

ACCOUNTANCY

Chapter 4: Recording of Transactions – II



Recording of Transactions - II

Books of Original Entry

Meaning and Practical System of Accounting

Several transactions take place during the course of a business. Expanding the business means increasing the number of transactions which are mandatory to be recorded. However, it becomes difficult to record all the transactions in one journal book. Mostly, business transactions are related to receipt and payment of cash, sale of goods and their purchase. It is easy to maintain a separate book for each type of transactions such as recording cash transactions, purchase of goods transactions and sale of goods transaction. This type of book is called a book of original entry or prime entry. Journal entry is not passed for the transactions recorded in those books but they are posted to the ledger accounts. This system is known as practical system of accounting.

Subsidiary Books

Sub-

division of the journal into various books recording transactions of similar nature is called subsidiary books or a special journal. The books maintained are

- Simple Cash Book
- Double Column Cash Book
- Petty Cash Book
- Sales Book
- Purchases Book
- Purchase Returns Book
- Sales Returns Book

Each book is classified as per the nature of transaction. The following table will precise the kinds of transactions entered into the different subsidiary books.

Nature of transaction	Classified	Subsidiary Book
Cash and bank related transactions	Cash transactions only	Simple Cash Book
	Both cash and bank transactions	Double Column Cash Book
	Cash payment of small amount	Petty Cash Book
Other transactions	Credit sale	Sales Book
	Credit purchase	Purchases Book
	Purchase returns	Purchase Returns Book
	Sales returns	Sales Returns Book

Sometimes transactions which cannot be recorded in any of the subsidiary books are recorded in Journal proper.

Main Advantages of Subsidiary Books

Maintaining the subsidiary books enables us to divide the accounting work among a number of accountants/persons. This enables a person to specialise in one particular type of accounting work for considerable period of time. Thus, accounting becomes more efficient.

- If the trial balance does not agree or tally because of error, locating an error is easy as subsidiary books because the number of transactions is less as compared to a journal book.
- As separate books are maintained based on the nature of the transactions, any information related to a particular transaction is easily made available at one place.

Cash Book

Cash Book is a book of prime entry in which all transactions related to cash and bank are recorded. The cash and bank columns are created to enter their respective transactions. In a cash book, all the receipts are recorded on the debit side and all the payments are recorded on the credit side. Finally, the total payments are deducted from the total receipts to determine the cash in hand and bank balance. Generally, this is prepared only on a monthly basis.

Features of Cash Book

1. Only cash and bank transactions are recorded in the cash book.
2. Cash and cheque received are recorded on the debit side while cash and cheque paid are recorded on the credit side.
3. But it records only cash aspect of the transaction.
4. Simultaneously, it performs the function of both journal and the ledger.

Types of Cash Book

- Simple cash book or single column cash book (Cash transactions only)
- Double column or two-column cash book (Cash and bank transactions)
- Three column or triple column cash book (Cash, bank and discount transactions)

Alternatively, discount received and allowed, Cancellation of discount received or allowed due to dishonor of cheque is recorded through Journal Proper. Additionally firms sometimes also maintain a Petty Cash Book.

Simple Cash Book

In a simple cash book, all the receipts of cash are recorded on the left hand side and all the payments are recorded on right hand side.

Format of Simple Cash Book

Dr.	Particulars	V.No.	L.F.	Amount (₹)	Date	Particulars	V.No.	L.F.	Amount (₹)	Cr.

- Date of transaction is written in the date column.
- The detail of cash received or paid is written under the name of the account. Initially in a cash book the opening balance of cash is written on the receipt side as 'To balance b/d'. This is followed only in the existing business.
- Voucher is a written document in support of a particular transaction. They are receipt voucher and payment voucher. It has a serial number which is written in this column.
- Page number of the ledger is written where the amount is posted.
- On the debit side, the amounts received are written and on the credit side the amounts paid are written.

Cash account is an asset account which is debited at the time of receiving cash and it is credited at the time of making payment. As per the rule, increases in assets are debited and decreases in assets are credited at the time of recording cash transactions in the cash book. The receipts of cash entered in the debit side column of the cash book is greater than or equal to the payments of cash entered in the credit side column of the cash book. This difference amount is written on the credit side as 'By Balance c/d' and the total amount is written in the two columns opposite to one another. In order to show the cash balance in hand at the beginning of the consequent year, the balance is written as 'To Balance b/d' on the debit side.

KEY POINTS TO REMEMBER

- Cash account is not opened in the ledger, if the cash book is maintained.
- Cash book is balanced similarly to any other account.
- Simple cash book does not record transactions relating to non-cash, cheque received or given and discount allowed or received.
- All the entries recorded in the simple cash book have corresponding entry which is posted in the ledger.
- Cash paid will not exceed the cash in hand. Hence, the cash book will not have a credit balance.

Enter the following transactions in a simple cash book:

2016		Amount ₹
Mar1	Deepak commenced business with cash	2,00,000
Mar3	Amount deposited into bank	70,000
Mar8	Goods purchased for cash	25,000
Mar12	Furniture purchased for office purpose	8,000
Mar18	Cash withdrawn from bank	5,000
Mar24	Rent paid	3,000
Mar30	Sold goods	6,000

**In the Books of
....Simple Cash Book**

Dr.											Cr.
Date	Receipts	V. No.	L. F.	Cash ₹	Date	Payments	V. No.	L. F.	Cash ₹		
2016					2016						
Mar1	To Capital A/c			2,00,000	Mar3	By Bank A/c				70,000	
Mar18	To Bank A/c			5,000	Mar8	By Purchases A/c				25,000	
Mar30	To Sales A/c			6,000	Mar12	By Furniture A/c				8,000	
					Mar24	By Rent A/c				3,000	
					Mar31	By Balance c/d				1,08,000	
				2,11,000						2,11,000	
Apr1	To Balance b/d			1,08,000							

KEY POINTS TO REMEMBER

- A transaction in which the party name is not mentioned will be treated as a cash transaction and is recorded in the cash book. For example, purchase of goods or sale of goods.
- A transaction in which the party name is mentioned will be treated as a credit transaction and is not recorded in the cash book. For example, purchase of goods from Sheela or sale of goods to Rakesh.
- A transaction in which both the party name and cash are provided will be treated as a cash transaction. For example, purchase of goods in cash from Reetu or sale goods through cash to Radha.

Double Column Cash Book

A double column cash book is a cash book with two columns on each side of the cash book. Cash transactions are recorded in one column and bank transactions are recorded in another column; say cash/cheque deposited into bank, cash withdrawn from bank or issue of cheque. Thus, double column cash book represents cash account and bank account.

Format of Double Column Cash Book

Dr.							Cr.		
Date	Particulars	L.F.	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Cash (₹)	Bank (₹)

Bank account is a personal account which debits the receiver and credits the giver. For example, when cash is deposited in the bank, here the bank is the receiver, and hence it is debited in the bank column of the cash book. While cash is going out, it is credited in the cash column of the cash book.

Similarly, when cash is withdrawn from the bank or if a cheque is issued, then the bank is the giver, and hence it is credited in the bank column of the cash book. While cash is coming in, it is debited in the cash column of the cash book.

Cash columns are balanced in the same way as in the case of a simple cash book. Similar process is followed for balancing the bank column. Sometimes, the bank may allow the firm to withdraw more than the deposited amount, it is called an overdraft. Hence, the total of the bank column on the credit side will be higher than the total of the bank column on the debit side. This difference is written on the debit side as 'To Balance c/d' and the totals are written on the debit and credit side opposite to one another. Finally, this balance is written on the credit side as 'By Balance b/d'.

- Bank column may have debit or credit balance
- Debit balance in the bank column indicates bank balance and credit balance in the bank column indicates bank overdraft
- Cash column will always have debit balance or nil balance
- It is not necessary to open cash and bank accounts in ledger because cash book with bank column is maintained by a firm

Discount

Cash discount is received when payment is made by cheque or cash. Similarly, cash discount is allowed when payment is received by cheque or cash. These are recorded by means of a journal entry.

Discount Allowed

- Discount Allowed A/c Dr.

To X's A/c

- Discount Received

Y's A/c Dr.

To Discount Received A/c

When cheque is dishonoured in the case of discount allowed or received is written back by passing a journal entry.

- Reversal of Discount Allowed

X's A/c Dr.

To Discount Allowed A/c

- Reversal of Discount Received

Discount Received A/c Dr.

To Y's A/c

Following informations are to be noted:

➤ When capital is introduced in the new business

- If cash is introduced, it will be written in the cash column on the debit side of the cash book and if cash is deposited into the bank, then it will be written in the bank column as 'To Capital A/c'.
- If a new cash book is prepared for an existing business, the opening balance is written as 'To Balance b/d'.

➤ Receipts and payments in the business

- All receipts are written on the debit side of the cash in the cash column and cheque in the bank column. The name of the account under which the payment has been received is written in the particular column.
- All payments are written on the credit side of the cash in the cash column and cheque in the bank column.

➤ Contra entry

- In a double column cash book, certain transactions affect both cash and bank columns. Here, the balance of one column will increase and the other balance will decrease. These are entered on both the sides of cash book. This is known as contra entry.
- For example, when cash is deposited in the bank account, the bank account is debited and the cash account is credited. The debit aspect is written on the debit side of the bank column and the credit aspect is written on the credit side of the cash column.

- The letter 'C' is written in the ledger folio column to show that these transactions are contra transactions.
- These are not posted in the ledger account.

➤ **Cheque received and deposited in the bank on same day**

- The amount is entered in the bank column on the debit side.

➤ **Cheque received but not deposited in the bank on the same day**

- This is recorded in the books of account through a journal entry. Cheques in Hand A/c Dr.
- To Ram A/c (debtor)
- When the cheque received is deposited in the bank, it is recorded through the cash book by entering on the debit side of the bank column- 'To Cheques in Hand A/c'
- Thus, the balance in Cheques in Hand A/c will become nil.

➤ **Alternative treatment**

- Cheque received but not deposited in the bank on the same day. The cheque is entered in the cash column on the debit side of the cash book.
- When the cheque is deposited into bank, bank account is debited by writing on the debit side of the bank column and cash account is credited by writing on the credit side of the cash column.(First treatment is preferred than the alternative treatment.)

➤ **If the deposit date is not mentioned, it may be assumed that the cheque was received and deposited in the bank on the same day.**

➤ **Cheque deposited into bank dishonoured**

- When a cheque received from a customer and deposited in the bank for collection and is returned dishonoured, then the customer's account is debited and the bank account is credited.

➤ **Cheque issued by the firm is not paid on presentation**

- The cheque is entered in the bank column on the debit side with the name of the party to whom the cheque was issued.

➤ **Endorsed to a third party**

- Cheque received may be given to other party to whom payment is to be made. Here, the receipt and endorsement of cheque is recorded through a journal entry.
- For example, cheque received for ₹20,000 from Ram and endorsed in favour of Arun will be passed through a journal entry as follows:

Arun A/c Dr. 20,000

To Ram A/c 20,000

(Being the cheque received from Ram endorsed in favour of Arun)

- **Cheques deposited by customers directly in the bank are written in the bank column on the debit side.**
- **Bank charges are paid to the bank for availing bank services by the firm. This is entered in the bank column on the credit side of the cash book.**
- **Cash discount allowed or received is recorded by way of a journal entry.**
- **Trade discounts are not entered separately in the books of account. Net amount is credited to the cash account and debited to the purchases account.**

Bank overdraft

Bank facilitates a firm to withdraw more money than the cash deposited in their account. If the amount withdrawn is in excess of its own money in the bank, it is called bank overdraft. It is shown as a credit balance because the firm has to pay that amount to the bank after a certain period. It is recorded on the credit side of the cash book as 'By Balance b/d'.

More than one bank account

If a firm has more than one bank account, the bank column is divided into different banks to record their individual transactions.

Ledger posting of double column cash book

Following with the entry of double column cash book, transactions are posted into their respective ledger accounts.

- Transactions written on the debit side of the cash book are posted to the credit side in the ledger accounts. Cash transactions are written as 'By Cash A/c' and the bank transactions are written as 'By Bank A/c' in the particulars column of the ledger.
- Transactions written on the credit of the cash book are posted to the debit side in the ledger accounts. Cash transactions are written as 'To Cash A/c' and the bank transactions are written as 'To Bank A/c' in the particulars column of the ledger.
- Contra entries are not posted to a ledger

Petty Cash Book

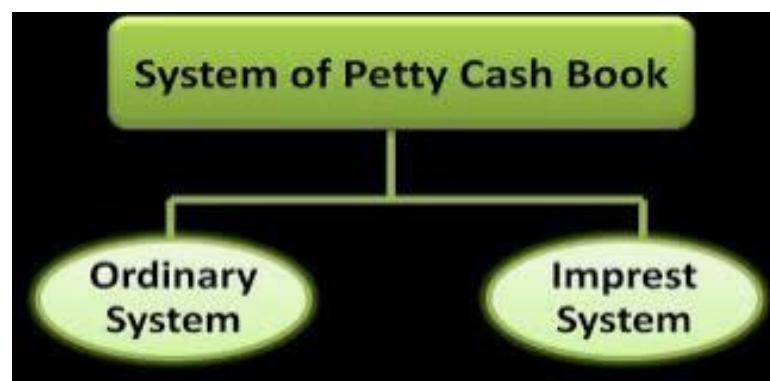
Petty cash book is a book prepared by a petty cashier for the purpose of recording payment of petty cash expenses. In a business, there are number of small payments made for purchase of stationary items, stamps and conveyance expenses. These expenses are not entered in the cash book because it will become difficult to maintain as a whole. Hence, this petty cash book is prepared to save time of the business head and it is assigned to a petty cashier to keep a track of all these small expenses.

Recording of petty cash book- A petty cash is given to the petty cashier to make small payments. This is recorded on the credit side of the cash book as 'By Petty Cash Account' and posted to the petty cash ledger accounts on the debit side.

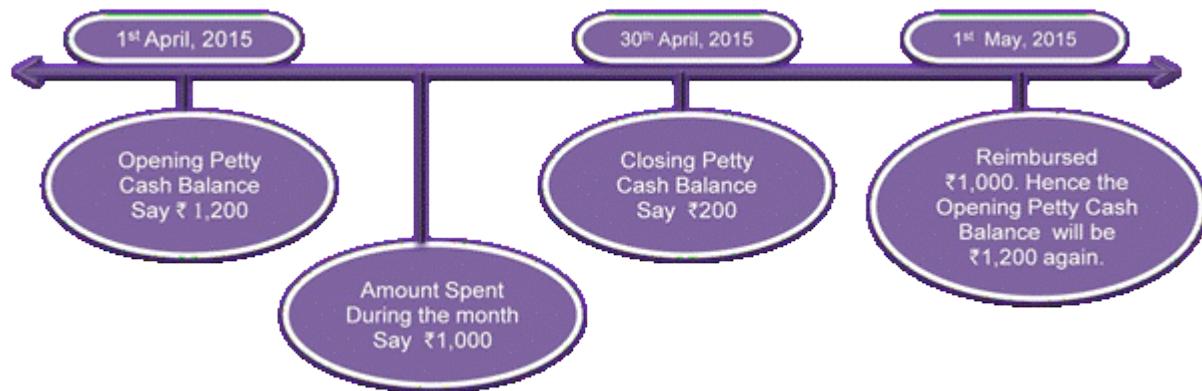
Advantages of Petty Cash Book

- Save time and efforts: It saves the time of the chief cashier to execute his/her duties more effectively. It is possible to focus on cash transactions which involves large amount of cash.
- Division of work: It enables control over incidents of fraud. The head cashier can effectively handle huge payments directly and small payments by keeping an accurate check on the petty cashier.
- Convenient: As per the materiality principle, the cash book provides only material and useful information. Hence, the insignificant information is not maintained in the cash book. Recording of small payments becomes easy as different expenses are posted to their respective ledger accounts.

System of Petty Cash Book



- Ordinary System of Petty Cash: In this system, a petty cashier receives appropriate amount of cash to make small payments and submits the accounts to the chief cashier regarding all those expenses.
- Imprest System of Petty Cash: In this system, a definite amount is given to a petty cashier by the chief cashier in the beginning of an accounting period. This amount is called imprest amount. The petty cashier makes payment for all expenses out of the imprest amount. When a major portion of the amount is spent by the petty cashier, she/he can get reimbursement of the amount spent from the chief cashier. Again, she/he will have the full imprest amount at the beginning of the new period. This system of paying the amount in the beginning of the period and reimbursing the amount spent at regular intervals is called imprest system.



Advantages of Imprest System of Petty Cash

- Control over mistakes: The chief cashier keeps an accurate track on petty expenses incurred by petty cashier, and hence there is control over chances of mistakes.
- Control over petty expenses: The petty cashier cannot spend more than the allocated petty cash, and hence the small expenses are maintained within the limits of imprest.
- Control over fraud: Petty cashier cannot withdraw cash as and when required under this system. Hence, frauds are controlled and maintained within the limits of imprest.

Types of Petty Cash

- Simple Petty Cash Book
- Analytical Petty Cash Book

Simple Petty Cash Book

A simple petty cash book is in which any cash, the petty cashier receives, is recorded on the left hand side of the cash column and any cash, the petty cashier pays out, is entered on the right hand side cash column. Every transaction's date and particulars are entered in the same date and particulars column.

Format of Simple Petty Cash Book

Amount Received ₹	Cash Book Folio	Date	Particulars	V. No.	Amount Paid ₹
Amount Received	---	---	---	---	---

Head of Expenses

Prepare a Simple Petty Cash Book from the following information for the month of February, 2016.

Date	Particulars	₹
2016		

Feb1	Received ₹9,000 from Chief cashier for petty cash	
Feb2	Paid for postage	325
Feb7	Paid to window cleaner	250
Feb10	Purchased stationery for office	730
Feb15	Purchased milk and sugar for office coffee	950
Feb17	Paid wages	800
Feb22	Bus fare to workmen sent to clients place	170
Feb28	Paid for telephone	320

If the imprest amount is ₹9000, then how much amount is the petty cashier entitled to get by the beginning of next month?

**In the Books of _____
Petty Cash Book**

Amount Received ₹	Cash Book Folio	Date	Particulars	V.No.	Amount Paid ₹
		2016			
9,000		Feb1	To Cash A/c		
		Feb2	By Postage A/c		325
		Feb7	By Miscellaneous Expenses A/c		250
		Feb10	By Stationery A/c		730
		Feb15	By Office Expenses A/c		950
		Feb17	By Wages A/c		840
		Feb22	By Travelling Expenses A/c		185
		Feb28	By Telephone Expenses A/c		320
		Feb29	By Balance c/d		5400
9,000					9,000
		Mar1	To Balance b/d		5400
		Mar1	To Cash A/c		3600

Analytical Petty Cash Book

An analytical petty cash book is used for entering receipts of cash on the left hand side and for recording payments on the right hand side. A separate column is created for entering particular item of expenditures such as conveyance, telephone and postage. Infrequent expenses are entered in sundries column. These expenses are entered on the right side of

the total payment column and are also entered in the appropriate expense column. Finally, these expenses are added and posted to the debit side of their respective accounts.

Format of Analytical Petty Cash Book

Receipt ₹	Date	V. No.	Particulars	Total Payment ₹	Conveyance ₹	Stationery ₹	Wages ₹	Sundries ₹
	2016							

From the following information, prepare an analytical petty cash book on the imprest system for the month of November, 2016:

Date	Particulars	₹
1	Received for petty cash ₹12,000	
2	Paid repair of furniture	640
4	Paid for office cleaning	400
5	Purchased stationery	350
8	Writing pads and register purchased	290
12	Refreshment given to customers	660
15	Paid for postage and telegram	135
17	Casual labour paid	800
21	Paid for postages	215
22	Taxi fare reimbursed of manager	132
24	Sent registered notice to landlord	248
24	Cartage paid	345
28	Auto fare paid	185

Analytical Petty Cash Book

Receipt ₹	Date	V. No.	Particulars	Total Payment ₹	Conveyance ₹	Cartage ₹	Stationery ₹	Postage, Telephone & Telegraph ₹	Wages ₹	Sundries ₹
	2016									
12,000	Nov 1		To Cash A/c							
	Nov 2		By Repair of Furniture	640						640

			A/c							
	Nov 4		By General Expenses A/c	400						400
	Nov 5		By Stationery A/c	350			350			
	Nov 8		By Stationery A/c	290			290			
	Nov 12		By General Expenses A/c	660						660
	Nov 15		By Postage and telegram A/c	135				135		
	Nov 17		By Wages A/c	800					800	
	Nov 21		By Postage and telegram A/c	215				215		
	Nov 22		By	132	132					
	22		Conveyance A/c							
	Nov 24		By Postage and telegram A/c	248				248		
	Nov 24		By Cartage A/c	345		345				
	Nov 28		By Conveyance A/c	185	185					
				4400	317	345	640	598	800	1700
	Nov 30		By Balance c/d	7600						
12,000				12,000						
7600	Dec 1		To Balance b/d							
4400	Dec 1		To Cash A/c							

Special Purpose Subsidiary Book

All cash transactions are recorded in a cash book, while non-cash transactions are recorded in a subsidiary book.

TYPES OF SUBSIDIARY BOOKS :

1. CASH BOOK
2. PURCHASE BOOK
3. SALES BOOK
4. PURCHASE RETURN BOOK
5. SALES RETURN BOOK
6. JOURNAL PROPER

Purchases Book

Purchases book is a subsidiary book which records credit purchases of goods i.e. the goods which the firm trade in. Cash purchases of goods and purchases of any assets are not recorded in the purchase book. Purchases book is also known as invoice book/bought book. Bills or invoices received from a supplier are the source document for recording entries in the books. Therefore, goods purchased on credit are recorded in purchases book.

Format of a Purchases Book

Purchase Book					
Date	Particulars	Invoice No.	L. F.	Details	Amount

- There are 6 columns in purchases book
- Date is written in the first column
- The name of the supplier, name of the articles and the quantities purchased are written in the particulars column
- Invoice of the goods purchased is written in the invoice number column
- When the purchases book is posted to the ledger, the page number of the ledger is written in the ledger folio
- Cost of each article is given in the details column. Trade discount allowed by the seller is deducted from the cost. For example,

Quantity x Price per article... Less: Trade Discount....

Add: Expenses

- The net amount of the invoice is recorded in the extreme right hand column. It shows the total credit purchase made in a particular period.

Purchases Book	Purchases Account
It is a part of journal	It is a part of ledger
It does not have debit and credit column	It has a debit and credit column
Only credit purchases are recorded	Cash purchases as well as credit purchases are recorded
Total amount of purchases book is posted to purchases account periodically	Balance of the account is transferred to the trading account on debit side

Ledger Posting of Purchases Book

The names of the parties from whom the goods were purchased on credit are shown in this book. These parties are denoted in accounting terms as creditors of the firm. Individual amounts are posted to the credit of supplier's account as 'By Purchases A/c' in the particulars column. Total amount of the total credit purchases is debited to the purchase account as 'To Sundries as per Purchases Book' in the particulars column.

Sales Book

Sales book is a subsidiary book which records credit sales of goods i.e. goods which the firm trades in. Cash sales of goods and sale of any assets are not recorded in sales book. Sales book is also known as day book. Sales invoices or bills issued to customers are the source document for recording entries in the book. Therefore, goods sold on credit are recorded in sales book.

Format of Sales Book

Sales Book

Date	Particulars (Customer Name)	Invoice No.	L. F.	Details	Amount

Entries in the sales book are entered in the same way as in the purchases book.

Sales Book	Sales Account
It is a part of journal	It is a part of ledger
It does not have debit and credit column	I t have a debit and credit column
Only credit sales are recorded	Cash sales as well as credit sales are recorded
Total amount of sales book is posted to sales account periodically	Balance of the account is transferred to the trading account on credit side

Ledger Posting of Sales Book

The names of those parties who have purchased goods on credit are shown in this book. These parties' accounts are debited with their respective accounts. Individual amounts are posted to the debit of customer's account as 'To Sales A/c' in the particulars column. Total amount of the total credit sales is credited to the sales account as 'By Sundries as per Sales Book' in the particulars column.

Treatment of the following items in purchases book and sales book:

➤ Central Sales Tax (CST)

This tax is levied on the sales made between multiple state i.e. interstate sales. This is charged by the seller from the purchaser on net sale value of the product. Sale price less trade discount gives the net sale value of the product. The seller deposits the tax amount in the government account.

- This is entered in an individual column of the purchases book as for the purchase of goods. This cost is a component of purchase cost only.

- This is also entered in an individual column of the sales book and the seller is liable to deposit the tax in the government account. At regular period, the total of this sales tax is credited to the sales tax account. The balance is shown as a liability in the balance sheet at the end of the year.

➤ Value Added Tax (VAT)

This tax is charged by the seller of goods on all local sales i.e. within the state. VAT paid on purchases is set-off against VAT collected on sales and the balance in the VAT collected account is transferred to the government account.

- This is entered in an individual column of the purchases book for VAT paid. The total of the VAT paid is posted on the debit side of the VAT paid account in the ledger.
- This is also entered in an individual column of the sales book and the seller is liable to deposit VAT in the government account. At regular period, the total of VAT is credited to the VAT account. The balance is shown as a liability in the balance sheet at the end of the year.

➤ Freight/Forwarding Charges

The supplier includes the freight, cartage, packing and forwarding charges in the invoice at the time of delivering the goods.

- These charges are entered in an individual column of the purchases book. The total invoice price is divided among cost, freight, packing and forwarding charges. The total of cost column is debited to purchases account and the total of freight, packing and forwarding charges are debited to freight/packing and forwarding account. The supplier's account is credited with the total of invoice price.
- These charges are entered in an individual column of the sales book because the seller recovers all these expenses. This is not a part of sale proceeds, and hence they are individually shown in the final accounts. Every month, the total of freight, packing and forwarding charges column is credited to the freight, packing and forwarding charges recovered account. The customer is debited with the cost of goods (sale value), VAT and freight, packing and forwarding expenses.

Purchases Return or Returns Outward Book

Purchases return book is a subsidiary book which records goods returned to the supplier (i.e. creditors) and which had been purchased on credit. Purchases return book does not record return of goods purchased on cash nor does it record the return of any assets purchased. A debit note is issued to the supplier (i.e. creditors) when goods purchased are returned to them. It is the basis (i.e. source document) for recording an entry in purchase return book. Therefore, goods returned to creditors are recorded in purchase return book. Return outward book is known as purchases return book.

Debit note is issued by a firm to its suppliers/creditors for debiting his/her account. For example, goods returned to supplier.

Format of Purchases Return Book

Purchase Return Book					
Date	Particulars	Debit Note No.	L. F.	Details	Amount

Purchases return book is similar to the purchases book except that instead of Invoice No. column, it has Debit Note No. column.

Casting/Totalling of Purchases Return Book

Purchases return book is totalled at the end of month and the purchases return account is credited in the particulars column and the book is closed for the month

Ledger posting from Purchases Return book

The goods returned are debited to the account of the supplier and credited to the purchases return account. The supplier's account is debited as 'To Purchases Return Account' in the particular column and the total of purchases return is posted to the purchases return account as 'By Sundries as per Purchases Return Book'

Sales Return Book

Sales return book is a subsidiary book which records goods returned by the customers (i.e. debtors) and which had been sold on credit. Sales return book does not record return of goods sold on cash basis nor does it record return of any assets sold. A credit note is issued to the customers (i.e. purchaser) when the goods purchased by them is returned. It is the basis (i.e. source document) for recording an entry in sales return book. Therefore, goods returned by debtors are recorded in sales return book. Return inward book is known as sales return book.

Credit note is issued by a firm to its customers for crediting his/her account For example, goods returned by the customer.

Format of Sales Return Book

Sales Return Book

Date	Particulars	Credit Note No.	L. F.	Details	Amount

Sales return book is similar to the sales book except that instead of Invoice No. column, it has Credit Note No. column.

Casting/Totalling of Sales Return Book

Sales return book is totalled at the end of month and the sales return account is debited in the particulars column and the book is closed for the month.

Ledger posting from Purchases Return book

The goods received are credited to the debtor's account and debited to the sales return account. The debtor's account is credited as 'To Sales Return Account' in the particular column and the total of sales return is posted to the sales return account as 'To Sundries as per Sales Return Book'

Debit Note	Credit Note
It is prepared by the purchaser	It is prepared by the supplier
It is the basis of recording entry in purchases return book	It is the basis of recording entry in sales return book
It is an intimation for debit made in the account of supplier	It is an intimation of credit made in the account of the customer

Journal Proper

Journal proper records the transactions which cannot be recorded in any other subsidiary book such as cash book, purchases book, purchases return book, sales book, sales return book, bills receivable book and bills payable book. For example, credit purchases of fixed assets, goods distributed as free sample, credit sales of fixed assets and depreciation on fixed assets. Goods destroyed by fire cannot be recorded in any other subsidiary book other than journal proper as it does not affect cash book, purchase book, sales book, purchases return book, sales return book. Therefore, goods destroyed by fire will be recorded in a journal proper.

Transactions Recorded in the Journal Proper

- Opening entry: In the beginning of the accounting period, the opening entry is passed in the journal to open the books by bringing the balances of various assets, liabilities and capital appearing in the balance of the previous accounting period.
- Closing entries: The closing entry is passed in the journal for incomes and expenses transferred to the trading and profit and loss account.
- Rectifying entries: In the journal of proper, entries are recorded to rectify the errors in the books of original entry or ledger.
- Transfer entries: Through journal entry, an amount can be transferred from one account to another account.
- Adjustment entries: To bring the unrecorded items in the books of accounts or to update ledger accounts adjusting entries are passed in the journal proper.
- Other entries
 - An entry for cancellation of discount received or discount allowed previously at the time of dishonour.
 - Goods which are purchased/sold on credit for non-trading activities.
 - Goods which are withdrawn for personal use by the owner of the firm.
 - Goods which are distributed for sale promotion.
 - Endorsement and bills of exchange.
 - Loss of goods by theft, fire or any damage.

KEY POINTS TO REMEMBER

- Purchase book is used for entering only credit purchases and sales book is used for entering only credit sales of goods.
- Cash purchases are not entered in the purchases book while cash sales are not entered in the sales book. These are recorded in the cash book.
- Purchase of a computer is not entered in the purchases book because the firm does not trade it. Also, the sale of furniture is not recorded in the sales book as the firm does not deal in furniture.
- VAT is calculated on the net price after deducting trade discount. Net value = Sales Value – Trade Discount.
- Adjustment entries always have a dual effect. They affect either trading account or the profit.

Format of Double Column Cash Book									
Date	Receipt	L.F.	Cash	Bank	Date	Payment	L.F.	Cash	Bank



Crossing of a Cheque

- Single Column Cash Book
- Double Column Cash Book
- Three Column Cash Book
- Petty Column Cash Book

Entries in Journal Proper

- Opening Entry
- Adjustment Entry
- Rectification Entry
- Transfer Entry
- Other Entries

Recording Of Transactions - II

Cash Book

- Used for recording all transactions relating to cash receipts and cash payments.
- Can be single column cash book, double-column cash book or triple column cash book.

Other Subsidiary Books

Sales Book

All credit sales of goods are recorded in this book

Purchase Book

All credit purchases of goods are recorded in this book. Goods mean only those things in which, the firm is dealing.

Sales Return Book

Return of such goods is recorded which were sold to customers on credit basis

Purchase Return Book

In this book, return of such goods is recorded which were purchased on credit basis.

Journal Proper

Those transactions that are not recorded in any subsidiary book are recorded here

Important Questions

Multiple Choice Questions-

Q1. Which account will be debited in case Life insurance premium is paid by proprietor from business cash?

- (a) Drawings A/c
- (b) Capital A/c
- (c) Insurance A/c
- (d) Cash A/c

Q2. While passing an opening entry, all the assets are while all the liabilities are

- (a) Debited , credited
- (b) Credited, Credited
- (c) None of the options
- (d) Credited, Debited

Q3. Which account will be debited in case wages are paid for installation of machinery?

- (a) Machinery A/c
- (b) Installation A/c
- (c) Wages A/c
- (d) Cash A/c

Q4. What are total number of subsidiary books available to record financial transactions?

- (a) 8
- (b) 7
- (c) 6
- (d) 12

Q5. Name the transaction that is recorded in both sides of Cash book simultaneously.

- (a) Contra Entry
- (b) Dual entry
- (c) Double entry
- (d) Single entry

Q6. All the indirect expenses are closed to

- (a) Profit and loss A/c
- (b) Cash Flow Statement

(c) Balance sheet

(d) Trading A/c

Q7. The Sales Return Book always has balance

(a) Debit

(b) Either debit or credit

(c) Credit

(d) None of the options

Q8. Journal proper includes entries related to

(a) Sale of asset on credit

(b) Sale of asset for cash

(c) Sale of goods for cash

(d) Sale of goods on credit

Q9. Purchase of machinery on credit is recorded in

(a) Journal proper

(b) Sales Book

(c) Cash book

(d) Purchase book

Q10. Income tax is treated as-

(a) Business Expense

(b) Direct Expense

(c) Personal Expense

(d) Indirect Expense.

Very Short-

1. Define day book in the process of recording transaction.

2. Which special purpose book records all type of cash receipt and cash payment.

3. What type of transactions does double column cash book records?

Short Questions-

1. Discuss all types of special purpose book or day book.

2. Differentiate between single and double column cash book.

3. Give names of four types of crossed cheques.

4. What is a purchase book.

5. What is the need of contra entry?

Long Questions-

1. What are the advantages of maintaining a petty cash book?
2. What do understand by petty cash book?
3. What do you mean by balancing of cash book?
4. Define the types of cash book. Explain

Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -

INCA Ltd. a manufacturing company has now expanded its operations. Its sales are increasing rapidly and the demand for its products is also rising. It is expanding geographically to different states. Initially when the operations were small, its accountant Mr. Dheeraj maintained only a journal. But as the business expands and the number of transactions becomes large, it becomes cumbersome to journalise each transaction. So now a need is felt to prepare special journals or subsidiary books. So accordingly, Mr. Dheeraj instructs his subordinates to prepare various subsidiary books.

Question:

1. If INCA Ltd. purchased furniture of ₹ 40,000 on credit, Mr. Dheeraj will record this transaction in:
 - (a) purchase book
 - (b) cash book
 - (c) journal proper
 - (d) None of the above
2. What reason will be a cash book prepared for?
 - (a) To record all cash receipts and cash payments
 - (b) To record cash purchases of merchandise
 - (c) To record cash sales
 - (d) None of the above
3. Which of the following about the purchase book is correct?
 - (a) It records purchases of all types
 - (b) It records all credit purchases of the goods, the enterprise deals in
 - (c) It records all cash purchases of the goods, the enterprise deals in
 - (d) None of the above
4. What will be the advantage of preparing these subsidiary books?
 - (a) Quick, efficient and accurate recording of business transactions

- (b) Time consuming
- (c) They prove economical and make division of labour possible in accounting work
- (d) Both (a) and (c)

5. Sales book does not record cash sales of merchandise.

- (a) True
- (b) False
- (c) Can't say
- (d) Partially true

2. Read the following hypothetical text and answer the given questions: -

Karim & Co., a saree dealer has the following transactions for the month of January.

Jan 4:	Returned to Mohan Mills, Kerala, 10 polyester sarees @ ₹ 1,600 each. (-) Trade discount @ 10% (Debit note no. 101).
Jan 8:	Srimala Mills, Kota accepted the returns of goods (which were purchased for cash) from us, 8 Kota sarees @ ₹ 640 each (Debit note no. 102).
Jan 12:	Returned to Sonica Mills, Bombay, 12 silk sarees @ ₹ 1,040 each. (-) Trade discount @ 10% (Debit note no. 103).
Jan 30:	Returned one typewriter (being defective) @ ₹ 7,200 to Vishaka & Co.

Question:

1. Which of the following statements regarding a debit note is correct?
 - (a) A debit note is a source document that is prepared when goods are returned to a supplier.
 - (b) On finding that goods supplied are not as per the terms of the order placed, the defective goods are returned to the supplier of the goods and a note is prepared to debit the supplier.
 - (c) When an additional sum is recoverable from a customer, such a note is prepared to debit the customer with the additional dues.
 - (d) All of the above
2. In which of the following books, will the return of Kota Sarees on 8th January be recorded?
 - (a) Purchase returns book
 - (b) Journal
 - (c) Cash book
 - (d) None of the above

3. In which of the following books, will the return of typewriter on 30th January be recorded?
 - (a) Purchase returns book
 - (b) Journal proper
 - (c) Cash book
 - (d) None of the above
4. What will the total amount recorded in the purchase returns book relating to the returns to Mohan Mills on 4th January?
 - (a) ₹ 16,000
 - (b) ₹ 14,400
 - (c) ₹ 17,600
 - (d) None of these
5. What will be the total amount reflected in purchase returns book as on 31st January?
 - (a) ₹ 25,632
 - (b) ₹ 14,400
 - (c) ₹ 11,232
 - (d) ₹ 28,480

MCQ Answers-

1. Answer: Drawings A/c
2. Answer: (a) Debited, credited
3. Answer: (a) Machinery A/c
4. Answer: (a) 8
5. Answer: (a) Contra Entry
6. Answer: (a) Profit and loss A/c
7. Answer: (a) Debit
8. Answer: (a) Sale of asset on credit
9. Answer: (a) Journal proper
10. Answer: (d) Indirect Expense.

Very Short Answers-

1. Ans. The day book contains all of the many types of transactions that are recorded in different books that are kept by the accountant.
2. Ans: The cash book is a special purpose book that keeps track of all types of cash receipts and payments.

3. Ans. Only cash and bank transactions are recorded in the double column cash book.

Short Answers-

1. Ans. The following are the special purpose books or special diaries that accountants keep

- Purchase book
- Sales return book(Return inwards)
- Journal paper
- Purchase return book (Return outwards)
- Sales book
- Cash book

2. Ans. The difference between single column cash book and double column cash book are as follow:

Single Column Cash Book	Double Column Cash Book
Only one amount column is prepared.	Two columns are prepared.
Transactions are recorded in chronological order.	Transactions need not to be recorded in chronological manner.

4. Ans. There are four different types of crossed checks:

Parallel crossed cheques

- Crossed cheques with company name
- Crossed cheques not negotiable
- Crossed cheques with bank name

5. It's a book that keeps track of all transactions involving the purchase of goods or services, whether cash or credit. It records all the operations purchases along with the discounts received treatments from the suppliers.

6. Ans. Contra entry refers to a single transaction that is entered on both sides of the cash book. A contra entry is required to offset receivables and payables between 2 non identical legal entities/subsidiary of a firm so that one final amount remains used in intercompany netting.

Long Answers-

1. The following are some of the benefits of keeping a petty cash book:

- i. The time of the chief cashier is spared because these small transactions are too enormous for a single cashier to handle, thus a petty cashier is hired.

- ii. Because the task is split between the chief cashier and the petty cashier, both of them are responsible for the proper distribution of petty cash and big sums.
- iii. It is easier to handle such tiny transactions separately if you keep a separate cash book for them. Bulkiness is avoided, and the situation is more managed.
- iv. It simplifies the production of the main cash book by reducing the number of small cash transactions.
- v. It accurately and systematically tracks all of the business's minor costs and gives information immediately when needed.

2. Answer: Small transactions, such as postage, conveyance, cartage expenditures, and other expenses, are common in large corporations. Because all of these transactions are typically repetitious, the cashier is unable to record them in the main cash book. As a result, these transactions are kept in a separate book called the petty cash book.

As a result, the cashier keeps a petty cash book to keep track of these recurrent transactions in one area. Because the volume of small transactions is too much for a single cashier to handle, a petty cashier is hired.

3. Answer: All cash transactions relating to cash receipts and cash payments are recorded date-wise when they are recorded in cash books. When a cash book is kept, there is no need to open a separate cash book in the ledger. Because cash revenues cannot be less than cash payments, there is always a debit balance in the cash book.

The principal document for cash receipts is essentially a duplicate copy of the receipt that the cashier issues. Any invoice, bill, or other document used to make payments will be regarded as the source or principal document for documenting transactions.

4. Answer : There are four different kinds of cash books, They are explained below:

- i. Single-column cash book: Each debit and credit side contains a single amount column.
- ii. Double column cash book: On both the debit and credit sides, it has two columns of amounts.
- iii. Three-column cash book: On both the debit and credit sides, it has three columns of amounts. One column is for cash, another is for discounts, and a third is for bank transactions.
- iv. A nice cash book: Large corporations have a lot of little transactions. As a result, all little transactions are grouped together to produce a nice cash book.

Case Study Answer-

1. Answer:

1. (c) journal proper
2. (a) To record all cash receipts and cash payments
3. (b) It records all credit purchases of the goods, the enterprise deals in
4. (d) Both (a) and (c)

5. (a) True

2. Answer:

1. (d) All of the above

2. (c) Cash book

3. (b) Journal proper

4. (b) ₹ 14,400

5. (a) ₹ 25,632