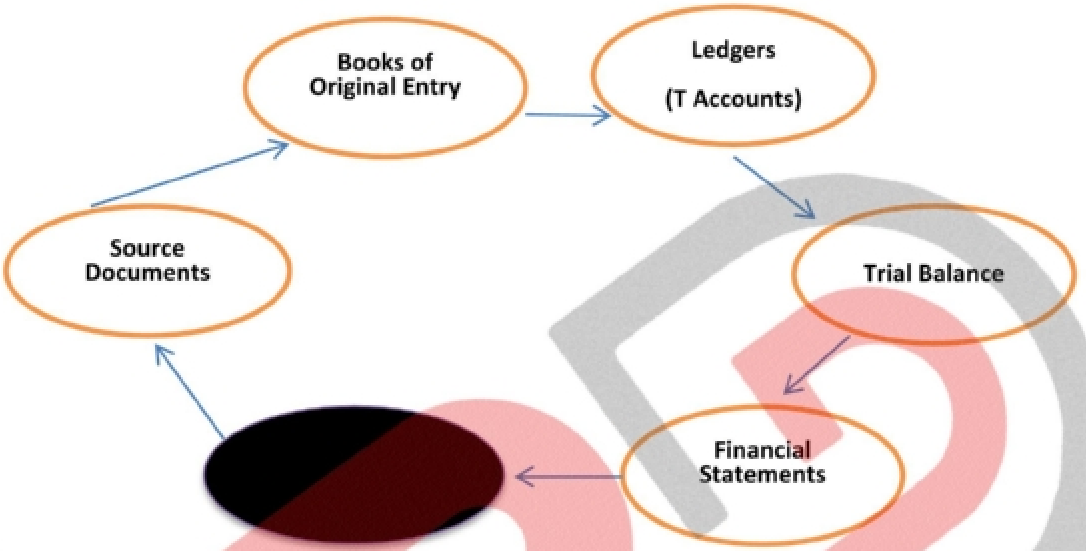
Books of Prime Entry & Ledgers

Accounting Cycle



Transaction: In Business context any commercial event is known as a transaction. This means we are exchanging something for another. Eg. Buy or sell goods or services, Receipt or Payment by cash or by Cheque, Return of goods etc.

Source Documents / Documentary Records: are the documents that are used as an evidence / Proof and record of business transactions that took place in a particular period. E.g. Sales Invoice, Receipt, Credit Note etc.

Type of Transaction	Source Document
Sale of Goods / Services on Credit	Sales Invoice
Purchase of Goods / Services on Credit	Purchase Invoice
Sale / Purchase of Goods on Cash	Receipt
Returned Goods by Customer	Credit Note (Issued to Customer)
Returned Goods to Supplier	Credit Note (Recevied from Supplier)
Recording / Payment of Wages / Salaries	Pay Slip / Wage Sheet
Payment to Supplier or any other Expense by Cheque	Cheque Counterfoil
Sent Summary of Transactions to Customer	Statement of Account
Summary of Transactions received from Bank	Bank Statement

Books of Prime / original entry are the books in which we first record transactions through source documents

Type of Transaction	Source Document	Book of Original Entry
Sale of Goods / Services on Credit	Sales Invoice	Sales Journal
Purchase of Goods / Services on Credit	Purchase Invoice	Purchase Journal
Returned Goods from Customer	Credit Notes Issued	Return Inwards Journal
Returned Goods to Supplier	Credit Notes Received	Return Outwards Journal
Receipt / Payment by Cash or Cheque OR Sales / Purchase by Cash or Cheque	Receipt / Cheque Counterfoil	Cash Book
All Other non-routine Transactions **E.g.** Bought / Sold NCA on Credit Correction of Errors Drawing of Goods (Stock) Expense Incurred on credit Bad Debt / Provision for Doubtful Debt Depreciation etc.	Invoice etc.	The Journal (General Journal)

Account: An Account is a collection of transactions. A T account is an account prepared in T form. It has two sides. Left hand side is Debit and Right hand side is used for credit.

Three Column Account / Running Balance Account
It is an alternate form of Account which contains three columns. Debit, Credit and Balance column. The benefit of three column is that we get an updated balance after each transaction and there is no need to balance the account at period end.

<u>Example</u>

Three Column Account – Mr X (Customer)

Date	Particulars	Debit	Credit	Balance
1 Jan	Opening Balance			1000 Dr
5	Sales	500		1500 Dr
7	Return Inwards		100	1400 Dr
8	Bank		1000	400 Dr

Types of Accounts

- **Personal Accounts**
  - **Debtors (Trade Receivables)**
  - **Creditors (Trade Payables)**
- **Impersonal Accounts**
  - **Nominal Accounts**
  - **Real Accounts**

Nominal Accounts
They contain All Income Statement Items eg Sales, Purchase, Return Inwards, Return Outwards, Income and Expense etc. These are also known as temporary Accounts.

Real Accounts
They contain all statement of financial position items eg Assets, Liablities and Capital etc. Real Accounts are also known as permanent Accounts.

Ledger: A Ledger is a collection of Accounts. It is a book containing Accounts

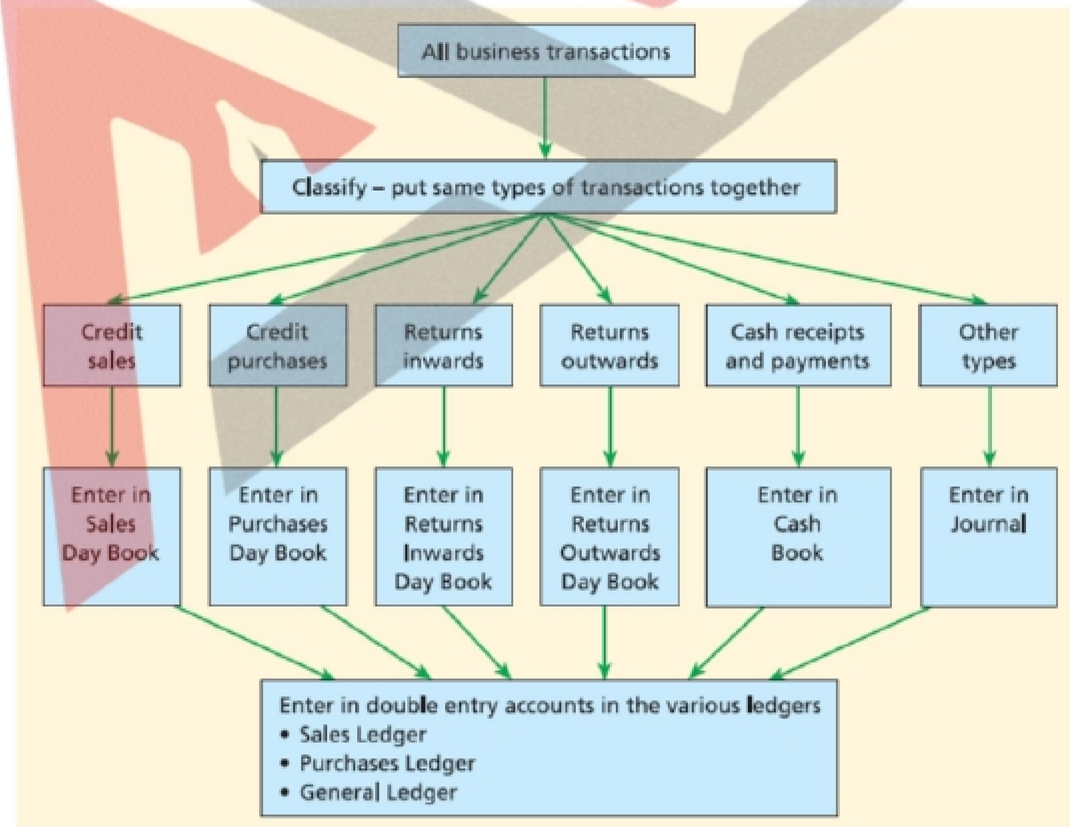
Types of ledgers

There are three types of ledgers.

• **Sales Ledger**. This is for customers' / Debtor's personal accounts.

• **Purchases Ledger**. This is for suppliers' / Creditor's personal accounts.

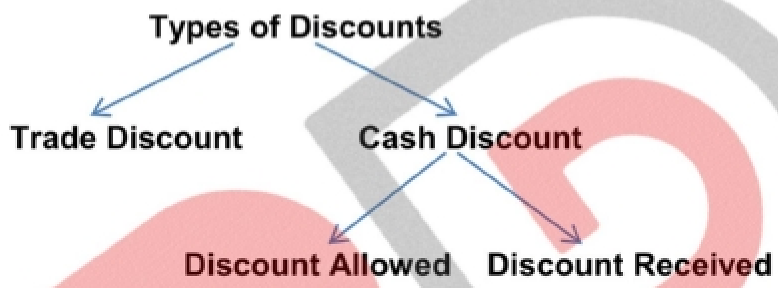
• **General Ledger**. It contains all accounts (other than debtors / creditors) eg. Sales, Purchase, Return Inwards, Return Outwards, Cash, Bank, Assets, Liabilities, Income, Expense, Capital and Drawing etc.



Effect on Capital

Capital of the business is affected by following transactions.

Transaction	Effect of Capital
Introduce Additional Capital	Increase
Drawings in Cash / Goods form	Decrease
Profit / Gain / Income	Increase
Loss / Expense	Decrease



Trade / Bulk Purchase Discount

It is discount received or given at the time of purchase which is applied on list price of goods. It is given or received when selling or buying goods in bulk quantity or when we are selling goods to a regular customer or a trader so that he may also earn some profit upon resale. It is never recorded in the books of either seller or buyer means no entry to be recorded.

Cash Discount

It is discount at the time of payment. Always recorded in the books of customer and supplier

Discount Allowed

It is allowed to customer when he pays us early. It is an expense which is recorded as a debit entry which will reduce the customer's balance

Discount Received

It is received when we pay our suppliers early. It is an income which is credited which will reduce our supplier account i.e. liability

Book-Keeping vs accounting

Book-keeping is concerned with recording transactions in the books of accounts. It is a lower level task carried out by book-keeper / clerks on daily basis. Accounting refers to processing that data into meaningful information such as financial statements; Accounting is also concerned with analysis and interpretation of information to help management in planning, controlling and decision making of the business. Accounting is carried out by higher level personnel such as accountants on periodic basis.