Discounts and Accounting Equation

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

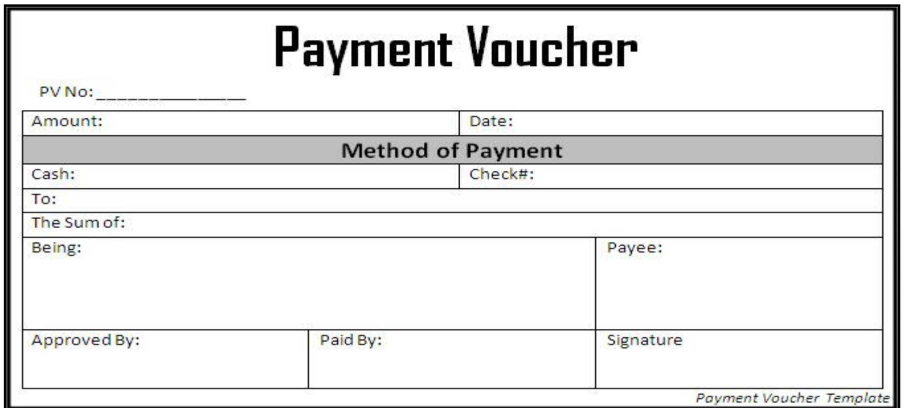
Non-cash vouchers are used to document transactions that do not involve cash. These include credit transactions, adjustments, and transfers within the business.

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.
- 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.


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

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:

Transaction	Assets	Liabilities	Owner's Equity
1. Started business with cash and goods	Cash: 75,000 Inventory: 25,000	-	100,000
2. Paid for rent Rs. 2,000	Cash: (75,000 - 2,000 = 73,000)	-	(100,000 - 2,000 = 98,000)
3. Bought goods for cash and on credit	Cash: (73,000 - 30,000 = 43,000) Inventory: (25,000 + 30,000 + 44,000 = 99,000)	Creditors: 44,000	98,000
4. Sold goods (Costing Rs. 50,000, profit 25%)	Cash: (43,000 + 27,500 = 70,500) Debtors: 25,000 Inventory: (99,000 - 50,000 = 49,000)	Creditors: 44,000	(98,000 + 12,500 = 110,500)
5. Purchased a Motor-cycle for personal use	Cash: (70,500 - 25,000 = 45,500)	-	(110,500 - 25,000 = 85,500)

Explanation:
1. **Starting the business:**
   - Assets increase by the cash (Rs. 75,000) and goods (Rs. 25,000) invested.
   - Owner's equity increases by Rs. 100,000 (total investment).

2. **Rent payment:**
   - Cash decreases by Rs. 2,000.
   - Owner's equity decreases as an expense reduces profits.

3. **Purchasing goods (cash & credit):**
   - Inventory increases by Rs. 74,000.
   - Cash decreases by Rs. 30,000.
   - Liability (creditors) increases by Rs. 44,000.

4. **Goods sold for profit:**
   - Cost of goods sold (Rs. 50,000) reduces inventory.

- Sales: Rs. 62,500 (50,000 + 25% profit).
- Cash received: Rs. 27,500; Debtors: Rs. 25,000.
- Profit increases Owner's Equity.

5. **Personal use**:
- Cash decreases by Rs. 25,000.
- Owner's equity decreases as drawings reduce capital.

Assignment

Ques 1: 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

Ques 2: 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

Ques 3: 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 4: 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 5: 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