

## 5

## DOUBLE ENTRY SYSTEM

As stated earlier, in accounting, transactions are recorded in a systematic manner. But then what is that system. The system of accounting which has universal application is termed as, double entry system. This system is based on the basic concept of accounting i.e. dual aspect concept. In this lesson you will learn about double entry system of accounting, accounts and their types, accounting vouchers and method of preparing the vouchers.



### OBJECTIVES

**After going through this lesson you will be able to :**

- state the meaning of double entry systems of book keeping;
- explain the advantages and limitations of double entry system;
- classify the accounts in different categories;
- know the rules for debit and credit;
- identify the source documents;
- understand the meaning of accounting vouchers;
- understand the different types of vouchers and
- know the method of preparation of voucher.

### 5.1 MEANING OF DOUBLE ENTRY SYSTEM OF BOOK-KEEPING

The double entry system of bookkeeping can be defined as the system of recording transactions having two fundamental aspects - one involving the receiving of a benefit and the other giving the benefit - in the same set of books. In this theory, as the two fold aspects of each transaction are recorded, therefore it is called 'double entry system'.

As per dual aspect concept of accounting every transaction involves two aspects, an aspect of receiving and an other aspect of giving. One who receives is a debtor and one who gives is a creditor. Under the double entry system, both the aspects of giving and receiving are recorded in terms of accounts. The account which

## MODULE - II

### Journal and Other Subsidiary Books



### Notes

## MODULE - II

### Journal and Other Subsidiary Books



#### Notes

## Double Entry System

receives the benefit is debited and the account which gives the benefit is credited. It is the ultimate result of this system that every debit must have corresponding credit and vice versa thus, on any particular day the total of the debit entries and the credit entries on the various accounts must be equal.

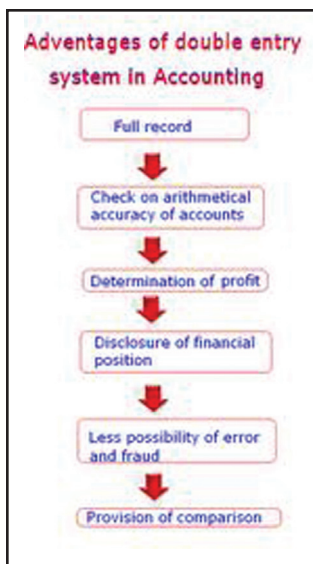
For example, we bought machinery of ₹ 30,000 for business. It has brought two changes, machinery increases by ₹ 30,000 and cash decreases by an equal amount. While recording this transaction in the books of accounts, both the changes must be recorded. In accounting language, these two changes are termed as “a debit change” & “a credit change”. Here machinery account will be debited and cash account will be credited.

Thus, we see that for every transaction there will be two entries, one debit entry and another credit entry. For each debit there will be a corresponding credit entry of an equal amount. Conversely, for every credit entry there will be a corresponding debit entry of an equal amount. So, the system under which both the changes in a transaction are recorded together, one change is debited, while the other change is credited with an equal amount, is known as double entry system of book-keeping. Double entry system is based on the principle that “Every debit has a credit and every credit has a debit.”

## 5.2 ADVANTAGES & LIMITATIONS OF DOUBLE ENTRY SYSTEM

The main advantages of double entry system of book keeping are as follows:

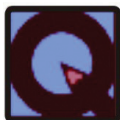
1. The nominal aspects of transactions being recorded make it possible to prepare Trading and Profit and Loss Account from which the Gross Profit and Net Profit earned by the business during a particular period can be easily ascertained.
2. As all personal accounts of debtors and creditors as well as real accounts are kept, it is possible to prepare Balance Sheet.
3. The transactions being recorded in the most scientific and systematic way give the most reliable information of business.
4. It prevents frauds because doing alterations in any account becomes difficult.
5. It enables the trader to compare the different items, such as sales, purchases, opening stock and closing stock of one period with similar items of preceding period and the trader may thus, know whether his business is progressing or not.
6. Trial balance can be prepared on any day to prove the arithmetical accuracy of accounting records.



## Double Entry System

**The main limitations of double entry system of book keeping are as follows:**

1. This system requires the maintenance of a number of books of accounts which is not practical in small concerns.
2. This system is costly because a number of records are to be maintained.
3. There is no guarantee of absolute accuracy of the books of accounts inspite of agreement of the trial balance.



### INTEXT QUESTIONS 5.1

**Complete the sentences :**

- i. The Double entry theory of book-keeping is a system of recording transactions having \_\_\_\_\_.
- ii. One who receives is a \_\_\_\_\_ and who gives is a \_\_\_\_\_.
- iii. The Double entry system prevents frauds by not rendering \_\_\_\_\_.
- iv. There is \_\_\_\_\_ of absolute accuracy of the books of accounts inspite of agreement of trial balance.

## 5.3 MEANING AND CLASSIFICATION OF ACCOUNTS

An accounting system records, retains and reproduces financial information relating to financial transaction flows and financial position. Financial transaction flows encompass primarily inflows on account of incomes and outflows on account of expenses. Elements of financial position, including property, money received, or money spent, are assigned to one of the primary groups i.e. assets, liabilities, and equity.

Within these primary groups each distinctive asset, liability, income and expense is represented by its respective “account”. An account is simply a record of financial inflows and outflows in relation to the respective asset, liability, capital, income and expense. It is a record of all business transaction relating to a particular person or item. In accounting we keep a separate record of each individual, asset, liabilities, expense or income. The place where such a record is maintained is termed as an ‘Account’. Such as the Account of Madan, the Account of Brij, the Account of Building, the Account of Rent, the Account of Discount and likewise. All transactions entered into with Madan will be recorded in the Account of Madan and similarly, all transactions relating to Brij will be recorded in the Account of Brij. Thus, an account is a systematic record of transactions pertaining to a particular item or person, which can be measured in terms of money during a particular period of time. Account is a head under which particular type of transactions are consolidated, classified and recorded. Example: A sales account is opened for recording the sales of goods or services. Similarly expenses during the financial period are

## MODULE - II

### *Journal and Other Subsidiary Books*



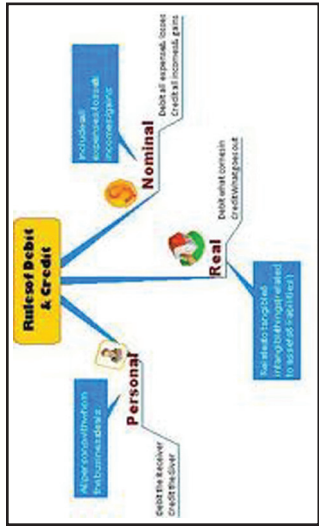
### Notes

# MODULE - II

## Journal and Other Subsidiary Books



### Notes



<b>Nominal accounts</b>	Debit the expenses Credit the gains
<b>Personal accounts</b>	Debit the receiver Credit the giver
<b>Real accounts</b>	Debit what comes in Credit what goes out

# Double Entry System

recorded using the respective expense accounts. The account may be classified in two ways:

- i. Traditional classification
- ii. Modern classification.

## Classification of Accounts Based on Nature or Traditional Classification

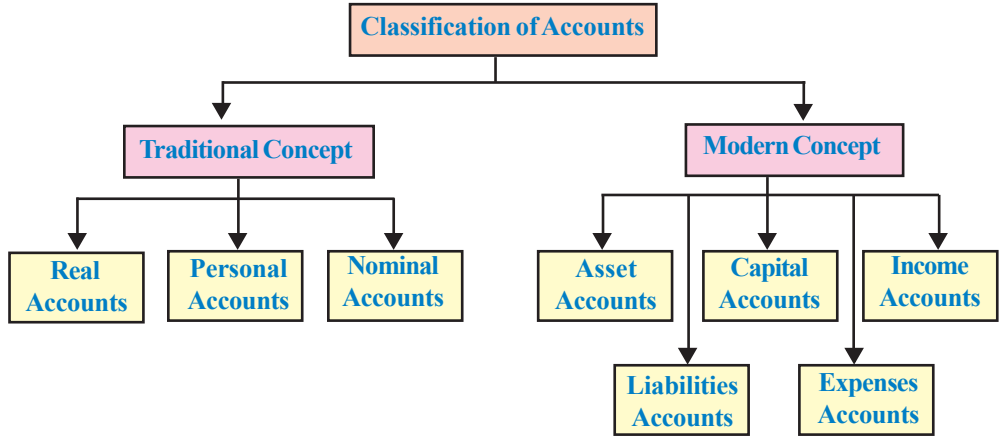
On the basis of their nature accounts are of the following three types :

- i) **Personal Accounts :** Accounts in the name of individuals or group of individuals are called personal accounts e.g. Ramesh, Mahesh, M/s M.K. Computers etc.
- ii) **Nominal Accounts :** Accounts of expenses or losses incomes or gains are called nominal accounts e.g. wages paid, commission received etc.
- iii) **Real Accounts :** Accounts of assets are called real accounts e.g. building, furniture etc.

## Modern Classifications

On the basis of this classification accounts are divided into five categories as given below :

- i. Capital, ii. Assets, iii. Liabilities, iv. Expenses and v. Income



- The further classification of accounts is based on the periodicity of their inflows or outflows in the context of the accounting year.
- Income is immediate inflow during the accounting year.
- Expense is the immediate outflow during the accounting year.
- An asset is a long-term inflow with implications extending beyond the financial period.
- Liability is long term outflow with implications extending beyond the financial period.

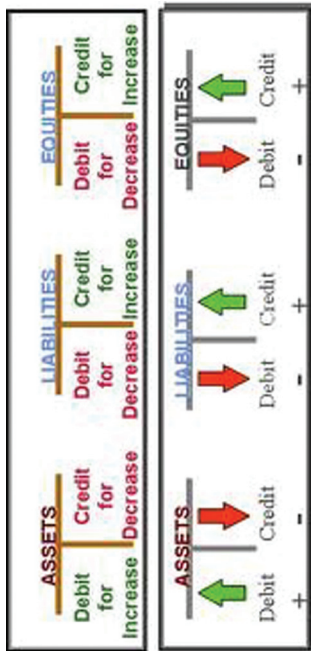


## MODULE - II

### Journal and Other Subsidiary Books



#### Notes



## Double Entry System

“Increase in Revenue/Gains is credited and decrease in Revenue/Gain is debited”.

The rules applicable to the five kinds of accounts are summarised in the following chart:

### Rules of Accounting

Assets	
(Increase) +	(Decrease) -
Debit	Credit

Expenses/Losses	
(Increase) +	(Decrease) -
Debit	Credit

Capital	
(Decrease) -	(Increase) +
Debit	Credit

Liabilities	
(Decrease) -	(Increase) +
Debit	Credit

Revenue/Gains	
(Decrease) -	(Increase) +
Debit	Credit

#### I. Analysis of Rule Applied to Assets Accounts

##### Rohit Purchased Furniture for ₹ 80,000.

**Analysis of Transaction :** In this transaction, the two affected accounts are Cash account and Furniture account. Cash account is an assets account and has decreased. As per rule if asset decreases the affected account is credited, so cash account should be credited. Furniture is also an asset and it has increased. As per rule if asset increases the affected account is debited thus, furniture account is to be debited.

Cash	
Dr.	Cr
	80000
	(Decrease)

Furniture	
Dr	Cr
80000	
(Increase)	

#### II. Analysis of Rule Applied to Liabilities Accounts

##### Purchased Machinery for ₹ 60,000 on credit from M.B. Machinery Mart.

**Analysis of Transaction :** In this transaction, the two affected accounts are machinery and M.B. Machinery Mart. Machinery is an asset, an asset has increased therefore, machinery account is debited. M.B. Machinery Mart is the creditor on account of supply of machinery and constitutes the liability for the buying firm which has increased. Rule is that on increase of liability the concerned liability account is credited and vice-versa, therefore M.B. Machinery Mart A/c is credited.



## Double Entry System

Machinery A/c	
Dr	Cr
60000 (Increase)	

M.B.Machinery Mart A/c	
Dr	Cr
	60000 (Increase)

### III. Analysis of Rule Applied to Capital Accounts

Cash of ₹ 50,000 introduced in business as Capital by Suman Sharma.

**Analysis of Transaction :** In this transaction, the two affected accounts are Cash account and Suman Sharma [Capital account]. Cash is an asset which increase when invested in business as per rule if an asset increases it is debited therefore cash account will be debited. Suman Sharma invested capital which increase the capital account, and as per rule if capital increases it is credited therefore capital account will be credited.

Cash A/c	
Dr	Cr
50000 (Increase)	

Capital A/c	
Dr	Cr
	50000 (Increase)

### IV. Analysis of Rule Applied to Expenses/Losses Accounts

Paid ₹6000 to the employees as Salary.

**Analysis of Transaction :** In this transaction, the two affected accounts are Salary account and Cash account. Salary account is an expense and has increased. As per rule if expenses increase it will be debited. Cash is an asset and has decreased, as per rule if assets decrease, it will be credited.

Salary A/c	
Dr	Cr
6000 (Increase)	

Cash A/c	
Dr	Cr
	6000 (Decrease)

### V. Analysis of Rule Applied to Revenue/Profit Accounts

Received interest for the month ₹4000.

**Analysis of Transaction :** In this transaction, the two affected accounts are Interest and Cash. Interest is an item of Income and Cash an item of asset, as per rule if revenue increases it will be credited and if asset increases it will be debited.

Cash A/c	
Dr	Cr
4000 (Increase)	

Interest A/c	
Dr	Cr
	4000 (Increase)

## MODULE - II

### Journal and Other Subsidiary Books



### Notes

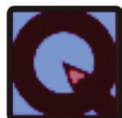
## MODULE - II

### Journal and Other Subsidiary Books



Notes

## Double Entry System



### INTEXT QUESTIONS 5.2

#### I. Fill in the blanks:

- i. On the basis of traditional classification accounts can be classified as –
  - a) \_\_\_\_\_
  - b) \_\_\_\_\_
  - c) \_\_\_\_\_
- ii. On the basis of Modern classification accounts can be classified as:
  - a) \_\_\_\_\_
  - b) \_\_\_\_\_
  - c) \_\_\_\_\_
  - d) \_\_\_\_\_
  - e) \_\_\_\_\_
- iii. \_\_\_\_\_ is immediate inflow while \_\_\_\_\_ is immediate outflow.
- iv. Increase in assets is \_\_\_\_\_ and decrease in Asset is \_\_\_\_\_.
- v. Left hand side of an account is called \_\_\_\_\_ and right hand side of account is called \_\_\_\_\_.

#### II. A list of the accounts is given below. Tick the category to which each of the account belongs:

##### Type of Account

Name of Account	Asset	Liability	Capital	Revenue	Expense
i. Wages					
ii. Building					
iii. Cash					
iv. Gupta (Supplier)					
v. Sharma (Owner)					
vi. Sugam (Customer)					
vii. Interest received					
viii. Commission Earned					
ix. Discount allowed					
x. Rent Paid					

#### Illustration 1

From the following transactions, state the titles of the accounts that will be affected, types of the accounts and the account to be debited and the account to be credited:



## Double Entry System

Transaction	₹
1. Ankur started business with cash	6,00,000
2 Purchased goods for cash	80,000
3. Paid salaries	10,000
4. Sold goods to Rohit on credit	60,000
5 Office machine purchased for cash	2,000
6 Ankur took loan from Bank	30,000
7 Ankur received commission	4,000
8. Paid for printing and stationary	500
9. Paid rent	6,000
10 Received cash from Rohit a debtor	60,000

### Solution

Tran. No.	Name of Accounts		Type of Accounts		Rules applicable to A/cs in Debit/Credit items of Increase/Decrease	
	1	2	1	2	1	2
1	Cash	Capital	Asset	Capital	Cash (Increase)	Capital (Increase)
2	Purchases	Cash	Expense	Asset	Purchase (Increase)	Cash (Decrease)
3	Salaries	Cash	Expense	Asset	Salaries (Increase)	Cash (Decrease)
4	Rohit	Sales	Asset (Debtor)	Revenue	Rohit (Increase)	Sales (Increase)
5	Office machine	Cash	Asset	Asset	Office machine (Increase)	Cash (Decrease)
6	Cash	Bank Loan	Asset	Liability	Cash (Increase)	Bank Loan (Increase)
7	Cash	Commission	Asset	Revenue	Cash (Increase)	Commission (Increase)

## MODULE - II

### Journal and Other Subsidiary Books



### Notes

**MODULE - II****Journal and Other  
Subsidiary Books****Notes****Double Entry System**

8	Printing & Stationary	Cash	Expense	Asset	Printing and Stationery (Increase)	Cash (Decrease)
9	Rent	Cash	Expense	Asset	Rent (Increase)	Cash (Decrease)
10	Cash	Rohit	Asset	Asset	Cash (Increase)	Rohit (Decrease)

**5.5 SOURCE DOCUMENTS**

Accounting process begins with the origin of a business transaction and is followed by analysis of such transaction. First, there should be a document showing that an accounting event took place. Such a document is usually called a source document. Source documents serve as a basis for an accounting entry. Source documents are documents on the basis of which the accountants record accounting transactions. Source documents are also called as business documents. Some examples of source documents are invoices, material requisition forms, bank statements, cash memos, receipts etc.

Each transaction in a business is supported by the documentary evidence, which are considered source documents. Examples of source documents are an invoice shows sale of goods on credit, a Cash Memo shows cash sales and the receipt issued by the payee shows the transaction against cash payment etc. Thus, documents which facilitate evidence of the transactions are known as the source documents. These are the primary evidence in support of the concerned business transactions, and are also termed as vouchers. Vouchers may be divided into two categories (a) Supporting vouchers and (b) Accounting vouchers.

**Supporting Vouchers**

The vouchers which support the business transactions are called supporting vouchers. Examples of supporting vouchers are: Rent receipt, Cash memo invoice etc

**Accounting Vouchers**

These are the source documents on the basis of which transactions are recorded in the books of accounts. Accounting vouchers are the written documents containing the analysis of business transactions for accounting and recording purposes prepared by the accountants on the basis of supporting vouchers and signed by another authorised person.

**Features of an Accounting Voucher are as follows:**

1. It is a written document.
2. It is the base for entries in the books of accounts.



## MODULE - II

### Journal and Other Subsidiary Books



Notes

## Double Entry System

A Debit Voucher gives the following information:

1. Name and Address of the Organisation.
2. Date of Preparing the Voucher.
3. Accounting Voucher Number.
4. Title of the Account Debited.
5. Net Transaction Amount.
6. Narration, *i.e.*, a brief description of the transaction.
7. Signature of the Person Preparing it.
8. Signature of the Authorised Signatory.
9. Supporting Voucher Number.
10. A Document in lieu of the Supporting Voucher.

### Illustration 2

The following transactions took place in M/s. Tarun Retailers. Prepare debit voucher:

2012		₹
Jan. 1	Bought materials for cash vide Cash Memo No. 20	17,200
Jan. 5	Wages paid for the month of December 2011, vide Wage Sheet No. 35	5,000

### Solution :

(i)

M/s. Tarun Retailers		
Received Rs. ....	<b>Voucher No. 1</b> <span style="float: right;"><b>Date 1.1.2012</b></span> <span style="float: right;"><b>Amount (₹)</b></span>	
Revenue Stamp	Debit : Purchases A/c (Being the materials purchased vide Cash Memo No. 20)	17,200
		17,200
	<b>Sd/- Manager</b>	<b>Sd/- Accountant</b>

(ii)

M/s. Tarun Retailers		
Received Rs. ....	<b>Voucher No. 2</b> <span style="float: right;"><b>Date 5.1.2012</b></span> <span style="float: right;"><b>Amount (₹)</b></span>	
Revenue Stamp	Debit : Wages A/c (Being wages paid for December 2011 vide Wage Sheet No. 35)	5,000
		5,000
	<b>Sd/- Manager</b>	<b>Sd/- Accountant</b>

## Double Entry System

### Illustration 3

The following transactions took place in M/s. Sunil Traders. Prepare debit vouchers:

2012		₹
Jan. 1	Bought furniture from Relax Furniture for cash vide Cash Memo No. 24	9,500
Jan. 7	Wages paid for the month of December, 2011, vide Wage Sheet No. 30	3,500
Jan. 10	Paid cash to Hari & Sons A/c vide Cash Receipt No. 70	5,000
Jan. 15	Paid for Postage	720

### Solution :

(i)	Received Rs. ....  Revenue Stamp	<b>M/s. Sunil Traders</b>	
		<b>Voucher No. 1</b>	<b>Date 1.1.2012</b> <b>Amount (₹)</b>
		Debit : Furniture A/c (Being furniture purchased vide Cash Memo No. 24)	9,500
			9,500
		<b>Sd/-</b> <b>Manager</b>	<b>Sd/-</b> <b>Accountant</b>
(ii)	Received Rs. ....  Revenue Stamp	<b>M/s. Sunil Traders</b>	
		<b>Voucher No. 2</b>	<b>Date 7.1.2012</b> <b>Amount (₹)</b>
		Debit : Wages A/c (Being wages paid for December 2011 vide Wage Sheet No. 30)	3,500
			3,500
		<b>Sd/-</b> <b>Manager</b>	<b>Sd/-</b> <b>Accountant</b>
(iii)	Received Rs. ....  Revenue Stamp	<b>M/s. Sunil Traders</b>	
		<b>Voucher No. 3</b>	<b>Date 10.1.2012</b> <b>Amount (₹)</b>
		Debit : Hari & Sons A/c (Being amount paid vide Cash Receipt No. 70)	5000
			5000
		<b>Sd/-</b> <b>Manager</b>	<b>Sd/-</b> <b>Accountant</b>

## MODULE - II

### Journal and Other Subsidiary Books



### Notes

## MODULE - II

### Journal and Other Subsidiary Books



#### Notes

## Double Entry System

(iv)

Received Rs. ....  Revenue Stamp	<b>M/s. Sunil Traders</b>	
	<b>Voucher No. 4</b>	<b>Date 15.1.2012</b> <b>Amount (₹)</b>
	Debit : Postage A/c (Being the amount paid for Postage)	720
		720
	<b>Sd/- Manager</b>	<b>Sd/- Accountant</b>

### Credit Vouchers

These vouchers are prepared for recording of transactions involving only cash receipts. Cash receipts in the business take place on account of Cash sales of goods, Cash receipts from debtors, Cash sales of assets, Cash withdrawn from bank for office use, Revenue income like interest, rent etc. received in cash, Loan taken and Receipts of advances etc.

In all cash receipts, one aspect is cash and the other is either person or party from whom cash is received or item of revenue on account of which cash is received or the property on the sale of which cash is received. A format of credit voucher is as follows:

**CREDIT VOUCHER**

<b>Ram Narayan Printers</b> <b>7, Karol Bagh, New Delhi</b>		(1)
<b>Voucher No. 302</b>	<b>Date 4.2.2012</b> <b>Amount (₹)</b>	(2)
Credit : Sales A/c _____ (Being goods sold for cash vide Bill No. 15) _____	12,000	(4) (6)
Total	12,000	(9) (5)
<b>Sd/- Manager</b>	<b>Sd/- Accountant</b>	
(8)	(7)	

The Credit Voucher gives the following information:

1. Name and Address of the Organisation.
2. Date of Preparing the Voucher.
3. Accounting Voucher Number.
4. Title of the Account Credited.
5. Net Amount of the Transaction.
6. Narration, i.e., a brief description of the transaction.



## Double Entry System

7. Signature of the Person Preparing it.
8. Signature of the Authorised Signatory.
9. Supporting Voucher Number.

### Illustration 4

Prepare Credit Vouchers from the source vouchers of M/s. M.K. Computers, Paschim Vihar, New Delhi based on the following transactions:

2012		₹
May 5	Sold Hard disks for cash vide Cash Memo No. 10	72,000
May 16	Sold old Computer Monitor for cash vide cash Memo No. 34	13,000
May 30	Withdrawn cash from Bank for office use vide cheque No. 300407	8,700

### Solution :

(i)

M.K. Computers Paschim Vihar, New Delhi	
Voucher No. 1	Date : 5.5.2012 Amount (₹)
Credit : Sales A/c (Being the amount of Cash Sales vide Cash Memo No. 10)	72,000
	72,000
Sd/- Manager	Sd/- Accountant

(ii)

M.K. Computers Paschim Vihar, New Delhi	
Voucher No. 2	Date : 16.5.2012 Amount (₹)
Credit : Old Computer Monitors A/c (Being old Computer Monitor sold for cash vide Cash Memo No. 10)	13,000
	13,000
Sd/- Manager	Sd/- Accountant

## MODULE - II

### Journal and Other Subsidiary Books



### Notes

## MODULE - II

### Journal and Other Subsidiary Books



Notes

## Double Entry System

<b>M.K. Computers</b> Paschim Vihar, New Delhi	
<b>Voucher No. 3</b>	<b>Date : 30.5.2012</b> <b>Amount (₹)</b>
Credit : Bank A/c (Being Cash withdrawn from Bank vide Cheque No. 300407)	8,700
	8,700
<b>Sd/-</b> <b>Manager</b>	<b>Sd/-</b> <b>Accountant</b>

### Illustration 5

Prepare Credit Vouchers from the following information, gathered from supporting vouchers of M/s. Genius Leather Stores, Meerut.

2012	₹
(i) July 5 Received cash from Sohan & Co. on Account vide cash receipt No. 35	12,000
(ii) July 10 Commission received vice cash receipt No. 74	3,500
(iii) July 15 Sold leather purses for cash vide Cash Memo No. 412	4,500
(iv) July 24 Sold two old leather colouring machines vide Cash Memo No. 3714	12,500

### Solution :

<b>M/s. Genius Leather Stores, Meerut</b>	
<b>Voucher No. 1</b>	<b>Date : 5.7.2012</b> <b>Amount (₹)</b>
Credit : M/s. Sohan & Co. (Being Cash received on account from Sohan & Co. vide cash receipt No. 35)	12,000
	12,000
<b>Sd/-</b> <b>Manager</b>	<b>Sd/-</b> <b>Accountant</b>

<b>M/s. Genius Leather Stores, Meerut</b>	
<b>Voucher No. 2</b>	<b>Date : 10.7.2012</b> <b>Amount (₹)</b>
Credit : Commission A/c. (Being the amount of commission received vide cash receipt No. 74)	3,500
	3,500
<b>Sd/-</b> <b>Manager</b>	<b>Sd/-</b> <b>Accountant</b>

## Double Entry System

## MODULE - II

Journal and Other  
Subsidiary Books



Notes

<b>M/s. Genius Leather Stores, Meerut</b>	
<b>Voucher No. 3</b>	<b>Date : 15.7.2012</b>
	<b>Amount (₹)</b>
Credit : Sales A/c. (Being the amount of cash sales vide Cash Memo No. 412)	4,500
	4,500
<b>Sd/- Manager</b>	<b>Sd/- Accountant</b>

<b>M/s. Genius Leather Stores, Meerut</b>	
<b>Voucher No. 4</b>	<b>Date : 24.7.2012</b>
	<b>Amount (₹)</b>
Credit : Leather Colouring Machine (Being two old leather colouring machine sold for cash vide Cash Memo No. 3714)	12,500
	12,500
<b>Sd/- Manager</b>	<b>Sd/- Accountant</b>

### Transfer Voucher or Non Cash Voucher

Non cash vouchers refer to vouchers prepared for transactions not involving cash. They are also called transfer vouchers. The transfer vouchers are prepared to record non-cash transactions of the business involving Credit sales, Credit purchases, Depreciation on assets, Return of goods purchased on credit, Bad debts, Return of goods sold on credit etc.

These vouchers are prepared both in debit and credit forms simultaneously. A format of Transfer Voucher is given as follows:

<b>TRANSFER VOUCHER</b>	
<b>Radhika Pearls Store</b>	
<b>32, Vikas Nagar, Lucknow</b>	
<b>Voucher No. ....</b>	<b>Date 1.4..2012</b>
	<b>Amount (₹)</b>
Debit : Machinery A/c _____	-----
	-----
Credit : Raman _____	-----
(Being the machinery purchased _____	-----
vide Cash Memo No. ....)	-----
	-----
<b>Sd/- Manager</b>	<b>Sd/- Accountant</b>

## MODULE - II

### Journal and Other Subsidiary Books



Notes

## Double Entry System

A Non-Cash Voucher gives the following information:

1. Name and Address of the Organisation.
2. Date of Preparing Voucher.
3. Accounting Voucher Number.
4. (a) Title of the Account Debited.  
(b) Title of the Account Credited.
5. Net Transaction Amount.
6. Narration, *i.e.*, a brief description of the transaction.
7. Signature of the Person Preparing it.
8. Signature of the Authorised Signatory.
9. Supporting Voucher Number.

### Illustration 6

Prepare Transfer Vouchers of Sunny Garments, Kanpur from the source vouchers based on the following transactions:

2012		₹
Jan 3	Purchased goods from M/s. Jim & Joney vide Bill No. 20	47,000
Jan. 8	Sold goods to M/s. Sita Ram vide Invoice No. 4171	13,980

### Solution:

Sunny Garments, Kanpur	
Voucher No. ....	Date: 3.1.2012 Amount (₹)
Debit : Purshases A/c	47,000
	47,000
Credit : M/s. Jim & Joney (Being goods purchased from M/s. Jim & Joney vide Bill No. 20)	47,000
	47,000
Sd/- Manager	Sd/- Accountant

Sunny Garments, Kanpur	
Voucher No. ....	Date: 8.1.2012 Amount (₹)
Debit : M/s. Sita Ram	13,980
	13,980
Credit : Sales A/c (Being the amount of credit sales vide Invoice No. 4171 to M/s. Sita Ram)	13,980
	13,980
Sd/- Manager	Sd/- Accountant

## Double Entry System

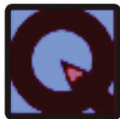
### Illustration 7

Prepare a transfer Voucher from the following supporting voucher.

Ratan & Sones			
Sale Invoice No. 121 To M/s. Naresh Brothers		Date : 15.3.2012	
Qty.	Particulars	Rate (₹)	Amount (₹)
120 Nos.	Cricket balls	100	12,000
70 Nos.	Full size bat	1000	70,000
			82,000
Sd/- Ratan & Sons			

### Solution :

Ratan & Sons	
Voucher No. 1	Date : 15.3.2012 Amount (₹)
Debit : M/s. Naresh Brothers	82,000
	82,000
Credit : Sales A/c (Being the credit sales vide Invoice No. 121 to M/s. Naresh Brothers)	82,000
	82,000
Sd/- Manager	Sd/- Accountant



## INTEXT QUESTIONS 5.3

- I. Which of the following statements is true and which is false?
  - i. For every transaction there will be two entries.
  - ii. 'One who gives is a debtor and one who receives is a creditor'.
  - iii. A system is called 'double entry system' because the two fold aspect of each transaction are recorded.
  - iv. The totals of debit entries on any day need not be equal to credit entries related to various accounts.
  
- II. Put a mark against each transaction in the column of correct type of voucher.

## MODULE - II

### Journal and Other Subsidiary Books



### Notes

**MODULE - II***Journal and Other  
Subsidiary Books***Notes****Double Entry System**

	<b>Debit Vouchers</b>	<b>Credit Vouchers</b>	<b>Transfer Vouchers</b>
1. Purchase furniture for cash			
2. Sale of goods for cash			
3. Sale of goods to Vikram			
4. Depreciation charged on Building			
5. Withdrew cash from Bank for office use.			

**III. Multiple Choice Questions**

- i. Which English alphabet is similar to the shape of an account?
  - a) I                      b) T                      c) H                      d) D
- ii. How many sides does an account have?
  - a) One                    b) Two                    c) Three                    d) Four
- iii. Where are all the transactions of a particular account recorded?
  - a) Under the particular account    b) Under any account
  - c) Under more than two accounts    d) Under many accounts
- iv. Under how many heads accounts can be grouped under Modern System of accounting:
  - a) Two                    b) Three                    c) Four                    d) Five
- v. Treatment of assets account is similar to
  - a) Expenses            b) Revenue            c) Capital                    d) Liabilities

**WHAT YOU HAVE LEARNT**

- System under which both the changes in a transaction are recorded together, one change is debited while the other change is credited with equal amount is known as double entry system.
- Account is a head under which particular type of transactions classified and consolidated are recorded.
- Traditional classifications of the accounts are as: personal, real and nominal.
- On the basis of modern classification accounts are divided into assets, liabilities, revenue, expense and capital.
- Effects of debits and credits on various types of accounts.



## Double Entry System

Assets		Expenses		Capital		Liabilities		Revenue	
Debit (increase)	Credit (decrease)	Debit (increase)	Credit (decrease)	Debit (decrease)	Credit (increase)	Debit (decrease)	Credit (increase)	Debit (decrease)	Credit (increase)
+	-	+	-	-	+	-	+	-	+

- Source Document and Vouchers: A document evidencing that an accounting event took place is called source document i.e. cash memo, invoice, receipt, Debit Note, Credit Note, Cheque and Pay-in slip.
- A voucher is documentary evidence in support of a transaction. They are cash voucher (Dr & Cr voucher) and transfer voucher for credit transaction.



### TERMINAL EXERCISE

1. Define double entry system.
2. State various advantages of double entry system.
3. State the limitations of double entry system.
4. What is meant by an account?
5. Explain the modern classification of different types of Accounts.
6. State the fundamental rules, followed to record the changes (increase / decrease) in various accounts.
7. What is accounting voucher? Explain in brief different types of accounting vouchers.
8. Prepare debit vouchers from the following transactions:
  - i) Goods purchased for cash ₹1,50,000
  - ii) Cash paid to Raghav (creditor) ₹1,00,000
  - iii) Paid for office expense ₹15,000.
9. Prepare credit vouchers from the following transactions:
  - i) Additional capital introduced ₹2,00,000
  - ii) Compensation received from the Insurance company ₹50,000
  - iii) Drew cash for office from Bank ₹1,50,000
10. Prepare transfer vouchers from the following transactions:
  - i) Goods purchased from Mehta & Co. ₹25,000
  - ii) Sales return from customers ₹1,500
  - iii) Goods given as charity ₹3,000

## MODULE - II

### Journal and Other Subsidiary Books



### Notes

