



Accountancy Notes PDF
On
Theory Base of Accounting
(Class - 11 / Chapter- 3 and 4)

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 the Business entity concept, Business is a legal entity separate from its owners and thus the amount invested by the owner in the business (called Capital) 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

Approach Used in the Rules of Debit and Credit

Personal Account

It refers to those accounts that are related to a particular person or individual. Persons include companies, firms, LLPs, etc. Personal account can be further classified into three divisions:-

- Natural persons include accounts prepared for individuals. For example, Ram Account, Priya Account, etc.
- Artificial Persons refer to those accounts who are treated as persons in the court of law Therefore, it means they possess a distinct legal identity. Examples would include accounts prepared for companies, for example., Reliance Ltd Account, etc.
- Representative persons refer to those accounts that represent persons or individuals. For example, Capital Account (it represents the owner) and Accrued Salary Account (it represents the employee whose salary is outstanding)

Impersonal Account

This category includes accounts that are not related to any person. They can be categorized into Real Account and Nominal Account.

- *Real Accounts*: It includes fixed assets and cash accounts. Examples of real accounts are Machinery Account, Patents Account, Building Account, etc.
- *Nominal Accounts* – These accounts do not have balances at the end of the accounting period. They include accounts of expenses and incomes. For example, Salary Account, Dividend Account, Interest Account, Rent Account, etc. come under the Nominal Account category.

Debit and Credit Rules mentioned under Traditional Approach

- **Personal Account**

Debit the Receiver

Credit the Giver

- **Real Account**

Debit what Comes in
Credit what Goes out

- **Nominal Account**

Debit all Expenses and Losses
Credit all Incomes and Gains

Modern Rules of Debit and Credit

1. Increase (+) in assets are debits; decreases (-) are credits.
2. Increase in expenses (+) are debits; decreases (-) are credits.
3. Increase (+) in liabilities are credits; decreases (-) are debits.
4. Increase (+) in revenues are credits; decreases (-) are debits
5. Increase (+) in owner's capital are credits; decreases (-) are debits.

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

- **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

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.

1. **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.
2. **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.
3. **Pay-in-Slip :** It is used to deposit cash or cheque into a bank. It has a counterfoil which is returned to the depositor with the Signature of the authorized person.
4. **Receipt:** it is used when a customer gives cash to the Business firm. It is an acknowledgement of payment or cash received by a firm.
5. **Cheque :** A cheque is an order in writing, drawn upon a specified banker and payable on demand.

6. **Debit Note** : it is prepared when a buyer returns goods to the seller or when a purchased return transaction is entered in the books of accounts. It is prepared by the buyer of the goods.
7. **Credit Note** : it is prepared when a seller receives goods from the buyer or when a Sales return transaction is entered in the books of accounts. It is prepared by the Seller of the goods.

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Types and Classification of Accounting Vouchers

- **Cash Vouchers:** Cash vouchers are mainly prepared for cash transactions. Cash vouchers are further classified into Debit Vouchers and Credit Vouchers.
- **Debit Voucher:** Debit Vouchers are prepared for all cash payments made by the business firm such as Payment of Rent payment of salary, payment for purchase of goods etc.
- **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.
- **Non-Cash Vouchers:** Such vouchers are called Transfer Vouchers, mainly used for transactions that do not involve cash.

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.
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 an opening entry. While passing an opening entry, all assets accounts are debited and all liabilities accounts are credited.

Cash Book

Cash book shows all the transactions related to cash receipts and payments. Cash books serve two purposes. First, all the cash transactions are recorded for the first time in a cash book. It became a Book of original entry. Second, there is no need to prepare Cash a/c in a ledger ; it also plays 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 has.

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 on the debit side and payments on the credit side. Cheques received should be entered on the debit side of the bank column when it is deposited in the bank. The payments by cheques should be entered on the credit side in the bank column and also when cash is withdrawn from the bank.

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A purple rectangular logo with the word "Commerce" in a white cursive font and "CLASSES" in a white bold sans-serif font below it. There are four small white dots at the corners of the rectangle.