DegreeLive

B.Com Honours | Semester II | Calicut University

Foundations of Accounting

Course Code: COM2FM106 • Module 2 Notes

1. Recording Transactions: Account Classifications and Journalizing

Recording transactions is the first step in the accounting cycle, where financial events are captured chronologically in the book of original entry (the Journal). This module covers the identification of transactions, traditional and modern account classifications, the accounting equation, rules of debit and credit, and the process of journalizing.

Traditional vs. Modern Classifications of Accounts

Accounts must be classified properly to apply debit and credit rules:

Classification System	Account Categories	Golden Rules of Debit and Credit
Traditional System	**Personal Accounts:** Accounts of individuals/firms (e.g., Ram A/c).	Debit the receiver, Credit the giver.
	Real Accounts: Accounts of properties/assets (e.g., Cash A/c).	Debit what comes in, Credit what goes out.
	Nominal Accounts: Accounts of expenses/incomes (e.g., Rent A/c).	Debit all expenses/losses, Credit all incomes/gains.
Modern System	Assets, Liabilities, Capital, Revenues, and Expenses.	Increase Assets/Expenses = Debit. Increase Liabilities/Capital/Revenues = Credit.

The Accounting Equation & Journalizing

The Accounting Equation

The balance sheet equation:
(ext{Assets} = ext{Liabilities} + ext{Capital})
Every business transaction has a dual effect, leaving this equation in balance at all times.

Vouchers & The Journal

- **Vouchers:** Source documents (invoices, receipts) that serve as evidence for recording transactions.
- **Journal Entry:** Recording debits and credits with an explanatory narration.