

CHAPTER 3

Recording of Transactions - I

CBSE Class 11 · Financial Accounting Part I · Chapter 3

CBSE · Accountancy · Class 11

WHAT THIS CHAPTER DOES

A Use the accounting equation to show the dual effect of any transaction.

B Apply the rules of debit and credit by account type (modern) and by personal/real/nominal (traditional).

Boards prep that builds confidence, not anxiety.

TODAY'S MISSION

Today's mission

- 1 Use the accounting equation to show the dual effect of any transaction.
- 2 Apply the rules of debit and credit by account type (modern) and by personal/real/nominal (traditional).
- 3 Identify the source documents and prepare a voucher.
- 4 Journalise simple and compound transactions with correct narration — and verify $Dr = Cr$ every time.

WHY THIS MATTERS

Why this chapter matters

1

This is the **FIRST** procedural chapter — the journal entry you learn here is reused in every later chapter (ledger, trial balance, final accounts).

2

Direct marks: a 1-mark rule MCQ, a 3-4 mark accounting-equation table, and a 4-6 mark journal block in almost every paper.

3

Master 'debit and credit by account type' once and you stop guessing — every entry becomes mechanical and balanced.

TOPIC

A

The accounting equation

THEOREM · LOAD-BEARING RESULT

Assets = Liabilities + Capital

“ The accounting equation states that at every point in time the total **ASSETS** of a business equal the total of its **LIABILITIES** (claims of outsiders) plus the owner's **CAPITAL** (the owner's claim). It is the algebraic expression of the dual aspect concept.

STATEMENT

Assets = Liabilities + Capital, equivalently Capital = Assets – Liabilities. Because every transaction has two equal and opposite effects, the equation remains in balance after each and every transaction is

WHY THIS MATTERS

- The business is separate from its owner (business entity concept)
- Whatever the business **OWNS** (assets) must have been financed either by **OUTSIDERS** (liabilities) or by the **OWNER** (capital)
- So the two sides describe the same resources from two angles and must always be equal. This

WATCH OUT FOR

NOTE Every transaction touches at least **TWO** items and keeps the equation balanced. If only one side seems to change, you have missed the second effect. Drawings reduce **BOTH** cash (asset) **AND** capital; a credit purchase raises **BOTH** stock (asset) **AND** creditors (liability).

WORKED EXAMPLE

Effect of five transactions on Assets = Liabilities + Capital

- 1** Mohan starts business with ₹50,000 cash → Cash (asset) +50,000 and Capital +50,000. Equation: $50,000 = 0 + 50,000$. Balanced.
- 2** Buys goods for cash ₹10,000 → Cash -10,000, Stock +10,000. One asset becomes another; totals unchanged: $50,000 = 0 + 50,000$.
- 3** Buys goods on credit ₹8,000 → Stock +8,000 and Creditors +8,000. Now $58,000 = 8,000 + 50,000$. Balanced.
- 4** Sells goods (costing ₹6,000) for ₹9,000 cash → Cash +9,000, Stock -6,000, Capital +3,000 (the ₹3,000 profit belongs to the owner). $61,000 = 8,000 + 53,000$.
- 5** Owner withdraws ₹2,000 cash for personal use (drawings) → Cash -2,000 and Capital -2,000. $59,000 = 8,000 + 51,000$. The equation stays balanced after every single step.

TOPIC

B

The rules of debit and credit

TOPIC

Debit / credit by account type

ASSETS AND EXPENSES

Under the modern (accounting-equation) approach, ASSET accounts and EXPENSE or LOSS accounts behave the same way: an INCREASE in an asset or expense is recorded on the DEBIT side, and a DECREASE on the CREDIT side. So when cash comes in, Cash A/c is debited; when rent is

LIABILITIES, CAPITAL AND INCOMES

LIABILITY accounts, the CAPITAL account, and INCOME or GAIN accounts form the mirror group: an INCREASE in any of them is recorded on the CREDIT side, and a DECREASE on the DEBIT side. So when the owner brings in money, Capital A/c is credited; when goods are bought

WHY THE RULE WORKS

The two rules are not arbitrary — they flow straight from the accounting equation $Assets = Liabilities + Capital$. Assets sit on the left of the equation, so they grow on the left (debit) of their account; liabilities and capital sit on the right, so they grow on the right (credit). Expenses

PUTTING IT TO WORK

To journalise any transaction, ask two questions: which two accounts are affected, and what TYPE is each? Then apply the rule. Example: 'Paid salary ₹4,000 by cash.' Salary is an expense (increase → debit ₹4,000); Cash is an asset that decreases (→ credit ₹4,000). Entry: Salary A/c Dr 4,000 / To

WORKED EXAMPLE

Decide debit or credit for five accounts

- 1 Cash received from a customer → Cash is an ASSET that increases → DEBIT Cash A/c.
- 2 Rent paid → Rent is an EXPENSE that increases → DEBIT Rent A/c; Cash (asset) decreases → CREDIT Cash A/c.
- 3 Loan taken from a bank → the Bank Loan is a LIABILITY that increases → CREDIT Bank Loan A/c; Cash increases → DEBIT Cash A/c.
- 4 Owner introduces capital → CAPITAL increases → CREDIT Capital A/c; Cash increases → DEBIT Cash A/c.
- 5 Commission earned → an INCOME that increases → CREDIT Commission Received A/c; Cash increases → DEBIT Cash A/c. In every case assets and expenses take the debit, while liabilities, capital and incomes take the credit.

TOPIC

Personal · Real · Nominal accounts

PERSONAL ACCOUNTS

Personal accounts are accounts of PERSONS and organisations with whom the business deals — natural persons (Ram, Mohan), artificial persons (a company, a bank, a firm) and representative personal accounts (Outstanding Salary, Prepaid Rent, which represent amounts owed to or by persons). The

REAL ACCOUNTS

Real accounts are accounts of ASSETS and properties — tangible ones like Cash, Building, Machinery, Furniture and Stock, and intangible ones like Goodwill and Patents. The golden rule is DEBIT WHAT COMES IN, CREDIT WHAT GOES OUT. When cash is received, cash comes in so Cash A/c is debited.

NOMINAL ACCOUNTS

Nominal accounts are accounts of EXPENSES, LOSSES, INCOMES and GAINS — Rent, Salary, Wages, Purchases, Discount Allowed (expenses/losses) and Sales, Commission Received, Interest Received, Discount Received (incomes/gains). The golden rule is DEBIT ALL EXPENSES

CLASSIFY FIRST, THEN APPLY

The traditional method has a built-in trap: classification must follow the NATURE of the dealing, not the label. 'Salary paid to Mohan' is a nominal (expense) account — debit Salary A/c, NOT Mohan A/c, because Mohan is not a debtor here. But 'goods sold on credit to Mohan'

TOPIC

C

Source documents and vouchers

TOPIC

From a real-world document to a book entry

WHAT SOURCE DOCUMENTS ARE

A SOURCE DOCUMENT is the original written proof that a transaction actually took place; it is the starting point of the accounting process and gives the data and authority for making an entry. Common source documents are the CASH MEMO (proof of a cash purchase/sale), the

CASH MEMO VS INVOICE VS RECEIPT

These three are the most-tested. A CASH MEMO is prepared when goods are sold or bought for CASH and records an immediate, settled transaction. An INVOICE (or bill) is prepared when goods are sold or bought on CREDIT and states the amount the buyer must pay later. A RECEIPT is

DEBIT NOTE AND CREDIT NOTE

When goods are RETURNED, two documents adjust the original amount. A DEBIT NOTE is prepared by the buyer (and sent to the seller) when goods are returned to the seller — it shows that the seller's account has been debited (reduced) in the buyer's books. A CREDIT

THE ACCOUNTING VOUCHER

A VOUCHER is a written document prepared FROM the source document that analyses the transaction into its debit and credit and authorises the entry. There are three kinds. A CASH (or transaction) voucher covers cash dealings and is split into a DEBIT voucher for

TOPIC

D

The journal — recording the first entry

TOPIC

What the journal is and how it is ruled

MEANING AND FORMAT

The JOURNAL is the book of ORIGINAL ENTRY in which every transaction is recorded first, in CHRONOLOGICAL order, before being posted to the ledger. The process of recording in the journal is called JOURNALISING. The journal has five columns: DATE · PARTICULARS (the

NARRATION AND THE ENTRY

Immediately below each entry, in brackets and in the Particulars column, a short explanation called the NARRATION is written — for example '(Being goods purchased for cash)'. The narration tells anyone reading the books WHY the entry was passed and is compulsory; an entry

COMPOUND AND OPENING ENTRIES

A COMPOUND (or combined) journal entry is one in which more than two accounts are involved — several accounts may be debited and/or several credited in a single entry, used when transactions of the same date and nature occur together (for example, paying salary

TRADE DISCOUNT IN THE JOURNAL

Trade discount is the reduction in the LIST PRICE a seller allows for bulk buying; it is deducted on the invoice itself, so ONLY THE NET AMOUNT (list price minus trade discount) is journalised and trade discount NEVER appears as a separate account. For example, goods of

WORKED EXAMPLE

Six standard transactions, fully balanced

- 1** Started business with cash ₹1,00,000 → Cash A/c Dr 1,00,000 / To Capital A/c 1,00,000. (Being capital introduced.)
Cash asset up = Dr; Capital up = Cr. Dr = Cr.

- 2** Bought goods for cash ₹20,000 → Purchases A/c Dr 20,000 / To Cash A/c 20,000. (Being goods bought for cash.)
Purchases expense up = Dr; Cash down = Cr.

- 3** Bought goods on credit from Sohan ₹15,000 → Purchases A/c Dr 15,000 / To Sohan A/c 15,000. (Being goods bought on credit.) Sohan is now a creditor (liability) = Cr.

- 4** Sold goods to Ram on credit, list price ₹12,000 less 10% trade discount → Ram's A/c Dr 10,800 / To Sales A/c 10,800. (Being goods sold on credit at 10% trade discount.) Only the net ₹10,800 is recorded; trade discount gets no line.

- 5** Paid rent ₹3,000 by cash → Rent A/c Dr 3,000 / To Cash A/c 3,000. (Being rent paid.) Rent is an expense (Dr); Cash down (Cr).

WORKED EXAMPLE

Opening entry and a compound entry

- 1** OPENING ENTRY brings forward last year's balances. Suppose Cash ₹40,000, Furniture ₹30,000, Creditors ₹20,000.
- 2** All assets are debited: Cash A/c Dr 40,000 and Furniture A/c Dr 30,000 (total debit ₹70,000).
- 3** All liabilities are credited: To Creditors A/c 20,000. Capital is the balancing figure = Assets – Liabilities = 70,000 – 20,000 = 50,000 → To Capital A/c 50,000. (Being balances brought forward.) Dr 70,000 = Cr 70,000.
- 4** COMPOUND ENTRY combines accounts of the same date: paid rent ₹3,000 and salary ₹5,000 by cash together.
- 5** Rent A/c Dr 3,000 and Salary A/c Dr 5,000 / To Cash A/c 8,000. (Being rent and salary paid.) Two debits, one credit, total debit ₹8,000 = total credit ₹8,000.

THEOREM · LOAD-BEARING RESULT

The self-checking nature of double-entry

Because every transaction is recorded with at least one debit and an equal credit, the SUM of all debits in the journal always equals the SUM of all credits — and the accounting equation stays balanced.

STATEMENT

For every entry: Total Debit = Total Credit. Across the whole journal: $\Sigma \text{ Debits} = \Sigma \text{ Credits}$, which is later proved by the trial balance in the next chapter.

WHY THIS MATTERS

- This equality is not a coincidence but a direct result of the dual aspect concept — each transaction has two equal and opposite effects
- It gives accounting a built-in arithmetic check: if debits do not equal credits, an error has certainly been made somewhere.

WATCH OUT FOR

NOTE Equal debits and credits prove ARITHMETICAL accuracy only, not correctness of accounts. An entry can balance yet still post to the wrong account (e.g. an asset purchase wrongly debited to Purchases) — the totals match but the entry is conceptually wrong.

TOPIC

Debit always means decrease / credit always means increase

TRAP → TRUTH

× **MISTAKE** Debit means money going out (decrease) and credit means money coming in (increase).

✓ **CORRECT** Debit and credit have NO fixed meaning of increase or decrease — the effect depends on the TYPE of account. For an ASSET or EXPENSE, a debit means an INCREASE and a credit means a decrease. For a LIABILITY, CAPITAL or INCOME, a credit means an INCREASE and a debit means a decrease. 'Debit' literally just means the left side of an account and 'credit' the right side; whether that is a rise or a fall is decided by the account's nature.

TOPIC

Every transaction affects only one account

TRAP → TRUTH

- × **MISTAKE** Buying goods for cash affects only the cash (or only the purchases).
- ✓ **CORRECT** Under the DUAL ASPECT concept every transaction has TWO equal and opposite effects, and double-entry records both. Buying goods for cash increases Purchases (debit) AND decreases Cash (credit) by the same amount. This is why total debits always equal total credits and why the accounting equation stays balanced after every transaction.

TOPIC

Capital account follows the asset rule

TRAP → TRUTH

× **MISTAKE** When the owner brings in more money, capital is debited because the business gains cash.

✓ **CORRECT** Cash is an asset and IS debited (asset increases). But CAPITAL is a liability of the business (owed back to the owner), so an increase in capital is CREDITED, never debited. Entry: Cash A/c Dr ... To Capital A/c. Treating capital like an asset reverses the entry and is one of the most common Ch-3 errors.

TOPIC

Trade discount is journalised

TRAP → TRUTH

- × **MISTAKE** Trade discount is recorded as a separate item in the journal entry.
- ✓ **CORRECT** TRADE discount is deducted on the invoice BEFORE the entry is made — only the NET amount (list price minus trade discount) is journalised; trade discount never appears as a separate account. CASH discount, by contrast, IS recorded (Discount Allowed / Discount Received). Showing trade discount as a separate journal line is wrong and loses the mark.

TOPIC

Drawings are debited to the expenses / charged against profit

TRAP → TRUTH

- × **MISTAKE** When the owner withdraws cash, an expense account is debited.
- ✓ **CORRECT** Withdrawal of cash or goods for personal use is debited to the DRAWINGS account, not to any expense. Drawings reduce CAPITAL (Drawings A/c Dr ... To Cash/Purchases A/c) and do NOT appear in the Profit & Loss Account, so they never reduce profit — they reduce the owner's capital at year-end.

TOPIC

Purchase of an asset is 'Purchases'

TRAP → TRUTH

- × **MISTAKE** Buying a machine or furniture for the business is debited to the Purchases account.
- ✓ **CORRECT** The PURCHASES account is used ONLY for goods bought for resale (stock-in-trade). Buying a machine, furniture or computer for use in the business is debited to that ASSET's own account (Machinery A/c, Furniture A/c). Routing an asset purchase through Purchases overstates cost of goods and misstates profit.

TOPIC

Personal name = personal account only

TRAP → TRUTH

× **MISTAKE** Salary paid to Mohan is debited to Mohan's account because Mohan is a person.

✓ **CORRECT** The classification follows the NATURE of the dealing, not the name. Salary is an EXPENSE (a nominal account), so 'Salary A/c' is debited, not 'Mohan A/c'. A personal account (debit the receiver) is used only when the person is a debtor/creditor in a credit dealing — e.g. goods sold on credit to Mohan debits Mohan's (personal) account.

TOPPER TEMPLATE · MARK-BY-MARK

3-4 mark: 'Show the effect of the following transactions on the accounting equation /

1 SET UP THE TABLE WITH THE THREE HEADS

1 m

Draw a table with columns ASSETS (split into the relevant assets, e.g. Cash + Stock + Debtors) = LIABILITIES (e.g. Creditors) + CAPITAL. Writing the equation heading 'Assets = Liabilities + Capital' before the table secures the structure mark.

2 SHOW THE DUAL EFFECT OF EACH TRANSACTION LINE BY LINE

2 m

Take each transaction in order and write its TWO effects with signs. E.g. 'Started business with ₹50,000 cash' → Cash +50,000, Capital +50,000. 'Bought goods for cash ₹10,000' → Cash -10,000, Stock +10,000. 'Bought goods on credit ₹8,000' → Stock +8,000, Creditors +8,000. Keep a running balance after each line.

3 TOTAL EACH COLUMN AND PROVE THE EQUATION BALANCES

1 m

Add each column down to the final row and SHOW that total Assets = total Liabilities + Capital (e.g. 58,000 = 8,000 + 50,000). The closing proof that both sides are equal is itself a mark.

TOPPER TEMPLATE · MARK-BY-MARK

4-6 mark: 'Journalise the following transactions in the books of .'

- 1 DRAW THE CORRECT JOURNAL FORMAT**
1 m

Rule columns: Date | Particulars | L.F. | Debit (₹) | Credit (₹). Write the debit account first (with 'Dr'), then the credit account on the next line indented and prefixed 'To'. The format itself earns a mark.
- 2 APPLY THE RULES OF DEBIT AND CREDIT TO EACH TRANSACTION**
3 m

For each transaction identify the two accounts and their type, then apply: assets/expenses increase = Dr, liabilities/capital/incomes increase = Cr. E.g. 'Goods sold on credit to Ram ₹5,000' → Ram's A/c Dr 5,000 / To Sales A/c 5,000. Net off any trade discount before writing the figure.
- 3 ADD NARRATION AND VERIFY DR = CR FOR EVERY ENTRY**
2 m

Below each entry write a one-line narration in brackets, e.g. '(Being goods sold on credit to Ram)'. Then mentally check total debit equals total credit in every single entry — an unbalanced entry earns zero for that line.

TOPPER TEMPLATE · MARK-BY-MARK

3 mark: 'State the rules of debit and credit' (modern OR traditional approach).

- 1 NAME THE APPROACH AND THE ACCOUNT CLASSES**
1 m

State whether you are using the MODERN approach (Assets, Expenses, Liabilities, Capital, Incomes) or the TRADITIONAL approach (Personal, Real, Nominal accounts). Naming the classes first frames the answer.
- 2 GIVE THE DEBIT-CREDIT RULE FOR EACH CLASS**
1 m

MODERN: Assets & Expenses → increase Dr, decrease Cr; Liabilities, Capital & Incomes → increase Cr, decrease Dr. TRADITIONAL: Personal → debit the receiver, credit the giver; Real → debit what comes in, credit what goes out; Nominal → debit expenses & losses, credit incomes & gains.
- 3 ANCHOR EACH RULE WITH A ONE-LINE EXAMPLE**
1 m

Add a quick example per rule, e.g. 'Cash brought in by owner: Cash (asset) increases → Dr; Capital increases → Cr.' Examples convert a memorised rule into a demonstrated one and lock the final mark.

PYQ PATTERNS








Top PYQ patterns to drill

#1	Show the effect of the given transactions on the accounting equation (Assets = Liabilities + Capital) and prepare the equation table. (3-4 marks)	Most papers
#2	Journalise the following transactions in the books of ___ (a block of 5-8 simple transactions: capital introduced, cash/credit purchases and sales, expenses, drawings). (4-6 marks)	Almost every paper
#3	State the rules of debit and credit for assets, liabilities, capital, expenses and incomes (modern approach) OR classify accounts and apply the traditional rules. (3-4 marks)	Frequent
#4	Pass the opening journal entry / a compound journal entry from the given balances. (3-4 marks)	Frequent
#5	Name and explain the source documents / what is a voucher; distinguish a cash memo from an invoice, or a debit note from a credit note. (1 + 3 marks)	Frequent

MARKS DISTRIBUTION

10-year marks distribution

10-YEAR PYQ MARKS DISTRIBUTION

Accounting equation — effect of transactions / prepare equation table		22%
Rules of debit and credit (modern approach by account type)		18%
Rules of debit and credit (traditional — personal/real/nominal)		14%
Journalise given transactions (simple entries)		26%
Compound / opening journal entry		16%
Source documents and vouchers (types, accounting voucher)		12%
Treatment of trade discount in the journal		8%

RECAP · MEMORISE THESE

Recap

1 The equation & dual aspect — $\text{Assets} = \text{Liabilities} + \text{Capital}$, balanced after every transaction because each has two equal-and-opposite effects.

2 Rules of debit & credit — Modern: assets & expenses increase by Dr; liabilities, capital & incomes increase by Cr. Traditional: receiver Dr/giver Cr; in Dr/out Cr; expenses Dr/incomes Cr.

3 The journal & traps — Date|Particulars|L.F.| Dr|Cr, with 'Dr' and 'To', a narration, and Dr = Cr always. Capital increase = credit. Drawings → Drawings A/c. Trade discount = no separate entry. Asset purchase ≠ Purchases.

WHAT'S NEXT

What's next

- Chapter 4 — Recording of Transactions II: special purpose books, cash book and other subsidiary books.
- Sit the 15-MCQ Quick Drill under a 20-min timer.
- Then attempt the school-pattern mini paper — 30 marks, 60 minutes, including a journal block.

You can now record any transaction.

Every later chapter is just this journal entry, organised and totalled.

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