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Manual Accounting - Module 7

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Discounts are reductions in the price of goods or services, typically given by sellers to buyers for various reasons. There are mainly two types of discounts in accounting:

1. Trade Discount

- **Definition:** A trade discount is a reduction in the listed price of a product or service, offered by the seller to the buyer, usually based on the quantity purchased or a long-term business relationship.
- **Purpose:** Encourages bulk purchases or rewards loyal customers.
- **Accounting Treatment:** Trade discounts are not recorded separately in the accounting books. The sale is recorded at the net amount after the trade discount has been applied.

2. Cash Discount

- **Definition:** A cash discount is a reduction in the invoice amount offered by the seller to the buyer as an incentive for early payment.
- **Purpose:** Encourages prompt payment, which improves the seller's cash flow.
- **Accounting Treatment:** Cash discounts are recorded separately in the accounting books. They are typically recorded in accounts such as "Discount Allowed" (for the seller) and "Discount Received" (for the buyer).

Vouchers: Written instrument that serves to confirm or witness (vouch) for some fact such as a transaction. Commonly, a voucher is a document that shows goods have bought or services have been rendered, authorizes payment, and indicates the ledger account(s) in which these transactions have to be recorded.

Cash and Non-Cash Vouchers

Cash Vouchers and Non-Cash Vouchers are two primary categories of accounting vouchers used to document financial transactions. They serve to substantiate the entries made in the accounting system.

Cash Vouchers

Cash vouchers are used to document transactions involving cash receipts and cash payments. These transactions affect the cash balance of a business.

Non-Cash Vouchers

Non-cash vouchers are used to document transactions that do not involve cash. These include credit transactions, adjustments, and transfers within the business.

Key Elements of Vouchers

- **Date:** The date of the transaction.
- **Voucher Number:** A unique identification number for the voucher.
- **Description:** A detailed description of the transaction.
- **Amount:** The monetary value of the transaction.

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- Accounts Involved: The ledger accounts to be debited or credited.
 - Authorized By: Signature of the person(s) authorizing the transaction.
- Supporting Documents: Attached documents such as invoices, receipts, or contracts.

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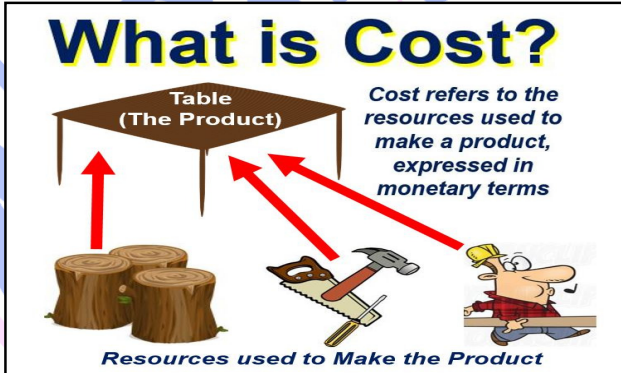
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Payment Voucher		
PV No: _____		
Amount: _____	Date: _____	
Method of Payment		
Cash: _____	Check#: _____	
To: _____		
The Sum of: _____		
Being: _____	Payee: _____	
Approved By: _____	Paid By: _____	Signature _____

Payment Voucher Template

Cost: Cost can be termed as the amount of resources given up in exchange for some goods and services.

Profit: It is the excess of total revenues over total expenses of a business enterprise of an accounting period.



- Ques 1: Prepare Accounting Equation from the following:
1. Started business with cash Rs. 75000 and goods Rs. 25000
 2. Paid for rent Rs 2000
 3. Bought goods for cash Rs. 30000 and on credit for Rs. 44000
 4. Goods costing Rs 50000 sold at a profit of 25%, out of which Rs 27500 received in cash.
 5. Purchased a Motor- cycle for personal use Rs. 25000

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Solution:

To prepare the accounting equation, we need to determine the effects of each transaction on the assets, liabilities, and owner's equity. The accounting equation is:

Assets = Liabilities + Owner's Equity

Let's go through each transaction step by step:

1. Started business with cash Rs. 75000 and goods Rs. 25000:

Assets (Cash): +75000

Assets (Inventory/Goods): +25000

Owner's Equity: +100000 (since the owner invests both cash and goods)

Assets = 75000(Cash) + 25000(Inventory) = Rs 100000

Liabilities = 0

Owner's Equity = Rs100000

2. Paid for rent Rs 2000:

Assets (Cash): - 2000

Owner's Equity (Expenses): -2000 (rent expense reduces equity)

Assets = Rs 73000(Cash) + 25000(Inventory) = Rs 98000

Liabilities = 0

Owner's Equity = Rs 98000

3. Bought goods for cash Rs. 30000 and on credit for Rs. 44000:

Assets (Cash): -30000

Assets (Inventory): +74000 (30000 + 44000)

Liabilities (Creditors): +44000

Assets = Rs 43000(Cash) + Rs 99000(Inventory) = Rs 142000

Liabilities = Rs 44000

Owner's Equity = Rs 98000

4. Goods costing Rs 50000 sold at a profit of 25%, out of which Rs 27500 received in cash:

Assets (Cash): +27500

Assets (Accounts Receivable): +37500 (since total sales is 62500, the remaining 35000 is receivable)

Assets (Inventory): -50000

Owner's Equity (Revenue): +62500 (50000 + 25% profit)

Assets = 70500(Cash) + 49000(Inventory) + 37500(Accounts Receivable) = 157000

Liabilities = 44000

Owner's Equity = 113000 (98000+62500-50000)

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5. Purchased a Motor-cycle for personal use Rs. 25000:

Assets (Cash): -25000

Owner's Equity (Drawings): -25000 (personal use reduces equity)

Assets = Rs 45500(Cash) + 49000(Inventory) + 37500(Accounts Receivable)=132000

Liabilities = 44000

Owner's Equity = 88000 (113000-25000)

Final Accounting Equation:

Assets = Liabilities + Owner's Equity

132000 = 44000 + 88000

Ques 2: Set of transactions are given below, apply the accounting equation step by step.

Initial Balances:

Assume we are starting with the following initial balances:

- Cash: Rs. 50,000
- Inventory: Rs. 20,000
- Accounts Receivable: Rs. 10,000
- Equipment: Rs. 30,000
- Liabilities (Creditors): Rs. 15,000
- Owner's Equity: Rs. 95,000

The initial accounting equation is:

Assets = Liabilities + Owner's Equity

110,000 = 15,000 + 95,000

New Transactions:

1. Purchased goods for cash Rs. 8,000
2. Sold goods costing Rs. 5,000 for Rs. 7,500 on account
3. Paid salaries Rs. 4,000
4. Received Rs. 6,000 from accounts receivable
5. Owner withdrew Rs. 2,500 for personal use

Let's analyze each transaction:

Transaction 1: Purchased goods for cash Rs. 8,000

Assets (Cash): -8,000

Assets (Inventory): +8,000

Equation:

Assets = Liabilities + Owner's Equity

110,000 = 15,000 + 95,000



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Transaction 2: Sold goods costing Rs. 5,000 for Rs. 7,500 on account
Assets (Accounts Receivable): +7,500
Assets (Inventory): -5,000
Owner's Equity (Revenue): +7,500
Owner's Equity (Cost of Goods Sold): -5,000

Equation:

Assets = Liabilities + Owner's Equity
112,500 = 15,000 + 97,500



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Transaction 3: Paid salaries Rs. 4,000
Assets (Cash): -4,000
Owner's Equity (Expenses): -4,000

Equation:

Assets = Liabilities + Owner's Equity
108,500 = 15,000 + 93,500



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Transaction 4: Received Rs. 6,000 from accounts receivable
Assets (Cash): +6,000
Assets (Accounts Receivable): -6,000

Equation:

Assets = Liabilities + Owner's Equity
108,500 = 15,000 + 93,500



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Transaction 5: Owner withdrew Rs. 2,500 for personal use
Assets (Cash): -2,500
Owner's Equity (Drawings): -2,500

Equation:

Assets = Liabilities + Owner's Equity
106,000 = 15,000 + 91,000



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Ques 3: Prepare Accounting Equation from the following:

1. Started business with cash Rs. 100,000 and equipment Rs. 50,000
2. Paid for office supplies Rs. 5,000
3. Purchased goods for cash Rs. 20,000 and on credit Rs. 35,000
4. Sold goods costing Rs. 30,000 for Rs. 50,000, out of which Rs. 20,000 was received in cash
5. Paid Rs. 15,000 on account to creditors
6. Owner withdrew Rs. 10,000 for personal use



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Ques 4: Prepare Accounting Equation from the following:

1. Started business with cash Rs. 80,000 and machinery Rs. 70,000
2. Paid for advertising Rs. 4,000
3. Purchased goods for cash Rs. 40,000 and on credit Rs. 50,000
4. Sold goods costing Rs. 60,000 for Rs. 90,000, out of which Rs. 30,000 was received in cash
5. Paid Rs. 20,000 on account to creditors
6. Owner withdrew Rs. 8,000 for personal use

Ques 5: Prepare Accounting Equation from the following:

1. Started business with cash Rs. 90,000 and building Rs. 150,000
2. Paid for office rent Rs. 6,000
3. Purchased office supplies for cash Rs. 15,000 and on credit Rs. 10,000
4. Sold goods costing Rs. 20,000 for Rs. 35,000, out of which Rs. 10,000 was received in cash
5. Paid Rs. 5,000 on account to creditors
6. Owner withdrew Rs. 12,000 for personal use

Ques 6: Prepare Accounting Equation from the following:

1. Started business with cash Rs. 120,000 and land Rs. 200,000
2. Paid for utilities Rs. 3,500
3. Purchased inventory for cash Rs. 30,000 and on credit Rs. 40,000
4. Sold goods costing Rs. 50,000 for Rs. 80,000, out of which Rs. 25,000 was received in cash
5. Paid Rs. 18,000 on account to creditors
6. Owner withdrew Rs. 7,000 for personal use

