output GST on the liabilities side until they are set off and the net amount is paid to the government.

Ledger — posting and balancing

- The ledger is the principal book (book of final entry) where journal entries are grouped account by account, so each account's running effect and balance can be seen.
- Each ledger account is a 'T' account: the left (debit) side has columns Date / Particulars / J.F. / Amount, and the right (credit) side has the same columns.
- Posting: the amount debited in the journal is written on the debit side of that account (prefixed 'To …'), and the amount credited is written on the credit side of the other account (prefixed 'By …').
- Balancing: total both sides; write the difference on the shorter side as 'Balance c/d' so the two totals become equal; bring it down on the opposite side of the next period as 'Balance b/d'.
- Asset and expense accounts normally show a debit balance; liability, capital and income accounts normally show a credit balance.
- The closing balances of all ledger accounts are later listed in the Trial Balance to check arithmetical accuracy.

Formulas & formats

- Accounting Equation: Assets = Liabilities + Capital (also Capital = Assets − Liabilities).
- Rules of Debit/Credit (modern): Assets ↑ Dr / ↓ Cr; Expenses ↑ Dr / ↓ Cr; Liabilities ↑ Cr / ↓ Dr; Capital ↑ Cr / ↓ Dr; Revenue ↑ Cr / ↓ Dr.
- Golden Rules (traditional): Personal A/c — Debit the receiver, Credit the giver; Real A/c — Debit what comes in, Credit what goes out; Nominal A/c — Debit expenses/losses, Credit incomes/gains.
- Journal format columns: Date | Particulars | L.F. | Debit Amount (₹) | Credit Amount (₹). The debited account is written first; the credited account is written below it, indented, prefixed with 'To'; a narration in brackets follows.
- Specimen journal entry: Cash A/c Dr. 80,000 / To Capital A/c 80,000 / (Being capital introduced in cash).
- Ledger account (T-format): DEBIT side — Date | Particulars (To …) | J.F. | Amount || CREDIT side — Date | Particulars (By …) | J.F. | Amount.
- Balancing a ledger account: Balance c/d = difference between the two sides, written on the shorter side; Balance b/d = the same figure brought down on the opposite side in the next period.
- GST purchase entry: Purchases A/c Dr, Input CGST A/c Dr, Input SGST A/c Dr / To Creditor/Cash A/c (total).
- GST sale entry: Cash/Debtor A/c Dr (total) / To Sales A/c, To Output CGST A/c, To Output SGST A/c.

Important questions & model answers

1 mark **Define a source document and give any two examples.**

- A source document is the original written or digital proof that a transaction has actually taken place and on the basis of which it is recorded.
- Examples: cash memo, invoice/bill, receipt, pay-in-slip, debit note, credit note (any two).

3 marks **State the accounting equation and explain why it always remains balanced.**

- The accounting equation is Assets = Liabilities + Capital.
- Assets are what the business owns; Liabilities are what it owes to outsiders; Capital is the owner's claim.
- Under the double-entry system every transaction affects at least two items by an equal amount, so any increase on one side is matched by an equal increase/decrease elsewhere.
- Hence both sides always stay equal after every transaction — this is the test of correct recording.

3 marks **Distinguish between the Journal and the Ledger on any three points.**

- Nature: the Journal is the book of original (first) entry; the Ledger is the book of final entry.
- Order of recording: the Journal records transactions chronologically (date-wise); the Ledger records them account-wise (grouped by account).
- Purpose: the Journal shows the two-fold effect of each transaction with a narration; the Ledger shows the net effect and balance of each account.
- Sequence: recording is first done in the Journal and then posted to the Ledger.

4 marks **Explain the rules of debit and credit for assets, liabilities, capital, expenses and revenues (modern approach).**

- Assets: an increase is debited and a decrease is credited.
- Expenses and losses: an increase is debited and a decrease is credited.
- Liabilities: an increase is credited and a decrease is debited.
- Capital: an increase (capital/profit) is credited and a decrease (drawings/loss) is debited.
- Revenues and gains: an increase is credited and a decrease is debited.
- In every transaction the total of debits equals the total of credits, keeping the accounting equation balanced.

4 marks **Journalise the following transactions of Ravi for April 2024: (i) Apr 1 — Started business with cash ₹80,000; (ii) Apr 3 — Paid rent ₹5,000; (iii) Apr 6 — Bought goods for cash ₹20,000; (iv) Apr 10 — Sold goods on credit to Mohan ₹15,000.**

- Apr 1: Cash A/c Dr. ₹80,000 / To Capital A/c ₹80,000 / (Being capital introduced in cash).
- Apr 3: Rent A/c Dr. ₹5,000 / To Cash A/c ₹5,000 / (Being rent paid).
- Apr 6: Purchases A/c Dr. ₹20,000 / To Cash A/c ₹20,000 / (Being goods purchased for cash).
- Apr 10: Mohan (Debtor) A/c Dr. ₹15,000 / To Sales A/c ₹15,000 / (Being goods sold on credit to Mohan).
- Note: goods bought go to Purchases A/c and goods sold to Sales A/c; a credit sale creates a debtor (asset).

3 marks **Pass the journal entry for an intra-state credit purchase of goods worth ₹50,000 from M/s Raj Traders, CGST and SGST charged @ 6% each.**

- GST @ 6% each on ₹50,000 = ₹3,000 CGST and ₹3,000 SGST; total invoice = ₹56,000.
- Purchases A/c Dr. ₹50,000
- Input CGST A/c Dr. ₹3,000
- Input SGST A/c Dr. ₹3,000
- To M/s Raj Traders A/c ₹56,000
- (Being goods purchased on credit and GST input recorded).

4 marks **From the following entries, prepare and balance the Cash Account: Apr 1 — Capital introduced ₹80,000; Apr 3 — Rent paid ₹5,000; Apr 6 — Goods purchased for cash ₹20,000.**

- Debit side: Apr 1 — To Capital A/c ₹80,000.
- Credit side: Apr 3 — By Rent A/c ₹5,000; Apr 6 — By Purchases A/c ₹20,000.
- Debit total = ₹80,000; Credit total so far = ₹25,000.
- Balance c/d (debit balance) = ₹80,000 – ₹25,000 = ₹55,000, written on the credit side to equalise both totals at ₹80,000.
- On the next date the ₹55,000 is brought down on the debit side as 'Balance b/d', showing closing cash of ₹55,000.

3 marks **Differentiate between a Debit voucher and a Credit voucher.**

- Both are types of cash vouchers, dealing with transactions that involve cash/bank.
- A Debit voucher is prepared for cash payments — when cash goes out (e.g. paying salary, buying an asset for cash).
- A Credit voucher is prepared for cash receipts — when cash comes in (e.g. cash sales, cash received from a debtor).
- Transactions with no cash involved (credit purchase/sale, depreciation) use a Transfer/non-cash voucher instead.

6 marks **Show the accounting equation effect of: (i) Started business with cash ₹2,00,000; (ii) Bought furniture for cash ₹40,000; (iii) Bought goods on credit ₹30,000.**

- (i) Cash (Asset) +₹2,00,000 and Capital +₹2,00,000 → Assets ₹2,00,000 = Liabilities ₹0 + Capital ₹2,00,000.
- (ii) Cash –₹40,000 and Furniture +₹40,000 → total assets unchanged; Assets ₹2,00,000 = Liabilities ₹0 + Capital ₹2,00,000.
- (iii) Stock (Asset) +₹30,000 and Creditors (Liability) +₹30,000.
- Final: Assets = Cash ₹1,60,000 + Furniture ₹40,000 + Stock ₹30,000 = ₹2,30,000.
- Liabilities = Creditors ₹30,000; Capital = ₹2,00,000.
- Check: ₹2,30,000 = ₹30,000 + ₹2,00,000 — the equation is balanced after every step.

3 marks **Why is the journal called the 'book of original entry', and what is a narration?**

- It is called the book of original entry because a transaction is recorded in it first, as soon as it occurs, before being posted to any other book.
- From the journal, entries are later transferred (posted) to the ledger.
- A narration is a short explanation of the transaction, written in brackets below the journal entry and usually starting with the word 'Being'.
- It tells the reader the nature/reason of the entry and is required in CBSE answers.

Exam tips

- Always write the narration below every journal entry — beginning with 'Being…'. Marks are deducted for missing narrations.
- Write 'Dr.' after the account being debited and 'To' before the account being credited; indent the credited account.
- Goods bought for resale = Purchases A/c; goods sold = Sales A/c. Never write 'Goods A/c' or 'Stock A/c' for these.
- Distinguish capital from revenue items: assets bought for use (furniture, machinery, computer) go to an Asset account, not Purchases.
- In GST sums, split intra-state tax into CGST + SGST (half each) and use IGST for inter-state; Input GST is an asset, Output GST is a liability.
- When balancing a ledger account, label the difference 'Balance c/d' on the shorter side and bring it down as 'Balance b/d' — and confirm both totals are equal.
- Remember the direction: debit/credit do NOT mean cash out/in — apply the rule for the type of account each time.
- Show working/calculations for GST and for compound entries; in 6-mark accounting-equation questions, present a neat table and a final 'Assets = Liabilities + Capital' check line.

Quick revision

- Flow of recording: Source document → Voucher → Journal (original entry) → Ledger (posting & balancing) → Trial Balance.
- Accounting equation: Assets = Liabilities + Capital — must balance after every transaction.
- Modern rules: Assets & Expenses ↑ on Debit; Liabilities, Capital & Revenue ↑ on Credit.
- Golden rules: Personal — Dr receiver, Cr giver; Real — Dr what comes in, Cr what goes out; Nominal — Dr expenses/losses, Cr incomes/gains.
- Vouchers: Cash voucher (Debit = payment, Credit = receipt) and Transfer/non-cash voucher (credit purchase/sale, depreciation, etc.).
- Journal entry = Date + account Dr (first) + account Cr ('To', indented) + amounts + narration; compound entry has more than two accounts.
- GST: Input GST (asset) on purchases/expenses; Output GST (liability) on sales; CGST+SGST intra-state, IGST inter-state.
- Ledger: post 'To' on debit side and 'By' on credit side; balance with Balance c/d (shorter side) and Balance b/d (next period).
- Normal balances: assets & expenses = debit balance; liabilities, capital & income = credit balance.