BISHOP SCOTT BOYS' SCHOOL

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Sarvada Sarva shreshth
HOLISTIC DEVELOPMENT

ONLINE TEACHING MATERIAL

ACCOUNTS

SESSION-2020-21

CLASS-XI

TOPIC: RECORDING OF TRANSACTIONS

DAY-1

❖ **TEACHING MATERIAL**

FINANCIAL ACCOUNTING SYSTEMS: Financial Accounting is a statements, Which is prepared at the end of financial year to show the Financial Performance and Financial position of any firm.

FINANCIAL ACCOUNTING SYSTEMS

INDIAN ACCOUNTING SYSTEM | CASH ENTRY SYSTEM | SINGLE ENTRY SYSTEM | DOUBLE ENRY SYSTEM

1. INDIAN ACCOUNTING SYSTEM : Under this system Financial Accounting System was maintaining the books of account & recording the transaction in different language as per their own prefence .
2. CASH ENTRY SYSTEM : Under this system Financial Accounting System was maintaining Or managing only cash transaction to record in their books of Account.
3. SINGLE ENTRY SYSTEM : This system ignores the two fold aspect of each transaction as done in double entry system. In this only cash and personal accounts are maintained.

DAY-2

- **TEACHING MATERIAL**

4. DOUBLE ENRY SYSTEM : This is that system of book–keeping under which every business transaction is recorded at two places. This system is based on dual concept, which states, "For every debit there is a credit".
   Business transaction is recorded in the books of accounts on the basis of double entry system. This system of accounting, was invented by **'Fra Lucas pacioli'(1494)** of Italy in Venice but developed in England. The system is based upon the fact that there are two aspects of every business transaction

Characteristics of Double Entry System:

a) Every business transaction effects two accounts
b) Every account is divided in two parts
c) Division of amounts column
d) Dual aspect of every transaction
e) Based upon accounting concepts and conventions
   Preparation of final accounts

ADVANTAGES OF DOUBLE ENTRY SYSTEM OF ACCOUNTING:

a) It helps to keep a complete and systematic record of all business transactions ;
b) Since both the aspects of a transaction are recorded under this system, it facilitates a check on the arithmetical accuracy of the accounting books ;
c) It reveals the results of business activities. By preparing trading and profit and loss account, profit earned or loss suffered by the business is ascertained ; (Knowledge of gross profit or loss, Knowledge of net profit or loss)
d) By preparing position statement (Balance sheet), the financial position of the business is correctly estimated. (Knowledge of assets and liabilities of the business)
e) Complete record of every transaction
f) Reliable information at a glance
g) Scrutiny and verification of information
h) Comparative studies
i) Detection of fraud

DISADVANTAGES OF DOUBLE ENTRY SYSTEM :

a) This system fails to ascertain actual profits if there are errors of principle in the records;
b) A mistake committed at the time of journalizing or an omission of a transaction from journalising cannot be disclosed under this system ;
c) There is possibility of fraud and misappropriations in the system.
d) Errors of omission
e) Errors of principle
f) Compensating errors

DAY-3

❖ **TEACHING MATERIAL**

RULES FOR RECORDING TRANSACTIONS UNDER DOUBLE ENTRY SYSTEM

Meaning of Account

Account: According to Carter, " An account is a ledger record in a summarized form, of all the transactions that have taken place with the particular person or things specified."

Account is record of business transactions relating to a particular person or item. An account has two sides. Left hand side is called debit side and right hand side is called credit side.

In book–keeping the basic unit of recording is an account because it is with the help of various accounts that a business concern can prepare its final accounts. For the purpose of recording various business transactions accounts are classified as :

Classification of Accounts

- Personal accounts
  - Natural Personal A/c
  - Artificial Personal A/c
  - Representative Personal A/c
- Impersonal accounts
  - Real Account
  - Nominal Account

(1) Personal Accounts**:** The Accounts which relate to an individual , Firm, Company or institution are called personal accounts. Persons here mean natural persons like Mohan, Sohan etc. Institutions are classified as artificial persons like HMT (Hindustan Machine Tools) SBI etc.

(a) Natural Personal A/c: Accounts of 'Natural Persons' means the account of human beings. For Example, Mohan's Account, Sohan's A/c, Shyam's A/c,etc...

(b) Artificial Personal A/c: These accounts do not have physical existence as human being but they work as a personal account. Its treated as an artificial person because these types of firm created by law. It could be a firm, a Company, A organisation. Example, HMT, Woodland, SBI, PNB.

(c) Representative Personal A/c : When an account represent a particular person or group of. persons, it is termed as a representative personal account. For Example , O/s Salary A/c, Prepaid Insurance, Accrued Income, Received in Advance, Capital A/c, Drawings A/c etc..

(2) Real Accounts : Accounts which deal with various assets and properties are known as real accounts, or accounts dealing with tangible goods are termed as real accounts for e.g. cash, goods, bills, receivables etc. However, there are four exceptions to this concept: goodwill, copyright, patents and trademarks are classified as real accounts even if they are intangible.

(3) Nominal Accounts : Accounts dealing with various expenses and losses and incomes and gains are nominal accounts. Example of nominal accounts are : salaries, commission, rent, wages, bad debts, etc.

RULES OF DEBIT AND CREDIT IN VARIOUS ACCOUNTS

The concept of debit and credit

Every accounting, transaction has got two sides, the 'debit' and 'credit'. These are the two signs used in accounting to present and report the financial effect of every transaction. All the business transactions must have debit and its corresponding credit of the same amount.

Characteristics of Debit and Credit

- Debit and Credits are two sides of an account, left side is known as debit side and right side is known as Credit side.
- Debit and Credit is based on Double entry system, it means every transaction has got two sides, the 'debit' and 'credit'
- Entries recorded in left hand sides are known as debit items, and Entries recorded on the right hand side known as credit items.
- Both Debit and Credit is equal for each transaction.

CONVENTIONAL APPROACH TOWARDS 'DEBIT' AND 'CREDIT'

In addition of accounting concepts and assumption there are certain accounting conventions which we have to follow to make accounting uniform, comparable and meaningful. We follow certain conventions regarding debit and credit which are as under.

(a) The left hand side of every account is debit and the right hand side of the account is credit.

(b) In case of journal and trial balance the amount. Column is divided in two parts. The left part of the amount. Column is debit and right part is credit.

DAY-4

TEACHING MATERIAL

GOLDEN RULE / SILVER RULE / DIAMOND RULE

Rule for recording a transaction in

Personal Account "***Debit the Receiver and Credit the Giver.***"

Example 1 : If an amount of Rs. 1,000 is paid to Vinod on account, his account will be debited in the books as he is the receiver. Similarly if some money is received from a debtor, his personal account in the books will be credited as he is the giver of this amount.

Real Account "**Debit what comes in and Credit what goes out**."

Example 2 : If Machinery worth Rs. 1,00,000 is purchased for cash, then machinery account will be debited as Machinery is coming in the business and cash account will be credited as cash is going out of the business.

Nominal Account "**Debit all expenses and losses and Credit all incomes and gains**."

Example 3 : If salaries are paid to employees, salaries account will be debited as salary here is an expenses. If commission is received, commission account is credited as commission in this case is an income for the business.

All the transactions are recorded in the books strictly on the basis of these rules.

Modern or American Approach :

According to the American Approach of Accounting all accounts are divided into five categories for the purpose of recording the transactions:

- **A.** Assets Accounts
- **B.** Liabilities Accounts
- **C.** Capital Accounts or owner's Equity Account
- **D.** Expenses/Losses Accounts
- **E.** Incomes/Gains Accounts

These rules are summarized as follows:

1.	Increase in asset	=	Debit
	Decrease in Asset	=	Credit
2.	Increase in Liability	=	Credit
	Decrease in Liability	=	Debit
3.	Increase in Capital	=	Credit
	Decrease in Capital	=	Debit
4.	Increase in Expense or loss	=	Debit
	Decrease in Expense or loss	=	Credit
5.	Increase in Income	=	Credit

DAY-5

❖ **TEACHING MATERIAL**

Meaning of Journal : Journal may be defined as the book of original entry in which every business transaction is recorded in a systematic manner for the first time. The record of transactions in journal is made in chronological order or in order of date. Process of recording the transactions in journal is known as "journalising".

Performa of Journal : **Journal Entry in the Books of -------------- A/c.**

Date	Particulars	L.F	Dr. Amount	Cr. Credit
			Rs.	Rs.

STEPS IN JOURNALISING

(1) At the time of preparing a journal, At the first point, we have to think, is what is the increase or decrease in business assets, liabilities, proprietor's capital and income and expenditure on account of a business transaction. After ascertaining it, we will decide that amount will be written in the debit side of which account and credit side of which account.

(2) After analysing, the transaction is written in the journal. In the first column of date, the year, month and date of the transaction is written.

(3) In journal write the transaction of debit first, in the column of particulars Being to write from near the middle line of date column and particulars columns. In particulars column which accounts has debit amount, write against that and write its amount in the column of debit amount.

(4) To write credit transaction after debit transaction write this transaction in the particulars column starting from the middle line of date and particulars column after leaving some space and write the word "To" before this transactions.

(5) To write all the details of the transaction below the transaction in the particulars column so that debit or credit can be understood easily. This type of detail is called Narration : In examination to write narration of this type is very necessary for the students.

ADVANTAGE OF JOURNAL

a) Transactions recorded date–wise with explanation
b) Process of classification at convenience–
c) Ensures that double entry rules have been following–Each transaction before recorded in journal is an analysed for the aspects involved.
d) Reliable evidence
e) Sub–division enables division of labour
f) Detection of arithmetical

LIMITATION OF JOURNAL

(1) The journal will be, too , long if all transactions are recorded there.
(2) Firms may like to ascerting the cash balance with it everyday. Hence, they usually record cash transactions directly in a separate book.
(3) By recording different classes of transactions in different books, book keeping and accounting becomes easier and systematic.

JOURNAL ENTRY

(For Sole Proprietorship)

1 For the Business Started With Cash

Cash A/c…………………………………..Dr.

To, Capital A/c…………………………

(Being the Business Started With Cash)

2 For the Business Started With Cash , Assests and Bank…….

Cash A/c…………………………………..Dr.

Bank A/c …………………………………Dr.

Assets A/c ………………………… ……Dr.

To, Capital A/c………………………………..

(Being the Business Started With Cash, Bank & Assets.)

For Joint Business

3 For the Business Started With Cash, Bank and Assets by Mr. X and Y

Cash A/c…………………………………..Dr.

Bank A/c …………………………………Dr.

Assets A/c ………………………………Dr.

To, X's Capital A/c…………………………………………………..

To, Y's Capital A/c ……………………………………………….

(Being the Business Started With Cash, Bank & Assets.)

4 For Business Started With Bank Loan

Bank A/c………………………..Dr.

To, Bank Loan A/c…………………………….

(Being the Business Started With Bank Loan)

5 For Business Started With Market Loan (from Creditors)

Cash A/c ………………………..Dr

To,……. Loan A/c ………………

(Being the Business Started With Market Loan)

6 For Goods Purchase in Cash

Purchase A/c……………………………………Dr.

To, Cash / Bank A/c………………………………

(Being the Goods Purchase in Cash)

7 For Goods Purchase in Credit

Purchase A/c…………………Dr.

To, Creditor's A/c……………………

(Being the Goods Purchase in Credit)

8 For Goods Sold in Cash

Cash A/c………………………..Dr.

To, Sales A/c………………………

(Being the Goods Sold in Cash)

9 For Goods Sold in Credit

Debtor's A/c……………………………..Dr.

To, Sales A/c…………………………………
(Being the Goods Sold in Credit)

10.. For Payment received from Debtors in Cash or Cheque:

Cash / Bank A/c……………….Dr.
To, Debtor's A/c ……..…………
(Being the amount received from debtors)

11. For make payments to creditors through cash or cheque
Creditors A/c ………...............................Dr.
To, Cash / Bank A/c …....................................

(Being the cash or cheque paid to Creditors)

12. For Particular Expenses Paid by cash or Cheque

Particular Expenses A/ c ….. Dr.

To, Cash / Bank A/c …….

(Being the Particular expenses paid)

13. For Particular Income Received through Cash or cheque

Cash / Bank a/c………..Dr.

To Particular Income received A/c……

(Bring the Particular Income received)

14 For Goods (Purchase) Return to Creditors

Creditor’s A/c.......................Dr.

To, Purchase Return A/c................

(Being the goods return to Creditor’s)

15. For Goods (Sales) Return from Debtor’s

Sales Return A/c ....Dr.

To, Debtor’s A/c..............

(Being the goods return from Debtor’s)

16. For Goods / Cash / Bank Withdraw from business for their personal use or domestic use by proprietor

Drawings A/c ………………………Dr.

To, Purchase / Cash / Bank A/c ………..

(Being the Goods / Cash / Bank Withdraw from business for their personal use or domestic use by proprietor)

17. For Cash deposited in to Bank

Bank A/c ………………..Dr.

To, Cash A/c…………..

(Being the Cash deposited in to Bank)

18. For Cash withdraw from Bank

Cash A/c ………………..Dr.

To, Bank A/c…………..

(Being the Cash deposited in to Bank)