
UNIT 6 SUBSIDIARY BOOKS

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6.0 OBJECTIVES

After studying this unit, you should be able to:

- appreciate the need for special journals;
- sub-divide the journal into various special journals;
- identify the type of transactions recorded in special journal;
- prepare simple cash book and balance it;
- post cash book entries into ledger;
- prepare cash book with discount column;
- post discount column entries into ledger;
- describe imprest system;
- prepare petty cash book and post it into ledger;
- describe the functions of a bank;
- explain the advantages of opening a bank account;
- describe how to open bank account;
- explain the functions of pay-in-slip book, cheque book and the pass book;
- appreciate the importance of crossing and endorsement;
- record banking transactions in a three column cash book;
- post three column cash book into ledger;
- prepare purchases and purchases returns journals and post them into ledger;
- prepare sales and sales returns journals and post them into ledger;
- prepare bills books and post them into ledger; and
- state various transactions recorded in journal proper.

6.1 INTRODUCTION

You learnt how to record the business transactions in journal and then post them into ledger. You know that journal is a book of prime entry in which all transactions are to be recorded first. But, in practice, the number of transactions happens to be so large that it becomes difficult to record them in one book. Hence, the journal is sub-divided into a number of special journals, called subsidiary books. In this unit, you will learn about the most important subsidiary book called Cash Book. We shall discuss various types of cash books, study how transactions are recorded in the Single Column Cash Book, Two Column Cash Book and Three Column Cash Book and how they are posted into ledger. You shall also learn about the Imprest System and the preparation, posting and balancing of Petty Cash Book.

Further, you will learn how to record cash transactions in Single Column Cash Book, Two Column Cash Book and Three Column Cash Book and post them into ledger. In three column cash book, we have an additional column for banking transactions. As a prelude, we shall first discuss how to open an account in a bank, the advantages of opening a bank account, the functions of pay-in-slip, cheque book and pass book, and the importance of crossing and endorsement of cheques. Then, we shall learn how various transactions with a bank are recorded in the Three Cash Book and posted into ledger.

In this unit, we also intend to take up the books like: (i) Purchases Journal, (ii) Purchases Returns Journal, (iii) Sales Journal (iv) Sales Returns Journal, (v) Journal Proper. You will also learn how transactions are recorded in each of these books and how they are posted into ledger.

6.2 NEED FOR SUB-DIVISION OF JOURNAL

The system of having only one book of prime entry may work for a small organisation where the number of transactions is usually small. But, when the number of transactions are large, it is practically impossible to record all the transactions through one journal. It is because:

- i) the journal can be handled by only one person and the work becomes too heavy for him;
- ii) the transactions may not be recorded promptly, as all transactions have to be recorded in the same book; and
- iii) the journal becomes bulky and voluminous.

In order to overcome these difficulties and to facilitate speedy recording of various transactions, the journal is sub-divided into a number of special journals called 'Subsidiary Books'.

6.3 SUBSIDIARY BOOKS

Before we list various books into which the journal is sub-divided, let us understand the basis for its sub-division. You may adopt any basis. But, the principle generally followed is that transactions of the same nature are to be recorded at one place. For example, the cash receipts and cash payments may be grouped into one category and recorded in a separate book. Similarly, all credit purchases of goods may be grouped into one category, all credit sales of goods into another category and recorded in separate books.

In practice, the journal is sub-divided in such a way that a separate book is used for each category of transactions which are repetitive in nature and are sufficiently large in number. In any large business, the following subsidiary books are generally used.

1. **Cash Book:** It is used for recording all receipts and payments of cash, including cash purchases and cash sales of goods.
2. **Purchases Journal:** It is used for recording credit purchases of goods only.
3. **Purchases Returns Journal:** It is used for recording goods returned to suppliers.
4. **Sales Journal:** It is used for recording credit sales of goods only.
5. **Sales Returns Journal:** It is used for recording goods returned by the customers.
6. **Bills Receivable Journal:** It is used for recording bills of exchange and promissory notes received from the debtors.
7. **Bills Payable Journal:** It is used for recording bills of exchange and promissory notes accepted by the business in favour of creditors.
8. **Journal Proper:** This book is used for recording all such transactions which are not covered by any of the above mentioned special journals, for example, credit purchases of fixed assets, opening entry, rectification entries, etc.

It must, however, be noted that there is no rigidity as to the number of special journals. Depending on the necessity, the number of journals may be increased or decreased.

6.4 ADVANTAGES OF SUBSIDIARY BOOKS

The following are the advantages of having a number of subsidiary books:

- i) **Classification of transactions becomes automatic:** As there is a separate book for each type of transactions, the transactions of same nature are automatically brought at their place. For example all credit purchases of goods are recorded in the purchases book.
- ii) **Reference becomes easy:** If any reference is required, it can be traced easily by referring to the appropriate subsidiary book. You do not have to go through all the transactions recorded in the journal.
- iii) **Facilitates division of work:** The division of journal into various subsidiary books facilitates division of work among many persons. This, in turn, facilitates prompt recording of transactions and saves a lot of time.
- iv) **More particulars:** More details about the transactions can be given in subsidiary books than would be possible in one book.
- v) **Responsibility can be fixed:** The work of maintaining a particular book can be entrusted to a particular person. He will be responsible for keeping it up-to-date and in order.
- vi) **Facilitates checking:** When the Trial Balance does not agree, the location of errors will be relatively easy.

Check Your Progress A

1. Write the number of correct alternative in the box.

- a) A separate journal is kept for
- i) each transaction
- ii) each type of transactions
- iii) each type of transactions which are repetitive in nature and sufficiently large in number
- b) Cash Book contains
- i) all receipts and payments of cash
- ii) all receipts only
- iii) all payments only
- c) Journal Proper is meant for recording
- i) credit purchase of fixed assets
- ii) return of goods
- iii) all such transactions for which no special journal has been kept by the business
- d) Purchases Journal is kept to record
- i) all purchases of goods
- ii) all credit purchases of goods
- iii) all credit purchases
- e) Sales Journal is used to record
- i) cash sales
- ii) credit sales of assets
- iii) credit sales of goods

6.5 CASH BOOK

Having outlined various subsidiary books, we shall now discuss the most important subsidiary book called 'Cash Book'. In any business there would be numerous cash transactions which involve either receipts or payments of cash. Cash sales, receipt of cash from debtors, cash purchases, payments to creditors, payment of various expenses such as salaries, wages, rent, taxes, etc., are some examples of transactions involving cash. All these are recorded in cash book, receipts on one side and payments on the other.

Every business unit, small or big, maintains a cash book. It enables the businessman to know and verify the amount of cash in hand from time to time. As a matter of fact, cash book plays a dual role. It is a book of prime entry and also serves the purpose

of a Cash Account. It is designed in the form of a ledger account and records cash receipts on the debit side and payments on credit side. It is also balanced in the same way. Hence, when cash book is maintained, there is no need to have a Cash Account in the ledger.

There are different types of cash books maintained by the business. These are:

1. Simple or Single Column Cash Book
2. Two or Double Column Cash Book
3. Three or Triple Column Cash Book

We shall now consider them one by one and learn how they are prepared and posted into ledger.

6.6 SINGLE COLUMN CASH BOOK

Look at the proforma of a Single Column Cash Book shown in Figure 6.1. Doesn't it look like a ledger account? Yes, it does. In fact a Single Column Cash Book is nothing but a Cash Account. It is used for recording all cash receipts and cash payments and serves the purpose of Cash Account as well. It is called Single Column Cash Book just because it has only one amount column on each side.

Single Column Cash Book							
Dr.							Cr.
Date	Particulars	L.F.	Amount	Date	Particular	L.F.	Amount
	To (write the name of the account to be credited)		Rs.		To (write the name of the account to be debited)		Rs.

Fig. 6.1

6.6.1 Recording in Single Column Cash Book

You know that Cash Account is a real account. According to rules, Cash Account is to be debited when cash is received and credited when cash is paid. Hence, the debit side of the cash book is used for recording all cash receipts and the credit side for all cash payments. Let us now discuss how entries are made in this book.

As explained above, whenever cash is received, it is to be recorded on the debit side. The date on which it is received is recorded in the date column. The name of the account from which it is received is mentioned in the particulars column. In the L.F. (Ledger Folio) column the page number of the account in the ledger, where the posting is made, is to be recorded at the time of posting. The amount column is meant for recording the amount received. Similarly, whenever cash is paid, it is recorded on the credit side. Here, in particulars column, we write the name of the party to whom payment is made, and complete the other columns in the same manner as on the debit side.

6.6.2 Posting the Single Column Cash Book

As said earlier, Cash Book also serves the purpose of a Cash Account, so there

is no need to open a Cash Account in the ledger. When a cash transaction is recorded in the cash book, posting of the cash aspect of the transaction in Cash Account stands fully covered. What remains to be posted is the other aspect of the transaction. The posting of this aspect will complete the double entry. The rules of posting therefore are:

- i) for all transactions entered on the debit side of the cash book, credit the concerned accounts in the ledger individually by writing 'By Cash Account'.
- ii) for all transactions entered on the credit side, debit the concerned accounts in the ledger individually by writing 'To Cash Account'.

Thus, the posting into the ledger accounts is completed. Note that the transactions entered on the debit side of the cash book are to be posted on the credit side of the accounts in the ledger and vice versa.

6.6.3 Balancing the Single Column Cash Book

You have already learnt how to balance a ledger account. The cash book is balanced just like any other ledger account. The cash book will always show a debit balance. This is because the cash payments can never exceed the amount of cash available. For example, if you have Rs. 10 in your pocket, can you pay Rs 15? You cannot. So the total of the debit side in the cash book will always be more than the total of the credit side. This difference indicates the cash in hand. It shall be entered on the credit side by writing 'By Balance c/d' in particulars column and showing the amount in the amount column. Now total the amount columns and you will find that the two sides are equal.

After closing the cash book, the balance is shown on the debit side by writing 'To Balance b/d'. It becomes the opening balance of cash for the next period. Note that the cash book shall generally show a debit balance and occasionally a nil balance. Look at illustration. It shows the recording, posting and balancing of a Single Column Cash Book.

Illustration

From the following particulars of M/s Naveen & Co., prepare a Simple Cash Book and balance the same. Also show postings into the ledger accounts.

2018	Rs.
July 1 Naveen started business with a capital of	25,000
“ 2 Opened a bank account and deposited	20,000
“ 5 Purchased goods for cash	3,000
“ 6 Sold goods for cash	4,000
“ 8 Purchased furniture	1,000
“ 10 Purchased goods from Ramlal on credit	2,500
“ 12 Sold goods to Chhotelal on credit	3,000
“ 16 Sold goods for cash	1,000
“ 17 Paid to Ramlal on account	2,500
“ 19 Received from Chhotelal	2,000
“ 22 Withdrawn cash from bank	3,000
“ 25 Paid electricity bill	50
“ 28 Paid rent to the landlord	350
“ 31 Paid salary to the clerk	500

Solution:

Subsidiary Books

Cash Book of Naveen & Co.

Dr.

Cr

Date	Particular	I.F.	Amount	Date	Particular	I.F.	Amount
2018			Rs.	2018			Rs.
July, 1	To Capital A/c		25,000	July, 2	By Bank A/c		20,000
“ 16	To Sales A/c		4,000	“ 5	By Purchases A/c		3,000
“ 19	To Sales A/c		1,000	“ 8	By Furniture A/c		1,000
“ 22	To Chhotelal		2,000	“ 17	By Ramlal		2,500
	To Bank A/c		3,000	“ 25	By Electricity Charges A/c		50
				“ 28	By Rent		350
				“ 31	By Salaries A/c		500
				“ 31	By Balance c/d		7,600
			35,000				35,000
Aug.1	To Balance b/d		7,600				

Note: Transactions of July 10 and 12 are credit transactions. So they are not recorded in the cash book.

LEDGER

Capital Account

Dr.

Cr.

			2018		Rs.
			July 1	By Cash A/c	25,000

Sales Account

			2018		Rs.
			July 6	By Cash A/c	4,000
			“ 16	By Cash A/c	1,000

Chhotelal's Account

			2018		Rs.
			July 19	By Cash A/c	2,000

Bank Account

2018		Rs.	2018		Rs.
July, 2	To Cash A/c	20,000	July 22	By Cash A/c	3,000

Purchase Account

2018		Rs.			
July, 5	To Cash A/c	3,000			

Furniture Account

2018		Rs.			
July, 8	To Cash A/c	1,000			

Ramlal's Account

2018		Rs.			
July, 17	To Cash A/c	2,500			

Electricity Charges Account

2018		Rs.			
July, 25	To Cash A/	50			

Rent Account

2018		Rs.			
July, 28	To Cash A/c	350			

Salaries Account

2018		Rs.			
July, 31	To Cash A/c	500			

Check Your Progress B

1. Fill in the blanks:
 - a) Alltransactions are recorded in the cash book.
 - b) Cash receipts are recorded on theside of the cash book and cash payments are recorded on the side of the cash book.
 - c) Cash book also serves the purpose of
 - d) Transactions entered on the debit side of the cash book are to be posted on theside of the accounts in the ledger.
 - e) Cash book always shows abalance.
 - f) Cash book balance reflectsin hand.
2. Why does cash book always show a debit balance?

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6.7 TWO COLUMN CASH BOOK

Previously you learnt about the cash discount. When cash is received from a debtor, some discount may be allowed to him. Similarly, when payment is made to a creditor, some discount may be allowed by him. This is termed as Cash Discount and it has to be recorded in the books of account. While making compound journal entries for such transactions, you learnt that cash and discount go together. You know that receipts from debtors and payments to creditors are to be recorded in the cash book. Now the question arises as to how to record the cash discount. One method is to record the discount aspect separately in the journal. But this would be cumbersome, and the possibility of failing to record can also happen. Hence, accountants have developed a practice of recording the discount aspect in the cash book itself. For this, an extra amount column is added on both sides of the cash book. Look at the proforma shown in Figure 6.2. The discount allowed to debtors is recorded on the debit side and the discount received from creditors is recorded

on the credit side. Thus, now there are two amount columns on both sides of the cash book, one for discount and the other for cash. It is called 'Two Column Cash Book'.

Two Column Cash Book

Dr.					Cr.				
Date	Particulars	L.F.	Discount Allowed	Cash	Date	Particulars	L.F.	Discount Received	Cash
			Rs.	Rs.				Rs.	Rs.

Fig. 6.2

6.7.1 Recording in Two Column Cash Book

Recording of cash transactions in a Two Column Cash Book is similar to Single Column Cash Book. As for cash discount, it is entered on the debit side if allowed to the debtor and on the credit side if received from the creditor. Study cash book entries for transactions of August 7 and 12 in illustration.

6.7.2 Posting the Two Column Cash Book

The entries in the cash columns of Two Column Cash Book are posted to the ledger accounts in the same way as we did in the case of Single Column Cash Book. The entries in the discount columns are also to be posted to the respective personal accounts. The entries in discount allowed column will be posted to the credit side of the respective personal accounts by writing 'By Discount Allowed A/c'. Similarly, the entries in the discount received column will be posted to the debit side of the respective personal accounts by writing 'To Discount Received A/c'. For example,

Cash received from Devi Traders Rs. 490, and discount allowed Rs. 10: This transaction will be entered in particulars column on the debit side of the cash book by writing 'To Devi Traders A/c'. An amount of Rs. 10 will be shown in discount allowed column and Rs. 490 in cash column. Its posting into Devi Traders' Account in the ledger will be made as follows:

Devi Traders Account

Dr.				Cr.	
				Rs.	
			By Cash A/c	490	
			By Discount Allowed A/c	10	

As for the transactions relating to cash, the double entry is complete as soon as postings have been made to the respective personal accounts. But it is not so for the discount aspect. The cash book does not serve the purpose of discount account. We have to open 'Discount Allowed Account' and 'Discount Received Account' in the ledger. The total of discount allowed columns on the debit side of the cash book is posted to the debit side of the 'Discount Allowed Account' in the ledger by writing 'To Sundries'. Similarly, the total of discount received column on the credit side of the cash book is posted to the credit side of the 'Discount Received Account' in the ledger by writing 'By Sundries'. This will complete the double entry in respect of discount allowed and discount received. Note that the postings in the two discount accounts are made only for the totals and not for the individual transactions. Thus, we save time and labour.

6.7.3 Balancing the Two Column Cash Book

In case of Two Column Cash Book, only the cash columns are balanced. Procedure is similar to Single Column Cash Book. The discount columns are not balanced, they are simply totalled. This is because the two discount columns relate to two separate accounts—the Discount Allowed Account and the Discount Received Account.

Study illustration carefully. You will understand how transactions are recorded in the Two Column Cash Book and posted to the ledger accounts.

Illustration

From the following transactions of M/s. Joshi & Sons, prepare Cash Book and show the ledger postings:

2018		Rs.
Aug.1	Cash in hand	4,270
“ 5	Purchased an old typewriter for	1,500
“ 7	Received cash from Singh & Co. Rs. 1,980 and allowed discount of	20
“ 10	Cash Sales	5,500
“ 12	Paid to Ram Narain Rs. 2,970 and he allowed a discount of	30
“ 14	Sold old newspapers for Rs. 60.	
“ 16	Received from Prasad Rs. 985 in full settlement of his account for	1,000
“ 18	Purchased goods worth from Sanjeev Bros. at a trade discount of 10% and paid cash.	2,000
“ 20	Sold goods worth for cash at a trade discount of 5%.	1,000
“ 24	Settled the account of Tiwari of by paying the necessary amount after deducting a discount of 3%.	500
“ 30	Paid rent	500
“ 30	Deposited in the bank the cash in excess of	1,490

Notes:

Solution :

Joshi & Sons Cash Book (With Discount and Cash Columns)

Rs.					Rs.				
Date	Particular	L.F.	Discount Allowed	Cash	Date	Particula	L.F.	Discount Received	Cash
2018			Rs.	Rs.	2018			Rs.	Rs.
Aug.1	To Balance b/d			4,270	Aug. 5	By Typewriter A/c			1,500
“ 7	To Singh & Co.		20	1,980	“ 12	By Rain Narain		30	2,970
“ 10	To Sales A/c			5,500	“ 18	By Purchases A/c			1,800
“ 14	To Old Newspapers A/c			60	“ 24	By Tiwari		15	485
“ 16	To Prasad		15	985	“ 30	By Rent A/c			500
“ 20	To Sales A/c			950	“ 30	By Bank A/c			5,000
					“ 31	By Balance c/d			1,490
			35	13,745				45	13,745
Sep. 1	To Balance b/d			1,490					

1. The cash in hand on August 1, 2018 is not a transaction but the balance brought down from the previous month. It has been shown on the debit side of the cash column as 'To Balance b/d'. No posting to any account is necessary for the balance.
2. The transactions of August 18 and 20 are recorded at net amounts i.e., after adjusting trade discount. Earlier you learnt that trade discount is not to be shown in the books.
3. Cash in excess of Rs 1,490 is deposited in the bank. It means the closing balance of cash is Rs 1,490. The actual difference between the debit and credit cash columns would work out at Rs 6,490. Hence, the amount deposited in the bank is Rs 5,000 (6,490-1,490).

LEDGER
Singh & Co. Account

Dr.					Cr.
			2018		Rs.
			Aug. 7	By Cash A/c	1,980
			" 7	By Discount Allowed	20

Sales Account

			2018		Rs.
			Aug 10	By Cash A/c	5,500
			Aug. 20	By Cash A/c	950

Old Newspapers Account

			2018		Rs.
			Aug. 14	By Cash A/c	60

Prasad's Account

			2018		Rs.
			Aug. 16	By Cash A/c	985
			Aug. 16	By Discount Allowed	15

Typewriter Account

2018		Rs.			
Aug. 5	To Cash A/c	1,500			

Ram Narain's Account

2018		Rs.			
Aug. 12	To Cash A/c	2,970			
Aug. 12	To Discount Received A/c	30			

Purchases Account

2018		Rs.			
Aug. 18	To Cash A/c	1,800			

Tiwari's Account

2018		Rs.		
Aug. 24	To Cash A/c	485		
Aug. 24	To Discount Received	15		

Rent Account

2018		Rs.		
Aug. 30	To Cash A/c	500		

Bank Account

2018		Rs.		
Aug. 30	To Cash A/c	5,000		

Discount Allowed Account

2018		Rs.		
Aug. 31	To Sundries A/c	35		

Discount Received Account

			2018		Rs.
			Aug. 31	By Sundries A/c	45

Check Your Progress C

1. How are the cash discount transactions normally recorded in the Cash Book?

2. A few statements are given below. Mention against each whether it is **True** or **False**.
 - a) Trade discount is not recorded in the books of account.
 - b) Cash discount can be recorded through Journal or through Cash Book
 - c) Two Column Cash Book has an extra column for discount on the debit side.
 - d) No posting is required in personal accounts for cash discount
 - e) Discount columns in the Cash Book are not balanced, they are merely totalled.
3. How do you post entries from the discount allowed and discount received columns to the Discount Allowed Account and Discount Received Account in the ledger?

6.8 PETTY CASH BOOK

In every business, there will be numerous small payments in cash such as payments for postage, telegrams, stationery, cartage, conveyance, entertaining the customers, minor repairs, etc. If all these petty payments are recorded in the cash book along with other payments, the cash book will be overloaded. Hence, a separate book called 'Petty Cash Book' is maintained for recording all such small (petty) payments. A person called petty cashier is entrusted with the work of making the small payments and maintaining the Petty Cash Book. The sum of money given to the petty cashier for making small payments is called petty cash.

6.8.1 Imprest System

Generally, Petty Cash Book is maintained on Imprest System. Under this system, an estimate is made of the amount required for petty payments for a certain period, say a week or a month. This amount is handed over to the petty cashier in advance. The petty cashier is required to obtain vouchers for all expenses he incurs. At the end of the period, the petty cashier presents the Petty Cash Book together with the vouchers to the chief cashier. The chief cashier verifies the entries in the Petty Cash Book and pays to the petty cashier a sum equal to the amount spent by him. The original amount of the petty cash with which the petty cashier had started is thus restored. This system of advance at the beginning and reimbursing the amount spent from time to time is called 'Imprest System'. For example, on June 1, Rs. 200 is given as advance for petty payments to the petty cashier. He spent Rs. 185 on various items during the month. The chief cashier, after verifying the expenses with the vouchers, would pay Rs 185 to him. Thus on July 1, the petty cashier would again have Rs. 200 (Rs. 185 paid by the chief cashier plus the old balance of Rs. 15), the imprest amount. This system provides an adequate check on petty payments.

6.8.2 Recording, Posting and Balancing the Petty Cash Book

Look at illustration 3. You will find only one column each for receipts, cash book folio, date, particulars, and voucher no. But, it provides a number of amount columns for recording the payments of various petty expenses. This facilitates the analysis of payments under different heads and their posting to appropriate expense account. The headings under which petty expenses are generally categorised are: (i) printing and stationery, (ii) postage and telegrams, (iii) cartage, (iv) conveyance (v) entertainment, and (vi) miscellaneous.

When the head cashier advances money to the petty cashier, either in cash or by cheque, an entry is made in the cash or bank column of the main cash book on the credit side by writing 'By Petty Cash A/c'. The petty cashier, on receiving the cash, records it in the particulars column of the Petty Cash Book by writing 'To Cash A/c' (if cash is received) or 'To Bank A/c' (if cheque is received) and enters the amount in receipts column. When he makes payments, each payment is entered in the particulars column by writing the name of expense incurred. The amount is first entered in the total payments column and then in the column specified for the concerned expense.

The Petty Cash book is balanced periodically, say weekly or monthly. The various expense accounts in the ledger are individually debited with the periodic totals (as per Petty Cash Book) by writing 'To Petty Cash A/c'. The Petty Cash Account in the ledger is credited with the total expenditure incurred during the period by writing 'By Sundries as per Petty Cash Book'. The Petty Cash Account is then balanced. It will normally have a debit balance which will be equal to the actual cash with the petty cashier.

2018		Rs.
Aug		
“ 1	Received a cheque from head cashier	250.00
“ 2	Paid to printing of letter heads	40.00
“ 4	Purchased postal stamps	15.00
“ 5	Paid for cartage on goods purchased	9.00
“ 7	Paid auto fare	6.00
“ 9	Tea expenses for customers	4.75
“ 12	Sent telegram to Calcutta	8.50
“ 14	Paid for stationery	16.25
“ 15	Paid taxi fare	12.75
“ 17	Paid for postage	42.50
“ 19	Paid tips to office boys	8.00
“ 20	Paid for cartage	14.50
“ 22	Paid for cold drinks offered to customers	6.00
“ 25	Payments made to coolies	9.75
“ 27	Purchase of postal envelopes	3.60
“ 28	Rickshaw charges	3.00
“ 30	Cartage on goods purchased	10.00

Balance the Petty Cash Book at the end of August and show the amount of the cheque to be issued to the petty cashier on September 1, 2018. Also show the ledger postings.

Solution

Petty Cash Book

Receipts	Cash Book Folio No.	Date	Particulars	Voucher No.	Pay-ments	Print- ing & Sta- tion- ery	Post- age & Tele- gram	Cart- age	Conve- yance	Enter- tain- ment	Misc- lane- ous	Re- marks
Rs. 250.00		2018				Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
		Aug. 1	To Bank A/c									
		“ 2	By Letter heads		40.00	40.00						
		“ 4	By Postal stamps		15.00		15.00					
		“ 5	By Cartage		9.00			9.00				
		“ 7	By Auto fare		6.00				6.00			
		“ 9	By Tea expenses		4.75					4.75		
		“ 12	By Telegram		8.50		8.50					
		“ 14	By Stationery		16.25	16.25						
		“ 15	By Taxi fare		12.75				12.75			
		“ 17	By Postage		42.50		42.50					
		“ 19	By Tips to office boy		8.00						8.00	
		“ 20	By Cartage		14.50			14.50				
		“ 22	By Cold drinks		6.00					6.00		
		“ 25	By Coolies		9.75			9.75				
		“ 27	By Envelopes		3.60		3.60					
		“ 28	By Rickshaw		3.00				3.00			
		“ 30	By Cartage		10.00			10.00				
			Total Payments		209.60	56.25	69.60	43.25	21.75	10.75	8.00	
		“ 31	By Balance b/d		40.40							
250.00			Total		250.00	L.F.	L.F.	L.F.	L.F.	L.F.	L.F.	
40.40		Sept 1	To Balance b/d									
209.60		“ 1	To Bank A/c									

LEDGER
Petty Cash Account

Subsidiary Books

Dr.					Cr.
2018		Rs.	2018		Rs.
Aug. 1	To Bank A/c	250.00	Aug. 31	By Sundries as per Petty Cash Book	209.60
			“ 31	By Balance c/d	40.40
		250.00			250.00
Sept 1	To Balance b/d	40.40			
“ 1	To Bank A/c	209.60			

Bank Account

			2018		
			Aug. 1	By Petty Cash A/c	250.00
			Sept. 1	By Petty Cash A/c	209.60

Printing and Stationery Account

2018		Rs.	
Aug. 31	To Petty Cash A/c	56.25	

Postage and Telegram Account

2018		Rs.	
Aug. 31	To Petty Cash A/c	69.60	

Cartage Account

2018		Rs.	
Aug. 31	To Petty Cash A/c	43.25	

Conveyance Account

2018		Rs.	
Aug. 31	To Petty Cash A/c	21.75	

Entertainment Account

2018		Rs.	
Aug. 31	To Petty Cash A/c	10.75	

Miscellaneous Expenses Account

2018		Rs.	
Aug. 31	To Petty Cash A/c	8.00	

6.9 WHAT IS A BANK?

You might have heard the names of State Bank of India, Andhra Bank, Allahabad Bank. You may also be having an account with some bank. Now, let us have an idea what exactly a bank is and what it does. Bank is an organisation which deals in money by accepting deposits and lending to those who need it. Accepting deposits is the primary function of a bank. It accepts demand deposits and time deposits. Demand deposits are those deposits which are payable on demand, and time deposits are those which are repayable after a specified period. The bank pays interest on the deposits (except deposits on current account).

Lending of money is another important function of a bank. It lends money to needy persons and organisations in the form of short-term advances, term loans, and overdraft facility. The bank collects interest on the amount lent.

The bank also renders various other services to its customers such as (i) collecting amounts due to the customer like interest, dividends, etc., (ii) making payments on behalf of the customer; (iii) issuing letters of credit, (iv) providing travellers cheques (v) providing safe deposit lockers for safe custody of valuables, and (vi) tarnishing guarantee on behalf of customers. etc. The bank charges some amount for the services rendered to its customer.

6.10 TYPES OF BANK ACCOUNTS

There are broadly three types of accounts: (i) savings bank account, (ii) current account, and (iii) fixed deposit account. In case of savings bank account, there are certain restrictions on the number and amount of withdrawals. It is mainly intended to encourage savings. Hence, it is not considered suitable for business purposes.

Business firms generally open current account. There are no restrictions on the number and amount of withdrawals in case of a current account. Any amount can be withdrawn any number of times from a current account.

Fixed deposit account is meant for deposits for a fixed period. Withdrawal of fixed deposits is allowed only on maturity. It is used by people generally for long term savings.

6.10.1 Advantages of Having a Bank Account

Now-a-days, every business firm has an account with a bank. The business generally retains a small sum of money with itself for immediate use and deposits the rest in a bank. The money deposited in a bank is as good as money on hand. There are various advantages of maintaining an account with the bank. These are:

1. Money is safe and it also earns some interest.
2. The bank provides various types of loans.
3. It is easy and safe to make payments by issuing cheques.
4. Money can be sent or transferred to other places at a nominal charge through a bank.
5. The bank helps in collection of bills, cheques, etc., on behalf of its customers.

- 6 If 'standing instructions' are given to the bank, it collects interest on debentures, dividend on shares, etc., and makes payment of insurance premium, pension, subscriptions, etc., on behalf of its customers.

6.10.2 How to Open and Operate a Bank Account?

If you want to open a bank account you have to apply to the bank on a prescribed form. You are also required to be introduced to the bank by a person known to the bank (possibly an account holder). The banker, after satisfying himself about the applicant, accepts the initial deposit in cash and opens an account in your name. Thus, you become a customer of the bank. Your account is given a number for easy identification. When an account is opened, the banker gives to its customer (i) a pass book, (ii) a pay-in-slip book and (iii) a cheque book.

- i) **Pass Book:** The pass book is a copy of the customer's account as maintained by the bank. In other words, it is nothing but a true copy of the transactions with the bank, as they appear in the customer's account in the bank's ledger. In case of a current account, the bank may not issue a pass book. In that case, it would furnish a statement of account from time to time. Whether it is a pass book or a statement of account, the proforma is as given in Figure 6.3.

Pass Book

Date	Particulars	Dr. Withdrawals	Cr. Deposits	Dr. or Cr. Balance	Initials
		Rs.	Rs.	Rs.	

Fig. 6.3

When an amount is deposited in the bank, it is entered in the deposit column (Cr.). When an amount is withdrawn, it is entered in the withdrawal column (Dr.). After every deposit or withdrawal, the balance is worked out and shown in the balance column in the pass book. It is also indicated whether it is a Dr. balance or a Cr. balance. Usually, the pass book shows a credit balance, which means the customer has money in his account. But when the customer has withdrawn more than what he has deposited, the pass book shows a debit balance called overdraft.

- ii) **Pay-in-Slip Book:** It contains printed forms which are used for depositing cash and cheques into the bank. Look at the form of a pay-in-slip as shown in Figure 6.4.

The first part is called counterfoil and the second part is the main pay-in-slip. When you submit it to the bank along with the amount to be deposited, the bank will stamp and sign the counterfoil and give it back to you. The main pay-in-slip is retained by the bank for further processing. The counterfoil is for your own record and future reference. The cash book entry for deposit is also made with the help of the counterfoil.

Maharani/10000/10/87 F. No. 251

बैंक ऑफ बड़ोदा. BANK OF BARODA
Branch : Model Town, Delhi-110009

SB

बैंक ऑफ बड़ोदा
BANK OF BARODA
Branch : Model Town, Delhi-110009

शारात पु. L. F.

Date _____ 19__

बचत खाते में जमा करने के लिए
For Credit of Saving A/c.

सं. No. _____

नाम Name _____

रुपये (शब्दों में) Rupees _____

रुपये (शब्दों में) _____
Rupees _____

जमाकर्ता By _____

जमा करता By _____

रु. Rs _____

नोट/Notes	सं. No.	रु. Rs.	वै. P.
.. x 100			
.. x 50			
.. x 20			
.. x 10			
.. x 5			
.. x 2			
.. x 1			
वै. P.			
बच/Ch.			
कुल Total			

दृज किया Ent. वे. Acctt. स. Cashier - दंजकिया Entered वेत्तापास Acctt. सजांची Cashier Less Com/Es.

Fig. 6.4

iii) **Cheque Book:** A cheque book contains a number of leaves (10 to 20 or 50 leaves) called cheques. A cheque is an instrument used for withdrawing money from the bank. It is an unconditional order on the bank made by its customer, instructing the bank to pay the amount specified therein to the person named in the cheque or to his order. The person who draws a cheque is called 'drawer'. The bank on whom the cheque is drawn is called 'drawee'. The person in whose favour the cheque is drawn (or to whom it is payable) is called 'payee'. Look at Figure 6.5 for specimen of a cheque. In this cheque, Mr. S. Jain is the drawer. He has drawn and signed the cheque. The Bank of Baroda on whom the cheque is drawn, is the drawee. Mr. P. Ram Dev is the payee as the cheque is payable to him.

While writing a cheque, care must be taken to write the date, the name of the party to whom payment has to be made, and the amount to be paid both in words and figures. It must be signed by the account holder. The signature on the cheque must tally with the specimen signature which the bank has.

A cheque can be a bearer cheque or an order cheque. In case of a bearer cheque, the bank pays the amount to any person who presents it at the counter of the bank without much fuss. But, in case of an order cheque, identification of the party claiming payment is necessary, specially if he wants payment at the counter.

Specimen of Cheque

1-10 19 87

PAY P. Ram Dev

शारात पु. OR BEARER

रुपये RUPEES One thousand only

₹. Rs. 1,000/-

अदा करे

खाता सं. A/c No. 1120 बचत IF स. सं. INRS

बैंक ऑफ बड़ोदा Bank of Baroda
विशका एन्क्लेव, दिल्ली-110034
Vishaka Enclave, DELHI-110034

VEN/CA/86

S. Jain

008650 100120330 11

Fig. 6.5

6.11 CROSSING OF CHEQUES

If two parallel lines are drawn on the left hand top corner of the cheque, it is called 'Crossing', and such a cheque is called a 'Crossed Cheque'. A crossed cheque cannot be encashed directly at the counter. It has to be deposited in an account with a bank. This makes it safe, as the party to whom the payment is made can be easily identified.

Crossing can be 'General Crossing' or 'Special Crossing'. General crossing is one where two parallel lines are drawn across the cheque with or without the words '&Co.', 'Not Negotiable', 'A/c Payee' as shown in Figure 6.6. In case of special crossing, the name of a particular bank is also mentioned. This implies that the amount of cheque is payable only to the bank named in the crossing. Look at Figure 6.6. The name of 'Bank of Baroda, Agra' is written within the two parallel lines. Payment of this cheque can be collected only through Bank of Baroda, Agra.

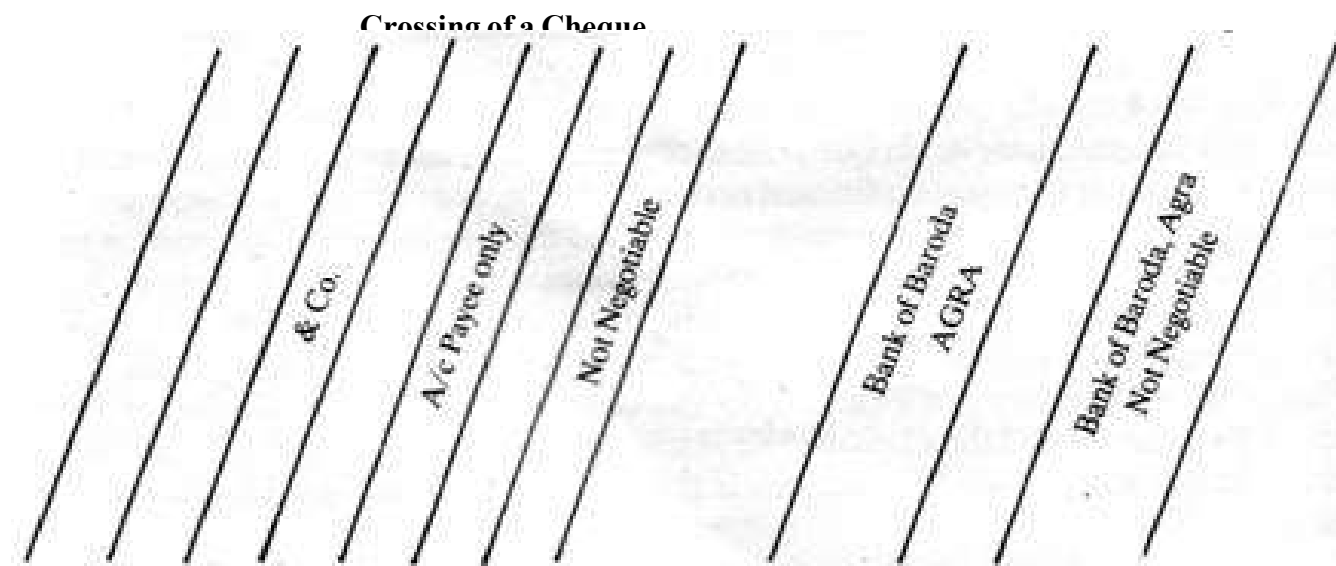


Fig. 6.6

In case of general crossing, payment can be made to any bank which present the cheque for payment. The use of words 'A/c Payee Only' means that the cheque can be paid only into the account of the payee named in the cheque. The words 'Not Negotiable' provide further safeguard against stolen and forged cheques. But '& Co.' has no special connotation.

6.12 ENDORSEMENT AND DISHONOUR OF CHEQUES

A cheque is a negotiable instrument. It can be transferred to another person by 'endorsement' (except in case of a bearer cheque which can be transferred by mere delivery). The endorsement is done by signing at the back of the cheque and writing the name of the party to whom it is to be transferred. For example, if a cheque payable to Mr. P. Ram Dev is to be endorsed in favour of Mr. Kishan Lal, Mr. P. Ram Dev will write at the back of the cheque as follows:

Pay to Kishan Lal or Order

P. Ram Dev

(Signature)

Thus, endorsement can be defined as signing at the back of the cheque for the purpose of negotiation. The person who endorses the cheque is called endorser (P. Ram Dev in this example) and the person to whom it is endorsed is called endorsee (Kishan Lal in this example). Kishan Lal can now collect payment of this cheque.

Dishonour of Cheques :When a cheque is presented for payment, there are two possibilities. It may be paid or the payment may be refused. When the payment of a cheque is refused, it is said to be dishonoured. The bank refuses the payment for the following reasons:

1. When no date is written on the cheque, or a future date is written, or it is more than three months old.
2. If the amount written in words differs from the amount written in figures.
3. When the cheque is not signed or when the signature on the cheque does not tally with the specimen signature with the bank.
4. When the drawer does not have sufficient balance in his account.
5. When the drawer requests the bank in writing to stop payment on that cheque.
6. If the bank has come to know about the death of the drawer or his becoming insolvent or insane.

Check Your Progress D

1. List the main functions of a bank.
.....
.....
.....
2. What is a pass book?
.....
.....
.....
3. What is a pay-in-slip?
.....
.....
.....
4. What is a cheque ?
.....
.....
.....
5. What do you mean by crossing a cheque?
.....
.....
.....

All cash and cheque payments are to be recorded on the credit side: When payment is made by cash, the amount is recorded in the cash column. If it is made by cheque, it is recorded in the bank column. The date on which payment is made, and the name of the person to whom payment is made, are recorded in the date and particulars columns respectively,

Discount received, if any, at the time of making payment is to be recorded on the credit side in the discount received column as usual.

Contra Entry: The word ‘contra’ means ‘the other side’. If the double entry of a transaction is complete in the cash book itself such entry is called ‘contra entry’. Contra entry arises only when cash account and bank account are simultaneously involved in a transaction. It happens only when either cash is deposited in the bank or cash is withdrawn from it. In both cases, entries have to be made in cash as well as bank columns. When cash is deposited in the bank, it is recorded (i) in bank column on the debit side of the cash book, and (ii) in cash column on the credit side of the cash book. Similarly, when cash is withdrawn from the bank, it is recorded on the (i) debit side in cash column, and (ii) on the credit side in bank column. It must, however, be noted that if cash is withdrawn from bank for personal use of the owner, it is recorded only on the credit side of cash book in bank column as drawings.

In order to denote contra entries, the capital letter ‘C’ is written in the L.F. column on both sides of the cash book. It means that the corresponding aspect of the transaction is entered on the other side (contra) of the same page of the cash book. The letter ‘C’ also indicates that the relevant entry need not be posted into the ledger, as the double entry is complete in the cash book itself.

6.13.2 Posting the Three Column Cash Book

All the entries recorded in the Three Column Cash Book are to be posted to their respective ledger accounts, except the contra entries. For posting the entries recorded on the debit side of the cashbook, credit the accounts concerned in the ledger by writing ‘By Cash A/c’ if the entry is in cash column, and ‘By Bank A/c’ if the entry is in bank column. If discount is also involved, credit the concerned personal account by writing ‘By Discount Allowed A/c’. Totals of the discount allowed and discount received columns shall be posted to the respective discount accounts the same way as for Two Column Cash Book.

6.13.3 Balancing the Three Column Cash Book

The cash and bank columns are balanced separately like any other ledger account. As stated earlier, the Cash Account always shows a debit balance. The bank account also normally shows a debit balance. But, sometimes it may show a credit balance which indicates a bank overdraft. It reflects the amount withdrawn from the bank in excess of what is deposited in the bank.

The procedure of recording the closing and opening balances is the same as in Two Column Cash Book. Note that the discount columns will not be balanced. They are simply totalled.

Study illustration carefully. You will follow the recording, posting and balancing of a Three Column Cash Book.

Illustration

Enter the following transactions in the Three Column Cash Book of Galaxy Enterprises and show the ledger postings:

2018			
July 15	Cash in hand	800	
“ 15	Balance in bank account	4,500	
“ 16	Purchased goods and issued cheque	3,000	
“ 17	Cash sales	4,000	
“ 18	Received from Saniad in full settlement of his account Rs.4,000 cheque	2,000	
	cash	1,950	
“ 20	Cash deposited into bank	5,000	
“ 21	Paid Rama Krishna by cheque	2,970	
	Received discount	30	
“ 22	Received from Bose	1,680	
	Discount allowed	20	
“ 24	Cash withdrawn for office purpose	2,000	
“ 25	Paid Mahantha in cash	3,000	
	Discount allowed by him	40	
“ 26	Paid for stationery	100	
“ 28	Deposited cash into bank	2,000	
“ 30	Cash withdrawn from bank for personal use of proprietor	500	

Solution :

Joshi & Sons
Cash Book (With Discount and Cash Columns)

Rs.					Rs.						
Date	Particular	I.F.	Discount Allowed	Cash		Date	Particular	I.F.	Discount Received	Cash	Bank
2018				Rs.	Rs.	2018			Rs.	Rs.	
July.15	To Balance c/d			800	4,500	July 16	By Purchase A/c				3,000
“ 17	To Sales A/c			4,000		“ 20	By Bank A/c	C		5,000	
“ 18	To Samad		50	1,950	2,000	“ 21	By Rama Krishna		30		2,970
“ 20	To Cash A/c	C			5,000	“ 24	By Cash A/c	C			2,000
“ 22	To Bose		20	1680		“ 25	By Mahanta		40	3000	
“ 24	To Bank A/c	C		2,000		“ 26	By Stationery A/c			100	
“ 28	To Cash A/c	C			2,000	“ 28	By Bank A/c	C		2,000	
						“ 30	By Drawings A/c				500
						“ 31	By Balance c/d			330	5,030
			70	10,430	13,500				70	10,430	13,500
Aug. 1	To Balance b/d			330	5030						

LEDGER

Sales Account

2018			
		July 17	By Sales A/c
			4,000

Sanad's Account

			2018		
			July 18	By Discount Allowed	50
			“ 18	By Cash A/c	1,950
			“ 18	By Bank A/c	2,000

Bank Account

			2018		
			July 22	By Discount Allowed	20
			“ 22	By Cash A/c	1,680

Purchase Account

2018			Rs.		
July 16	To Bank A/c		3,000		

Rama Krishna's Account

2018			Rs.		
July 21	To Discount allowed		30		
“ 21	To Bank A/c		2,970		

Mahendra's Account

2018			Rs.		
July 25	To Discount Received A/c		40		
“ 25	To Cash A/c		3,000		

Stationery Account

2018			Rs.		
July 26	To Cash A/c		100		

Drawings Account

2018			Rs.		
July 30	To Bank A/c		500		

Discount Allowed Account

2018			Rs.		
July 31	By Sundries as per Cash book		70		

Discount Received Account

			2018		
			July 31	By Sundries as per Cash book	70

In illustration 4, you will notice that the total of bank column on the debit side is more than the total of bank column on the credit side of the cash book. This indicates that there is money in the bank. If, however, the total of bank column on the debit side is less than the total on the credit side, it will reflect an overdraft in the bank.

6.13.4 Special Points Regarding Cheques Received

Generally, cheques received from various parties are deposited in the bank on the same day. However, for some reason, if a cheque is not sent to the bank on the day of receipt, it can be entered in the cash column, treating the cheque as cash. Then, the day it is sent to the bank, it can be recorded in the cash book as cash deposit in the bank in the form of a contra entry. For example, on April 8, a cheque for Rs. 500 is received from Rao and it is sent to the bank on April 11. The entries in cash book will appear as follows:

Banking Transactions and Three Column Cash Book

Cash Book (Cash and Bank Column only)

Dr.					Cr.				
Date	Particulars	L.F.	Cash	Bank	Date	Particulars	L.F.	Cash	Bank
2018 Apr. 8	To Rao		Rs. 500	Rs.	2018 Apr. 11	By Bank a/c	C	Rs. 500	Rs.
“ 11	To Cash A/c	C		500					

Normally, this procedure is avoided. The entry is made directly in the bank column on the day the cheque is deposited in the bank. In the absence of any specific instructions, it can be presumed that the cheque received from a party was sent to the bank for collection on the same day.

Sometimes, a cheque received by the firm may not be deposited in the bank but may be endorsed to a third party. In that case, the cheque received will be recorded first in the cash column on the debit side of the cash book and then on its credit side in the cash column. This ensures entries in the personal accounts of (i) the party from whom it is received, and (ii) the party to whom it is endorsed. For example, on April 12, a cheque for Rs. 800 was received from Ganpati and it was endorsed on April 14, in favour of Shiva, a creditor of the firm. The entries in cash book will appear as follows:

Cash Book (Cash Column only)

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2018 Apr. 12	To Ganpati		Rs. 800	2018 Apr. 14	By Shiva a/c		Rs. 800

Sometimes, a cheque sent to the bank for collection may be dishonoured. In that case, the bank will return the cheque along with the advice stating the cause of dishonour. Whatever the firm may do to realise its payment from the concerned

party, the entry for dishonour of the cheque must immediately be recorded in the cash book. The entry will be made on the credit side in bank column. This nullifies the effect of the entry made earlier at the time of receiving and depositing the cheque in the bank. For example, on April 16, a cheque for Rs. 750 was received from Yogesh and sent to bank for collection on the same day. The bank dishonoured the cheque and returned it on April 20. The entries in the cash book will appear as follows:

Cash Book
(Bank Column only)

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2018 Apr. 16	To Yogesh		Rs. 750	2018 Apr. 20	By Yogesh		Rs. 750

Check Your Progress E

Fill in the blanks.

1. All deposits into the bank are recorded in bank column on the..... side of the cash book.
2. All withdrawals from the bank are recorded in bank column on the side of the cash book.
3. If debit as well as the credit aspects of a transaction are recorded in the cash book itself it is called.....
4. When a cheque received on a particular date is not deposited the same day into bank, it is entered in column on the debit side of the cash book.
5. When a cheque received is endorsed, it is recorded in cash column on..... sides of the cash book.
6. When a cheque is returned dishonoured, it is recorded on the..... side of the cash book in bank column.

Illustration

Record the following transactions in Three Column Cash Book of Balaji Agencies and balance the same.

		Rs.
2018		
July 1	Cash in hand	40,000
“ 2	He opened a current account with a bank	36,000
“ 3	Purchased goods for cash and by cheque	600 1,500
“ 5	Sold goods for cash	800
“ 6	Sold goods to Mohan and received a cheque for the same	1,200
“ 8	Deposited Mohan’s cheque in the bank	1,200
“ 9	Purchased stationery by cheque	200
“ 10	Cash sales	2,000

“ 11	Issued cheque for cash purchase of furniture to Woodland	2,500
“ 12	Deposited cash in the bank	3,000
“ 13	Misra paid directly into bank account	1,000
“ 15	Received from Madhu cash	1,000
	cheque	1,400
	Allowed him discount	50
“ 16	Paid to Ravi in cash	500
	cheque	2,500
	Received discount	40
“ 17	Received a cheque from Joseph	1,500
“ 18	Withdrew cash from the bank for office use	1,500
“ 20	Balaji paid his son’s college fees in cash	400
“ 22	Paid Subhan & Co. by cheque	975
	Received discount	25
“ 24	Joseph’s cheque returned dishonoured	1,500
“ 25	Received a cheque from Gagan. It was endorsed to Ram	700
“ 26	Withdrew from bank for personal use	1,600
“ 27	Issued cheque for purchase of machinery	40,000
“ 28	Paid sundry expenses in cash	200
“ 30	Paid rent by cheque	600
“ 31	Deposited Cash in excess of	500

Balaji Agencies Cash Book

Date	Particulars	L.F.	Discount Allowed	Cash	Bank	Date	Particulars	L.F.	Discount Received	Cash	Bank
2018			Rs.	Rs.	Rs.	2018			Rs.	Rs.	Rs.
July 1	To Balance b/d			40,000		July 2	By Bank A/c	C		36,000	
“ 2	To Cash A/c	C			36,000	“ 3	By Purchases A/c			600	1,500
“ 5	To Sales A/c			800		“ 8	By Bank A/c	C		1,200	
“ 6	To Sales A/c			1,200		“ 9	By Stationery A/c				200
“ 8	To Cash A/c	C			1,200	“ 11	By Furniture A/c				2,500
“ 10	To Sales A/c			2,000		“ 12	By Bank A/c	C		3,000	
“ 12	To Cash A/c	C			3,000	“ 16	By Ravi		40	500	2,500
“ 13	To Misra			1,000		“ 18	By Cash A/c	C			1,500
“ 15	To Madhu		50	1,000	1,400	“ 20	By Drawings A/ c			400	
“ 17	To Joseph				1,500	“ 22	By Subhan & Co		25		975
“ 18	To BankA/c	C		1,500		“ 24	By Joseph				1,500
“ 25	To Gagan			700		“ 25	By Ram			700	
“ 31	To Cash A/c	C			4,100	“ 26	By Drawings A C				1,600
“ 31	To Balance c/d				4,675	“ 27	By Machinery A/c				40,000
						“ 28	By Sundry exp.A/c			200	
						“ 30	By Rent A/c				600
						“ 31	By Bank A/c	C		4,100	
						“ 31	By Balance c/d			500	
		50	47,200	52,875				65	47,200	52,875	
Aug.1	To Balance b/d			500		Aug.1	By Balance b/d				4,675

Note :

1. When cheques are received from parties, unless otherwise specified, it is assumed that they are deposited in the bank on the same day. But, in case of the transaction dated July 6, the cheques was received on July 6, but was deposited in the bank on July 8. Hence on July 6, it is recorded as the cash column on the debit side, and on July 8, it is shown as cash deposit through a contra entry.
2. On July 17, Joseph gave a cheque for Rs. 1,500 which was duly entered on the debit side. On July 24, the cheque was returned dishonoured. When a cheque is dishonoured, the rule is to reverse the entry made earlier. Hence, on July 24, an entry has been passed on the credit side in the bank column. This nullifies the entry made on July 17.
3. On July 25, a cheque was received from Gagan which was endorsed to Ram. It has been first entered in the cash column on the debit side on July 25, and then on the credit side on the same date.
4. The credit side total of the bank column is Rs 52,875 and the debit side total is Rs 48,200. It means that there is a credit balance of Rs. 4,675 in the bank account. As you know this is a case of overdraft. On July 31, it has been shown on the debit side of the cash book making two sides equal, and then on August 1, it is recorded on the credit side of the bank column.

6.14 PURCHASES JOURNAL

While studying sub-division of journal, you learnt that Purchases Journal is used for recording credit purchases of goods and raw materials. The goods or raw materials can be purchased either on cash basis or on credit basis. When they are purchased on cash basis, the entry is made in the cash book. But when they are purchased on credit, they are recorded in the Purchases Journal. Note that the credit purchases of fixed assets like typewriter, vehicle, etc., are not recorded in this book. They are recorded in Journal Proper about which you will learn later. The Purchases Journal is also called 'Purchases Book', 'Purchases Day Book', and 'Invoice Book'.

6.14.1 Invoice

When you purchase something from a shop, you receive a bill. Such bill is called 'invoice'. It contains the details pertaining to the quantity, description, price, total amount, and trade discount, if any. Thus, an invoice is a business document giving full details of the goods purchased. It is a 'Purchase Invoice' or 'Inward invoice' for the purchaser and a 'Sales Invoice' or 'Outward Invoice' for the seller. Entries in the Purchases Journal are made on the basis of the purchase invoices received (inward invoices). Look at Figure 6.8 for a specimen of an invoice.

Invoice			
Book Lovers Private Limited Hyderabad			
No.3891		Date: 15-7-2018	
To M/s. Book Paradise, Nagpur			
Quantity	Particulars	Rate per unit	Total
10 Copies	Principles and Practice of Accountancy by R. Srirani	Rs. 25.00	Rs. 250.00
	Less: Discount 10%		25.00
	(Rupees two hundred and twenty five only)		225.00
xxxxx For Book Lovers Private Limited			

Fig. 6.8

6.14.2 Recording in the Purchases Journal

Look at Figure 6.9. It shows the Proforma of a Purchases Journal.

Purchases Journal					
Date	Name of the supplier	Inward invoice Number	L.F.	Amount	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
				Rs.	

Fig. 6.9

The Purchases Journal has six columns.

Column 1: It is meant for writing the date of purchase.

Column 2: In this column, you write the name and address of the supplier.

Column 3: The inward invoice number is recorded in this column. As stated earlier, when you purchase goods on credit, you get an invoice from the supplier. Although it bears a number, you have to accord your own serial numbers to all inward invoices for easy reference. It is this serial number which will be entered in the inward invoice column of the Purchase Journal.

Column 4: In this column, you will write the page number of the account in ledger where posting is done.

Column 5: In this column, the amount payable to the supplier is recorded. You must note that the amount payable is arrived at after deducting the trade discount, if any. For example, see the invoice given in Figure 6.8. The amount payable is Rs. 225. If, some sales tax is also involved, the amount payable should include that also.

Column 6: Any other relevant information is to be recorded in this column. Information such as the date on which the amount of the bill is payable and the date on which it is actually paid may be noted in this column.

6.14.3 Posting the Purchases Journal

The transactions recorded in the Purchases Journal are to be posted to their respective personal accounts in the ledger. When a purchase is made on credit, the supplier becomes the creditor for the firm. Hence, every credit purchase recorded in the Purchases Journal is posted on the credit side of the personal account of the supplier by writing ‘By Purchases A/c’ in particulars column. The Purchases Journal is totalled periodically, say, weekly or monthly. This total is posted to the debit side of Purchases Account in the ledger by writing ‘To Sundries—as per Purchases Journal’.

Thus, you observe that posting of Purchases Journal involves two steps: (i) posting each purchase to the credit of the respective personal accounts of suppliers, and (ii) posting the total purchases to the debit of the Purchases Account. With this, double entry for credit purchases is complete. Look at illustration for recording the Purchases Journal and its posting into ledger.

Illustration

Record the following transactions in the Purchases Journal of M/s. Dharam Chand & Co., and show the ledger postings.

2018		Rs.
July 1	Bought goods from Shreedhar	5,000
“ 2	Purchased goods from Shreekant	4,000
“ 3	Purchased from Shreenivas goods worth	2,500
“ 4	Shreedhar sold us goods	1,500
“ 5	Purchased goods from Shreenivas subject to a trade discount of 10%	3,000
“ 6	Bought from Shreekant goods worth with discount of 20%	3,500

Dharam Chand & Co. PURCHASES JOURNAL

Date	Name of the supplier	Inward invoice number	L.F.	Amount	Remarks
				Rs.	
2018	Shreedhar	25		5,000	
July 1	Shreekant	26		4,000	
“ 2	Shreenivas	27		2,500	
“ 3	Shreedhar	28		1,500	
“ 4	Shreenivas	29		2,700	
“ 5	Shreekant	30		2,800	
“ 6	Total			18,500	

Note: i) The inward invoice numbers are imaginary.

ii) Sometimes, the particulars of items purchased can also be given with each entry.

But it is considered unnecessary because the details are available in the invoice, the serial numbers of which are duly given in the Purchases Journal.

LEDGER

Shreedhar's Account

Dr.					Cr.
			2018		Rs.
			July 1	By Purchases A/c	5,000
			“ 4	By Purchases A/c	1,500

Shreekant's Account

			2018		Rs.
			July 2	By Purchases A/c	4,000
			“ 6	By Purchases A/c	2,800

Shreenivas's Account

			2018		Rs.
			July 3	By Purchases A/c	2,500
			“ 5	By Purchases A/c	2,700

Purchases Account

2018		Rs.			
July, 31	To Sundries - as per Purchase Journal	18,500			

6.15 PURCHASES RETURNS JOURNAL

In any business, sometimes goods purchased may have to be returned to the supplier either partly or fully. This may become necessary when they are found to be defective, damaged in transit, inferior quality, short weight, received too late (off season), or not in conformity with the order given. If the number of such returns is small, they can be recorded in the journal itself. But, if it is large, a separate book called 'Purchases Returns Journal' should be used for recording these transactions. This book is also called 'Returns Outwards Journal'.

6.15.1 Debit Note

When you return goods to supplier, a statement called 'Debit Note' is sent to the supplier. It informs the supplier that his account has been debited to the extent of the value of goods returned. You know that when goods were purchased, the supplier's account was credited. Debiting his account now means that the amount payable to him has been reduced by the value of goods returned. The debit note also contains other particulars such as the name and address of the

supplier, the description of the goods returned, etc. The specimen of a debit note is shown in Figure 6.10.

Debit Note				
Book Paradise Nagpur Debit Note				
No. 587	Date: 20-7-18			
To				
M/s. Book Lovers Pvt. Ltd. Hyderabad.				
WE HAVE DEBITED YOUR ACCOUNT FOR GOODS RETURNED AS FOLLOWS				
	Rs.	Ps.	Rs.	Ps.
2 Copies of 'Principles and Practice of Accountancy' by				
Sriram @ Rs, 25 each				
	50.00			
Less: Trade discount allowed by you @ 10%				
	5.00			
(Rupees forty five only)			45.00	
xxxxx For Book Paradise				

Fig. 6.10

6.15.2 Recording in the Purchases Journal

Look at Figure 6.11. It shows the Proforma of a Purchases Returns Journal.

Purchase Returns Journal					
Date	Name of the supplier	Inward invoice Number	L.F.	Amount	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
				Rs.	

Fig. 6.11

Like the Purchase Journal, the Purchases Returns Journal also has six columns. As usual, the date on which the goods are returned is recorded in the first column. The name and address of the supplier to whom goods are returned are entered in the second column. Write the serial number of the debit note in the third column. The page number of the account in the ledger where posting is done will be entered in the L.F. column. In the fifth column, the value of goods

returned is entered. At the time of original purchase, if some trade discount had been given, the same should also be adjusted so as to arrive at the value of goods returned. If there is any other relevant information, the same may be recorded in the remarks column.

6.15.3 Posting the Purchases Returns Journal

The transactions recorded in the Purchases Returns Journal are to be posted to their respective personal accounts in the ledger. Separate accounts in the name of each supplier already exists in the ledger (opened at the time of purchase). The entries made in the Purchases Returns Journal will be posted to the debit of each supplier's account by writing To Purchases Returns A/c'.

The total of the Purchases Returns Journal is posted to the credit side of the Purchases Returns Account' in the ledger by writing 'By Sundries—as per Purchases Returns Journal'.

Look at illustration for the procedure of recording in the Purchases Returns Journal and its posting into the ledger.

Enter the following transactions in the Purchases Returns Journal of M/s. Dharam Chánd and Co. and show the ledger postings.

2018		Rs.
July 5	Returned goods to Shreekant (vide invoice No. 26)	200
“ 10	Returned goods to Shreenivas (vide invoice No. 29)	90
“ 12	Returned goods to Shreekant (vide invoice No. 30)	120

Dharam Chand & Co.

PURCHASES RETURNS JOURNAL

Date	Name of the supplier	Debit note number	L.F.	Amount	Remarks
2018				Rs.	
July 5	Shreekant	16		200	
“ 10	Shreenivas	17		90	
“ 12	Shreekant	18		120	
“ 31	Total			----- 410	
-				-----	

Note : Debit Note numbers are imaginary.

LEDGER

Shreekant's Account

2018		Rs.	2018	Rs.	
July 5	To Purchases Return A/c	200	July 2	By Purchases A/c	4,000
“ 12	To Purchases Return A/c	120	“ 6	By Purchases A/c	2,800

Shreenivas's Account

2018		Rs.	2018		Rs.
July 10	To Purchases Return A/c	90	July 3	By Purchases A/c	2,500
			" 5	By Purchases A/c	2,700

Purchase Returns Account

			2018		Rs.
			July 31	By Sundries – as per Purchase Returns Journal	410

6.16 SALES JOURNAL

This book is used for recording only the credit sales of goods. Note that the cash sale of goods or sale of fixed assets (cash or credit) are not recorded in this book. The Sales Journal is also called 'Sales Day Book', or 'Sales Book'.

6.16.1 Recording in the Sales Journal

The ruling of the Sales Journal is similar to that of Purchases Journal. The difference is only with regard to the second column. In Purchases Journal, the second column is used for recording the name of the supplier. But, in case of Sales Journal, it is used for writing the name of the customer.

When goods are sold on credit, an invoice is given to the buyer. The seller generally has a bound invoice book. It contains consecutively numbered invoices in duplicate. While the original copy is given to the buyer, the duplicate remains in the book itself. The entries in the Sales Journal are made with the help of the duplicate copies which are duly numbered. The procedure for recording in the Sales Journal is similar to that of the Purchases Journal.

6.16.2 Posting the Sales Journal

All entries made in the Sales Journal are posted to the respective personal accounts in the ledger. In a credit sale, the customer becomes a debtor to the firm. Hence, every credit sale recorded in the Sales Journal is posted on the debit side of the personal account of individual customers by writing 'To Sales A/c' in particulars column. Then, the total of the Sales Journal is posted on the credit side of the Sales Account by writing 'By Sundries—as per Sales Journal'.

Look at illustration and study how credit sales of goods are recorded in the Sales Journal and how they are posted into ledger.

Illustration

Prepare the Sales Journal of M/s. Bharat Furniture Works, Delhi from the following transactions:

2018

Aug. 1 Sold to Doualath Furniture House, Delhi
50 Chairs @ Rs. 150 each

- 10 Tables @ Rs. 500 each
At a trade discount of 10%
- “ 4 Supplied the following furniture, as per the order, to Kesav Memorial School, Mehrauli
100 Chairs @ Rs. 135 each
40 Tables @Rs. 450 each
2 Almirahs @Rs. 750 each
5 Black boards @ Rs. 800 each
- “ 10 Supplied on credit to Pyarelal Furniture Palace, Okhla
10 Sofa sets @ Rs. 800 each
10 Dining tables @ Rs. 500 each
5 Cots @ Rs. 600 each
5 Dining tables @ Rs. 800 each
Trade discount 10%

Solution :

**Bharat Furniture Works
Sales Journal**

Date	Name of the supplier	Debit note number	L.F.	Amount	Remarks
2018				Rs.	
Aug. 1	Doulath Furniture House, Delhi	107		11,250	
“ 4	Kesav Memorial School, Mehrauli	108		37,000	
“ 10	Pyarelal Furniture Palace, Okhla	109		18,000	
“ 31	Total			66,250	

- Note: i) Invoice numbers are imaginary,
ii) Sometimes, the particulars of items sold can also be given with each entry, but it is considered unnecessary because the details are available in the invoices and the serial numbers of which are duly given in the Sales Journal.

**LEDGER
Daulath Furniture House Account**

Dr.		Cr.			
2018		Rs.			
Aug 1	To Sales A/c	1,250			

Kesav Memorial School, Mehrauli

2018		Rs.			
Aug 4	To Sales A/c	37,000			

2018 Aug 10	To Sales A/c	Rs. 18,000			
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Sales Account

			2018 Aug 31	By Sundries – as per Sales Journal	Rs. 66,250
--	--	--	----------------	---------------------------------------	---------------

6.17 SALES RETURNS JOURNAL

When customers return the goods to the business, it will be recorded in a separate book called ‘Sales Returns Journal’. Normally, if the number of such returns is small, they can be recorded in the journal itself. But if their number is large, it is better to maintain a separate book called Sales Returns Journal. This book is also called ‘Returns Inwards Journal’.

6.17.1 Credit Note

When a customer returns goods, a statement called ‘Credit Note’ is sent to him. The credit note informs the customer that his account has been credited to the extent of the value of goods returned. You know that when goods were sold, the customer’s account was debited. Now crediting his account means the amount payable by him stands reduced by the value of goods returned. The credit note also contains other information such as the name and address of the customer, description of the goods returned, etc. The credit notes are consecutively numbered and are prepared in duplicate. The original is sent to the customer and the duplicate is carefully filed. The specimen of a credit note is shown in Figure 6.12.

Credit Note

Book Lovers Private Limited Hyderabad			
No.698	Date: 25-7-2018		
M/s. Book Paradise Nagpur			
WE HAVE CREDITED YOUR ACCOUNT FOR GOODS RETURNED AS FOLLOWS			
	Rs.	Ps.	Rs.Ps.
2 Copies of ‘Principles and Practice of Accountancy’ by Shriram @Rs. 25 each	50.00		
Less: Trade discount allowed @ 10%	5.00		
(Rupees forty five only).			45.00
xxx For Book Lovers Pvt. Ltd			

Fig. 6.12

Note: Normally the customer, while returning the goods, may also send a debit note. But quite often they do not do so. Hence, the seller always prepares a credit note for his record. If debit note is also received, it may be filled along with the respective credit note.

6.17.2 Recording in the Sales Returns Journal

The ruling of the Sales Returns Journal is similar to that of Purchases Returns Journal. The difference is only with regard to the second column. In Purchases Returns Journal, the second column is used for recording the name of the supplier. But in case of Sales Returns Journal, it is used for writing the name of the customer. The Procedure for recording in the Sales Returns Journal is also similar to that the Purchases Returns Journal. The entries in the Sales Returns Journal are made with the help of duplicate copy of the credit notes.

6.17.3 Posting the Sales Returns Journal

The transaction recorded in the Sales Returns Journal are posted to the respective personal accounts in the ledger. Separate accounts in the name of each customer already exist in the ledger (opened at the time of sale). Credit the customers' accounts individually by writing 'By Sales Returns A/c'. Then post the total of the Sales Returns Journal to the debit side of the Sales Returns A/c by writing 'To Sundries—as per Sales Returns Journal'.

Look at illustration and study how sales returns have been recorded in the Sales Returns Journal and posted into ledger.

Illustration

2018

- Aug. 5 Received a debit note along with one chair and a table from Doualath Furniture House, Delhi, saying that the legs of the chair and table are broken (remember, each chair was sold at Rs. 150 and each table at Rs. 500 with a trade discount of 10%).
- 10 Received 2 chairs and 2 tables along with a letter from Kesav Memorial School, Mehrauli, saying that they were damaged (chairs were sold at Rs. 135 each and tables at Rs. 450 each).
- 16 Received a debit note from M/s. Pyarelal Furniture Palace, Okhla, stating that the mirrors of two dressing tables were found defective and so returned.

Enter the above transactions in the Sales Return Journal of M/s Bharat Furniture Works, Delhi, and show the ledger postings.

Bharat Furniture Works SALES RETURNS JOURNAL

Date	Name of the supplier	Credit note number	L.F.	Amount	Remarks
2018					
Aug.5	Doulath Furniture House, Delhi	56		585	
“ 10	Kesav Memorial School, Mehrauli	57		1,170	
“ 16	Pyarelal Furniture Palace, Okhla	58		200	
“ 31	Total			1,955	

Note : Credit Note numbers are imaginary.

LEDGER
Doulath Furniture House Account

Dr.		Rs.		Cr.	
2018 Aug 1	To Sales A/c	11,250	2018 Aug 5	By Sales Returns A/c	585

Kesav Memorial School Account

2018 Aug 4	To Sales A/c	37,000	2018 Aug 10	By Sales Returns A/c	1,170
---------------	--------------	--------	----------------	----------------------	-------

Pyarelal Furniture Palace Account

2018 Aug 10	To Sales A/c	18,000	2018 Aug 16	By Sales Returns A/c (Allowance granted)	200
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Sales Returns Account

2018 Aug 31	To Sundries - as per Sales Returns Journal	1,955			
----------------	---	-------	--	--	--

These postings were made from Sales Journal, when goods were sold .

Check Your Progress F

1. What is an invoice?

.....

.....

.....

2. What is a debit note?

.....

.....

.....

3. What is a credit note?

.....

.....

.....

4. Fill in the blanks
- Purchases Journal records credit purchase ofonly.
 - Sales Journal records allsales of goods.
 - Ais sent to a customer when he returns the goods.
 - Total purchases are posted toAccount at the end of every month.
 - Total of Sales Journal is posted on the side of Sales Account at the end of every month.
 - Sales Returns are also called
 - Purchase Returns are also called.....
 - Debit Note is sent to the supplier when the goods are
..... to him.

6.18 JOURNAL PROPER

By now, you know what a journal is and what its sub-divisions are. You also know that the special journals discussed earlier take care of certain types of transactions which are repetitive and numerous. However, there are a number of transactions which do not occur frequently and hence do not warrant preparation of special journals. But they have to be recorded somewhere. For them, the proper place is the original journal itself, which is now called 'Journal Proper'. Thus all events and transactions which cannot be recorded in any of the special journals maintained by the firm, shall be recorded in the Journal Proper. Examples of such transactions are:

- Opening Entry
 - Closing Entries
 - Transfer Entries
 - Adjustment Entries
 - Rectification Entries
 - Miscellaneous Entries
- a) **Opening Entry:** An opening entry is passed in the journal for opening a new set of accounts. This may be needed at the time of the commencement of business or at the commencement of new accounting year.

If a person commences business only with cash, there is no need to pass a journal entry. The cash brought in is just entered in the cash book. But, if he also brings some other assets, then an opening entry is passed in Journal Proper, debiting the concerned assets accounts and crediting the Capital Account.

In case of a running business, an opening entry is passed at the commencement of a new accounting year to incorporate various balances of assets and liabilities brought forward from the previous year into current year's books.

- b) **Closing Entries:** At the end of the accounting year, when final accounts are prepared, the nominal accounts are closed by transferring them to

Trading Account or Profit and Loss Account. The journal entries passed for this purpose are called ‘Closing Entries’.

- c) **Transfer Entries:** When an amount is to be transferred from one account to another, you have to pass an entry in the Journal Proper in order to effect the transfer. Such entries are called ‘Transfer Entries’. Suppose, you want to transfer proprietor’s total drawings made during the year to his Capital Account. The proprietor’s total drawings appear in Drawings Account which shows a debit balance. You will transfer the balance of Drawings Account to Capital Account by passing the following entry in the Journal Proper.

Capital Account	Dr.
To Drawings Account	
(Transfer entry)	

- d) **Adjustment Entries:** At the time of preparing the final accounts, it is necessary to bring into the books of account certain unrecorded items like closing stock, depreciation on fixed assets, interest on capital, expenses incurred but not yet paid, income earned but not yet received, etc. Entries passed in the Journal Proper to record such items are called ‘Adjustment Entries’. These entries are explained in detail later.
- e) **Rectification Entries:** You may commit errors while recording transactions in various books, and while posting, totalling, balancing, etc. Such errors are generally corrected through entries in Journal Proper and are known as ‘Rectification Entries’.
- f) **Miscellaneous Entries:** In addition to the entries mentioned above, if there is any transaction which cannot be recorded in any of the special journals, it will be entered in the Journal Proper. Example of such transactions are:
- i) Credit purchases of fixed assets, investments, etc.
 - ii) Credit sales of fixed assets, investments etc.
 - iii) Withdrawal of goods from the business by the owner for his personal use.
 - iv) Loss of goods by theft, accident, fire, etc.
 - v) Special allowances received from suppliers or given to customers.
 - vi) Endorsement or dishonour of bills.
 - vii) Writing off bad debts.

Look at illustration for entries of such transactions in the Journal Proper.

Illustration

Enter the following in the Journal Proper of Rajani Enterprises.

2018

- Aug. 3 Sold office van on credit for Rs. 15,000 to Ahmed Ali.
- “ 8 The owner has taken away goods worth Rs. 1,000 for his domestic use.
- “ 15 Fire broke out in the premises and goods worth Rs. 5,000 were destroyed.

- “ 21 Bill drawn on Singh returned dishonoured when presented for payment, Rs. 2,000.
- “ 25 Amount due Rs. 500 from Bahadur is irrecoverable, as he has been declared insolvent.
- “ 28 Misra, a customer, informed that some goods were damaged in transit. An allowance of Rs. 50 was granted to him for repairs.

Solution :

JOURNAL PROPER

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2018 Aug. 3	AhmedAli Dr. To Office Van A/c (Being the credit sale of office van to Ali)		15,000	15,000
“ 8	Drawing A/c Dr. To Purchases A/c (Being the withdrawal of goods By the owner for domestic use)		1,000	1,000
“ 15	Loss by Fire A/c Dr. To Purchases A/c (Being loss of goods by fire accident)		5,000	5,000
“ 21	Singh Dr. To Bills Receivable A/c (Being the dishonour of bill by Singh)		2,000	2,000
“ 25	Bad Debts A/c Dr. To Bahadur (Being the amount irrecoverable from Bahadur)		500	500
“ 28	Allowances A/c Dr. To Misra (Being an allowance granted for repair of goods damaged in transit)		50	50

6.19 LET US SUM UP

- Journal is the book of original entry in which normally all transactions are recorded. But when transactions are numerous, there are many difficulties in recording all of them in one journal. Hence, the need for sub-division of journal arises.
- In business many transactions are of repetitive nature. The journal is therefore sub-divided in such a way that a separate book is used for each category of transactions which are repetitive in nature and are sufficiently large in number.
- Depending on the requirements of business, the special journals used are:
 - Cash book
 - Purchases Journal,
 - Sales Journal,
 - Purchase Returns Journal
 - Sales Returns Journal
 - Journal Proper

4. All cash transactions are recorded in cash book. There are different types of cash books. The most commonly used are: (i) Single Column Cash Book, (ii) Two Column Cash Book, and (iii) Three Column Cash Book.
5. The Single Column Cash Book has only one amount column on both sides. All cash receipts are recorded on the debit side and all cash payments on the credit side.
6. The Two Column Cash Book has an additional amount column for cash discount on both sides. The discount allowed is recorded on the debit side and the discount received on the credit side.
7. Petty Cash Book is prepared for recording payments of various petty expenses. This saves a lot of labour and time.
8. The main functions of a bank are to accept deposits and lend money to business. It also provides various other services to its customers.
9. There are three types of accounts available in the bank. The businessman generally opens current account.
10. When an account is opened in the bank, the depositor receives a pass book, a pay-in-slip book, and a cheque book.
11. A cheque is an instrument used for withdrawal of money from the bank. It can also be used for making payments to other parties.
12. For safety, the cheques can be crossed. Crossing can be general or specific.
13. The Payee of a cheque can endorse it to a third party by putting his signature at the back of the cheque.
14. The bank can refuse payment of a cheque. Refusing to pay is called dishonouring the cheque.
15. The Three Column Cash Book has three amount columns on each side. One of these three columns is for recording banking transactions of the firm.
16. All deposits into the bank are recorded in the bank column on the debit side of the cash book, and all withdrawals on the credit side.
17. The bank column in the cash book serves the purpose of bank account. Hence, there is no need to open bank account in the ledger.
18. Purchases Journal is meant for recording all credit purchase of goods. Inward invoice is the basis for recording in the Purchases Journal.
19. Purchases Returns Journal is used for recording goods returned to the suppliers. Debit note is the basis for recording in Purchases Returns Journal.
20. Sales Journal is meant for recording all credit sales of goods. Outward invoice is the basis for recording in the Sales Journal.
21. Sales Returns Journal is used for recording goods returned by the customers. Credit note is the basis for recording in it.
22. All transactions which cannot be recorded in any of the special journals will be recorded in the journal itself, which is now called Journal Proper.

6.20 KEY WORDS

Adjustment Entry : An entry passed to bring into account certain unrecorded items like closing stock, outstanding expenses and incomes, at the time of preparing final accounts.

Bearer Cheque : A cheque payable at the counter of the bank without identification.

Cash Book : A special journal used for recording all cash receipts and cash payments.

Cash Discount : An allowance given by the creditor to the debtor for prompt payment.

Closing Entries : Entries passed at the end of each accounting year to close the nominal accounts by transferring them to Trading and Profit and Loss Account.

Credit Note : A statement sent by the seller to his customer informing that his account is credited to the extent of the goods returned by him or allowance granted to him.

Cheque : An instrument used for withdrawing money from the bank.

Crossed Cheque : A cheque on which two parallel lines have been drawn. It is not payable at the counter.

Contra Entry : When both the debit and credit aspects of a transaction are recorded in the cash book itself.

Debit Note : A statement sent by the purchaser to his supplier informing that his account is debited to the extent of the goods returned or allowance claimed.

Dishonour : Refusal to pay the cheque by the bank

Endorsement : A written statement signed by the payee at the back of the cheque for its transfer.

Imprest System : A system of advancing a fixed amount to the petty cashier periodically.

Invoice : A bill or a statement issued by the seller to the purchaser giving details of goods sold.

Opening Entry : An entry passed to open a new set of accounts.

Order Cheque : A cheque in respect of which identification of the payee is necessary.

Pass Book : A book or a statement supplied by the bank to its customer showing his transactions with the bank.

Pay-in-slip : A slip or a challan used for depositing cash or cheques in the bank.

Petty Cash Book : A cash book prepared for recording small payments of cash.

Subsidiary Book : Any special journal used for recording a particular category of transactions.

Special Crossing : A crossing specifying the name of bank through whom the cheque can be presented for payment.

Transfer Entry : An entry passed to transfer an amount from one account to another account.

6.21 ANSWERS TO CHECK YOUR PROGRESS

- A a) iii b) i c) iii d) ii e) iii
- B a) Cash b) debit, credit c) Cash Account d) credit e) debit f) cash
- C 2. a) True b) True c) False d) False e) True
- E 1) Debit 2) Credit 3) Contra entry 4) Cash 5) Both 6) Credit
- F 4. (a) goods (b) credit (c) credit note (d) Purchases (e) credit (f) returns inwards (g) returns outwards (ii) returned
- G 6. (a) True (b) False (c) False (d) True (e) False (f) False (g) True (h) False

6.22 TERMINAL QUESTIONS / EXERCISES

Questions

1. Why is journal sub-divided? Name the special journals and state the type of transactions entered in each of them.
2. Explain the following in about 10 lines each.
 - a) 'Cash Book is both a journal and a ledger'
 - b) Imprest system
 - c) Types of Cash Books
 - d) Posting of Two Column Cash Book.
3. What are the advantages of maintaining a Petty Cash Book? Explain the method of balancing and posting the Petty Cash Book.
4. Explain the following in about ten lines each.
 - a) Bank Column in cash book serves the purpose of a Bank Account in the ledger
 - b) Advantages of having a bank account.
 - c) Effect of crossing a cheque.
 - d) Contra Entry.
5. State the reasons for the following:
 - a) All entries in Three Column Cash Book are not posted into the ledger.
 - b) The total in the cash column on the debit side of the cash book is always more than its credit side, but it is not true of the bank column.
 - c) When a cheque received is endorsed to a third party, it must be entered on both sides of the cash book.
6. Why is a cheque dishonoured? How do you record it in the cash book?

7. Give the proforma of Purchases Journal. Explain the method of recording the transactions in the Purchases Journal and its posting into ledger.
8. How does Debit Note differ from Credit Note? Discuss the utility of these notes.
- 9 Write short notes on the following:
 - a) Returns Inward Journal
 - b) Returns Outward Journal
10. What is a Journal Proper? List the transactions recorded in the Journal Proper.

Exercises

1. Enter the following transactions of Motilal Stores in the Single Column Cash Book and balance the same.

2018		Rs.
Jan.1	Motilal started business with a capital	20,000
“ 2	Purchased furniture	5,000
“ 2	Purchased goods	3,000
“ 3	Paid cartage	75
“ 5	Sold goods for cash	2,800
“ 10	Paid to Ratan Lal	2,000
“ 18	Sold goods for cash	1,000
“ 25	Paid wages	225
“ 28	Paid rent	500
“ 30	Purchased goods	2,000

(Answer: Cash in hand Rs. 11,000)

2. From the following transactions of Mani Ram Agencies, prepare a Single Column Cash Book, balance it, and post it into ledger.

2018		Rs.
Jan. 1	Mani Ram started business with cash	40,000
“ 2	Opened a bank account and deposited	15,000
“ 5	Purchased furniture	8,000
“ 8	Purchased goods	12,000
“ 10	Sold goods for cash	7,000
“ 15	Sold goods on credit to Rajan	6,000
“ 20	Purchased electrical fan	450
“ 25	Received cash from Rajan	6,000
“ 28	Paid rent	550
“ 29	Deposited into the bank	10,000
“ 31	Paid wages	1,500

Hint: Credit sales are not a cash transaction. Hence, not recorded in the Cash Book.

(Answer: Cash in hand Rs. 5,500)

3. Enter the following transactions of Gupta Emporium in Two Column Cash Book and balance it.

2018	
Apr. 1	Cash in hand Rs. 3,000
“ 3	Paid to S.K, Basu Rs. 580 and received discount Rs. 20.
“ 5	Purchased goods for cash Rs. 2,000
“ 8	Received from N.K. Prasad Rs. 960, and allowed him discount of Rs. 40
“ 15	Sold goods on credit to Adinarayan Rs. 2,000
“ 20	Cash sales Rs. 600 -
“ 25	Paid to Narayan Rs. 1,150 in full settlement of his account of Rs. 1,200
“ 28	Received from Adinarayan Rs. 1,950 in full settlement of his account
“ 29	Rent paid Rs. 600
“ 30	Took cash for personal use Rs. 500

(Answer: Cash balance Rs. 1,680. Discount allowed total Rs. 90, Discount received total Rs. 70).

4. Prepare Two Column Cash Book of M/s. Sanjay Enterprises from the following transactions. Also show the ledger postings.

2018		Rs.
Apr. 1	Cash in hand	3,000
“ 3	Purchased goods	800
“ 5	Paid to Gupta	600
	Discount allowed by him	40
“ 7	Sold goods	1,000
“ 9	Received from Pannalal	1,960
	Discount allowed to him	40
“ 12	Received cash from Nagesh in full settlement of his account Rs. 1,000	970
“ 15	Paid to Rakesh after deducting 2.5% discount	1,170
“ 18	Received from Shanker	590
	Discount allowed to him	10
“ 24	Paid wages	100
“ 27	Paid for stationery	60
“ 29	Paid to Kartar Singh in full settlement of his account Rs. 800	780
“ 30	Deposited cash into bank in excess of	800

(Answer: Amount deposited in the bank Rs. 3,210. Discount allowed total Rs. 80. Discount received total Rs. 90).

5. Prepare a Petty Cash Book on the Imprest System from the following particulars of M/s. Preetam Industries.

2018		Rs.
July 1	Received a cheque for petty cash	150.00
“ 2	Paid bus charges	1.50
	Paid cartage	5.00
“ 3	Paid for postage and telegrams	15.25
	Paid wages to casual workers	10.00
“ 4	Paid for Stationery	4.75
“ 5	Paid for repairs of chairs	15.00
	Bus Charges	1.00
“	Cartage	4.50
“ 6	Purchased locks	35.00
“ 7	Tea expenses to customers	4.00
“ 15	Repair to typewriter	7.00
“ 20	Paid tanga charges	6.00
“ 24	Paid taxi fare to manager	18.00
“ 26	Purchased stamps	5.00
“ 29	Auto charges	7.00

(Answer: On August 1, 2018, petty cashier will be given a cheque for Rs. 139)

Note : These questions will help you to understand the unit better. Try to write answers for them. But, do not submit your answers to the University for assessment. These are for your own practice only.