BUSINESS TRAINING · SECTION 1

The building blocks of accounting

Source documents, accounts, postings and journal entries — and why every report is the same lines seen a different way.

WHY KEEP ACCOUNTS AT ALL?

A scorebook for the business

Without a scorebook, nobody can say who is winning — even though every ball was bowled.

Without accounts, a shop sells all day and still cannot answer:

- How much profit did we make?
- Who owes us, and since when?
- How much do we owe, and to whom?
- How much stock should be on the shelf?

530 YEARS, SAME IDEA

Where double entry came from

When	What	Books kept
1300s	Italian merchants (Genoa, Florence, Prato)	Merchant ledgers with both sides
1494	**Luca Pacioli, Venice** — first printed description	Memorandum (rough daybook) → **Journal** → **Ledger**
Centuries	Indian traders' *bahi-khata*	*Rojmel* (daily cash book) + *khata* (ledger), *jama* / *udhar*
1900s	Shop and office practice	Bill book → Sales/Purchase day books → Ledger
Today	Tally, ERP, apps	The bill **is** the journal entry; reports are calculated

THE WHOLE MODEL ON ONE SLIDE

Four building blocks

Source document — the evidence (bill, receipt, bank slip)
↓ produces
Journal entry — one balanced business event
↓ made of
Postings — single Dr or Cr lines, each to one account
↓ land in
Accounts — named buckets (Cash, Sales, Ravi Stores…)

Everything else — journal, ledger, trial balance, P&L, balance sheet, GST reports — is a **view** of the postings.

BLOCK 1 — SOURCE DOCUMENTS

Not every document creates an entry

Class	Ledger	Stock	Examples
No entry	—	—	Quotation, proforma invoice, sales or purchase order
Stock only	—	Yes	Delivery challan, goods received note, godown transfer
Ledger only	Yes	—	Receipt, payment, salary, loan, rent bill, bank charges, GST/TDS payment
Ledger + stock	Yes	Yes	Sales invoice, purchase bill, credit/debit note with goods returned

The test: does this document change what the business *owns* or *owes*? A promise (quotation, order) does not.

BLOCK 2 — ACCOUNTS

Five kinds of bucket

Type	Means	Family example	Business example
Asset	What we own or are owed	Gold, house	Cash, bank, stock, customers who owe us
Liability	What we owe	Home loan	Suppliers we owe, GST payable, salary payable
Equity	Owner's share	What is truly the family's	Capital, retained profit
Income	Money earned	Salary	Sales, discount received
Expense	Money spent to earn	Groceries, EB bill	Rent, salary, freight

BLOCK 3 — DEBIT AND CREDIT

Two tanks: what leaves one enters the other

Every movement has two ends.

Debit (Dr) = where the value **went**

Credit (Cr) = where the value **came from**

Total Dr always equals total Cr.

Account type	Increase	Decrease
Asset	**Dr**	**Cr**
Expense	**Dr**	**Cr**
Liability	**Cr**	**Dr**
Equity	**Cr**	**Dr**
Income	**Cr**	**Dr**

ONE WORKED EXAMPLE

Ravi Stores, four events in October

1. **1 Oct** — Ravi Stores pays an **advance of ₹500** in cash
2. **5 Oct** — Bill #245 to Ravi Stores: goods ₹1,000 + GST ₹180 = **₹1,180**; the advance is adjusted
3. **10 Oct** — Ravi Stores pays **₹600** in cash
4. **12 Oct** — Cash sale, bill #246: goods ₹200 + GST ₹36 = **₹236**

We will look at these four events five ways: as stored postings, as journal entries, as the journal, as ledgers, and as Ravi Stores' statement.

WHAT IS ACTUALLY STORED

12 postings — nothing else

#	Date	Document	Account	Party	Dr	Cr
p1	1 Oct	Receipt R-01	Cash	—	500	
p2	1 Oct	Receipt R-01	Customer Advances	Ravi		500
p3	5 Oct	Bill #245	Sundry Debtors	Ravi	1,180	
p4	5 Oct	Bill #245	Sales	—		1,000
p5	5 Oct	Bill #245	GST Output	—		180
p6	5 Oct	Adjustment J-01	Customer Advances	Ravi	500	
p7	5 Oct	Adjustment J-01	Sundry Debtors	Ravi		500
p8	10 Oct	Receipt R-02	Cash	—	600	
p9	10 Oct	Receipt R-02	Sundry Debtors	Ravi		600
p10	12 Oct	Bill #246	Cash	—	236	
p11	12 Oct	Bill #246	Sales	—		200
p12	12 Oct	Bill #246	GST Output	—		36

BLOCK 4 — ONE JOURNAL ENTRY

A balanced group of postings

Bill #245 (the evidence)
Ravi Stores
Goods ₹1,000
GST ₹180
Total ₹1,180

→

Posting	Account	Dr	Cr
p3	Sundry Debtors (Ravi)	**1,180**	
p4	Sales		**1,000**
p5	GST Output		**180**
	Total	1,180	1,180

Rules of an entry: 2 or more postings · same date · same source document · **total Dr = total Cr**.

The bill says *what happened*; the entry is the accountant's *translation* — and the translation can be wrong.

VIEW 1 — THE JOURNAL (DAY BOOK)

Grouped by event, sorted by date

1 Oct	Receipt R-01	Cash	Dr	500	
		To Customer Advances (Ravi)			500
5 Oct	Bill #245	Sundry Debtors (Ravi)	Dr	1,180	
		To Sales			1,000
		To GST Output			180
5 Oct	Adjustment J-01	Customer Advances (Ravi)	Dr	500	
		To Sundry Debtors (Ravi)			500
10 Oct	Receipt R-02	Cash	Dr	600	
		To Sundry Debtors (Ravi)			600
12 Oct	Bill #246	Cash	Dr	236	
		To Sales			200
		To GST Output			36

Answers: what happened, and does each event balance? No running balances here.

VIEW 2 — THE LEDGER

Filtered by account, with a running balance

Cash

Date	Against	Dr	Cr	Balance
1 Oct	Customer Advances	500		500 Dr
10 Oct	Sundry Debtors	600		1,100 Dr
12 Oct	Sales	236		**1,336 Dr**

Sales

Date	Against	Dr	Cr	Balance
5 Oct	Ravi Stores		1,000	1,000 Cr
12 Oct	Cash		200	**1,200 Cr**

Each page sees **only its own lines**, names the other account as a pointer, and carries a **running balance**.

Bill #245 is **one block** in the journal but **three lines on three different ledger pages**.

VIEW 3 — THE PARTY STATEMENT

Filtered by party, across all accounts

Date	Document	Account	Dr	Cr	Net balance
1 Oct	R-01	Customer Advances		500	500 Cr — we owe Ravi
5 Oct	#245	Sundry Debtors	1,180		680 Dr
5 Oct	J-01	Customer Advances	500		1,180 Dr
5 Oct	J-01	Sundry Debtors		500	680 Dr
10 Oct	R-02	Sundry Debtors		600	**80 Dr — Ravi owes ₹80**

Split by account: Sundry Debtors **80 Dr** · Customer Advances **0**

SAME 12 LINES, DIFFERENT GROUPING

Every report is a view

	Journal	Ledger	Party statement	Trial balance
Filter	All postings	One account	One party	All postings
Grouped by	Document	—	—	Account (one total each)
Running balance	No	Yes	Yes (net)	Closing balance only
Bill #245 appears as	3 lines in one block	1 line on each of 3 pages	1 line (Ravi's only)	Inside 3 account totals
Answers	What happened?	Where does this account stand?	Where do we stand with this party?	Do the books balance?

A WORD THAT CONFUSES EVERYONE

Account vs ledger

Account = the identity

Name, type, group; for a party: GSTIN, phone, credit limit.

Exists even with zero transactions. Changes rarely.

Like your bank account number.

Ledger = the story

Every posting to that account, by date, with a running balance.

Grows with every transaction.

Like your passbook.

Tally calls accounts "ledgers". When Tally says *create ledger*, it means *create account*.

TAGS ON POSTINGS

Parties and cost centres

Party	Asset side (they owe us)	Liability side (we owe them)
Customer	Customer balance receivable	Advance received from customer
Supplier	Advance paid to supplier	Supplier balance payable
Staff	Salary advance, staff loan	Salary, incentive, reimbursement payable

Party balance = all live postings tagged with that party, across all its accounts. Net Dr: they owe us. Net Cr: we owe them.

Account — what kind of money?

Party — with whom?

Cost centre — for which part of the business? (route, godown, salesman, brand)

STORED OR CALCULATED?

Balances are calculated, not written down

Thing	Stored?	Why
Posting	**Yes — the truth**	Everything is built from it
Running balance on each line	No	A backdated edit would make every later line wrong
Opening balance for a period	No	Sum of postings before the start date
Current balance on an account	Yes, as a **cache**	Fast lookup; rebuilt from postings and checked every night

The bank does not store your balance on every passbook line — it prints it when you update the passbook.

WHEN SOMETHING IS WRONG

An edit replaces the entry — it never patches a line

Open period (normal days)
Edit bill #245 → its **old postings are marked superseded**, a **new balanced set** is written.
Reports show only the live set; history keeps both.

Locked or filed period
GST already filed, books closed → do not edit. Pass a **reversing entry** (credit note / journal) in the current period.

Never fix a report by hand. Fix the document; the postings follow; every report corrects itself.

The five link rules

1. Every posting points to **one account and one source document**
2. Every posted document has a **balanced set** of live postings
3. Each document class gets **only its kind** of postings
4. Edits **replace**, never patch — history is kept
5. **No posting without a document**, no posted document without postings

If these hold, every report is right by construction.

TRY IT

Quick quiz

1. A customer sends a **quotation request** and we send a quotation. Which postings?
2. We pay **₹10,000 rent** by bank. Which two accounts, which sides?
3. A customer pays **₹2,000 advance** before any bill. Is that an asset or a liability for us?
4. Bill #245 has 3 postings. How many **ledger pages** does it appear on?
5. Why should a system **not** store the running balance on every line?

REMEMBER ONE SENTENCE

A document produces an entry, the entry is made of postings, each posting lands in an account — and every report is a view of those postings.