

# Introduction to Recording Transactions

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*(Fundamental concepts for bookkeeping and accounting)*

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## 1. What Is a Transaction?

- **Definition:** Any economic event that changes the financial position of an entity and can be measured in monetary terms.
  - **Key characteristics**
    - **Dual effect:** Every transaction impacts at least two accounts (debit???credit).
    - **Measurable:** Must be expressed in a reliable currency amount.
    - **Documented:** Supported by source documents (invoice, receipt, contract, etc.).
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## 2. The Accounting Equation

$$[\text{Assets}] = [\text{Liabilities}] + [\text{Owner's Equity}]$$

- Every transaction must keep this equation in balance.
  - **Impact examples**
    - Purchasing equipment for cash:
      - Decrease **Cash** (Asset) ? Credit
      - Increase **Equipment** (Asset) ? Debit
    - Borrowing from a bank:
      - Increase **Cash** (Asset) ? Debit
      - Increase **Notes Payable** (Liability) ? Credit
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## 3. The Double-Entry System

| Step | Action                                                                      |
|------|-----------------------------------------------------------------------------|
| 1    | Identify the accounts affected.                                             |
| 2    | Determine which account(s) are <b>debits</b> and which are <b>credits</b> . |
| 3    | Apply the rule: <b>Debits = Credits</b> for the transaction.                |

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## Step

## Action

4 Record the entry in the journal (chronological record).

5 Post the amounts to the appropriate ledger accounts.

- **Debit (Dr.)** – left side of an account; increases assets & expenses, decreases liabilities, equity, and revenue.
  - **Credit (Cr.)** – right side of an account; increases liabilities, equity, revenue, decreases assets & expenses.
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## 4. Source Documents

| Document         | Typical Transaction     | Information Captured         |
|------------------|-------------------------|------------------------------|
| Invoice          | Sale on credit          | Date, parties, amount, terms |
| Receipt          | Cash purchase           | Date, amount, description    |
| Purchase order   | Order of goods/services | Quantity, price, supplier    |
| Bank statement   | Deposits/withdrawals    | Date, amounts, balances      |
| Payroll register | Salary payments         | Employee, wages, deductions  |

*Always retain original documents for verification and audit trails.*

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## 5. Journals and Ledgers

### 5.1 General Journal

- **Purpose:** Primary book of entry; records every transaction chronologically.
- **Format (simplified):**

| Date   | Account Title & Ref. | Debit | Credit | Explanation              |
|--------|----------------------|-------|--------|--------------------------|
| 01?Jan | Cash                 | 5,000 |        | Cash received from owner |
|        | Owner's Capital      |       | 5,000  | (Owner's investment)     |

### 5.2 Special Journals (optional)

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- **Sales Journal** – credit sales.
- **Purchases Journal** – credit purchases.
- **Cash Receipts Journal** – cash inflows.
- **Cash Disbursements Journal** – cash outflows.

## 5.3 General Ledger

- **Purpose:** Consolidates all debits and credits by account.
  - **Structure:** One T-account per ledger account; running balance shows current value.
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## 6. The Posting Process

1. **Locate** the journal entry.
2. **Transfer** each debit to the debit side of the corresponding ledger account.
3. **Transfer** each credit to the credit side of its ledger account.
4. **Update** the account balance.
5. **Cross-reference** with journal page