JOURNAL AND SUBSIDIARY BOOKS

Unit

4

Learning Outcomes

By the end of this unit the learner will be able to:

- Understand the meaning of journal and ledger.
- Understand rules and sub-division of ledger.
- Distinguish between journal and ledger.
- Define subsidiary books,
- Describe the kinds of subsidiary books

Unit 4

Journal And Subsidiary

INTRODUCTION

Journals are books of original entry where all business transactions are recorded in a chronological order. Whenever a transaction takes place, the first step is to record it in a journal and that is why journals are also called books of prime or **books of original entry**. After being recorded in journals, transactions are then posted in **ledgers**. The act of recording transactions in journals is called **journalizing** and the form in which they are recorded is known as **journal entry**.

ADVANTAGES OF JOURNAL

Recording business transactions in journals has a few advantages, some of which are listed below:

1. A record of dates on which the transactions occurred is maintained in the journal.

2. Necessary information, along with explanations regarding each business transaction is recorded in the journal and can be accessed at any time.

3. Errors in recording transactions can be identified and corrected by maintaining a journal.

The following is a specimen of a typical journal:

Date	Particular	Ledger Folio (L.F)	Debit £	Credit £
1	2	3	4	5

A journal consists of five columns namely; (1) date, (2) particulars, (3) ledger folio, (4) debit amount and (5) credit amount. A brief explanation regarding the nature of journal entry is also added.

(1) Date: at the top of every page of the journal, in the date column, the year in which the transaction took place is recorded. The month and date of entry are written in the next line. The year and month does not have to be repeated for every transaction until a new page is started in the journal or the month or the year changes.

(2) Particulars: this column has the account titles and a brief description of the transaction. The title of the account that is being debited is recorded on the top, at the extreme left, and the abbreviation for debit (Dr.) is written on the extreme right of the same column in the same line. The title of the account being credited is written in the next line after the word "To" is written leaving a few spaces from the extreme left of the column. A brief description about the transaction, also called narration, is added in the next line of the column. Narration should provide adequate details about the transaction so that it can be identified and understood. Traditionally, it starts with the word "being" in parentheses but the use of this word has been dispensed with in modern accounting practice. A horizontal line drawn throughout the particulars column after narration indicates the end of the transaction.

(3) Ledger Folio: this column is only filled in once the transaction is recorded in the ledger; therefore, it stays empty while transactions are being recorded in the journal. It provides the page number where the relevant account is appearing in the ledger while transactions are being debited and credited.

(4) Amount (Debit): the amount to be debited in written in this column with the unit of measurement at the top on every page. The amount is entered against the account being debited.

(5) Amount (Credit): the credited amount is written against the account being credited. The unit of measurement is written at the top of the column on every page.

SUB-DIVISION OF JOURNAL

A single journal cannot be solely enough in cases when transactions are innumerable and of different kinds. Hence the need for subdivision of journals arises. The volume of transactions and their nature, which are to be recorded, help us decide the type of journals required for a specific business. Following are different types of journals used in businesses:

1. Cash Book: Used for recording receipts and payments related to cash transactions.
2. Sales Day Book: Used for recording and maintaining credit sales.
3. Sales Returns Day Book: Used for keeping records of the return of goods that are sold to customers on credit.
4. Purchases Day Book: It keeps record of credit purchases.
5. Purchases Returns Day Book: It records the return of goods that are purchased from suppliers on credit.
6. Bills Receivable Books: Records all bills received along with their details.
7. Bills Payable Book: It records the accepted bills along with their details.
8. Journal Proper: It records all remaining transactions which are not covered in the journals mentioned above.

LEDGER

Ledger contains several accounts of nominal, real and personal nature. Journal is a collection of all business transactions recorded in a chronological order; therefore, it is hard to collect transactions belonging to the same head at one place. Ledger provides for the consolidation of all transactions in their respective accounting heads. It can be defined as a summary of all transactions relating to assets, expense, profit or loss, income etc. that have taken place at a particular time and it indicates their net effect. When a transaction is "posted" in a ledger, it simply means that after the information regarding a transaction is recorded in a journal, it is then entered in its respective account in a ledger. In the past, ledgers were maintained in the form of bound books, however, with the passage of time they became a collection of loose pages so that old accounts are removed, new ones are added and arrangement of accounts can be changed.

Ruling of ledger account

The ledger account can be maintained in any of the following format:

Dr **Cr**

Date	Particulars	J.F	£	Date	Particulars	J.F	£
	The name of the account to be credited				The name of the account to be debited		

Sub-division of ledger

In big business organizations, there are a large number of accounts that have to be maintained. Therefore, separate ledgers are made for customers, suppliers and others. The following three types of ledgers are maintained in a big business:

(i) Debtors' Ledger: Also known as the sales ledger, it contains accounts relating to people to whom the business has sold goods on credit. Entries are made in the debtors' ledger from Sales Day Book, Sales Returns Book and Cash Book.

(ii) Creditors' Ledger: It is also called a purchase ledger and consists of accounts relating to suppliers from whom the company has bought goods on credit. Entries are made in this ledger from Purchase Day Book, Purchase Returns Book and Cash Book.

(iii) General Ledger: Also called the nominal ledger, it contains all remaining accounts of real and nominal nature.

Distinction between journal and ledger

(i) Journal is a book of original or prime entry, whereas ledger is a book in which final entries are recorded.

(ii) Journal contains daily transactions, whereas transactions are posted in ledger on a periodic basis.

(iii) Journal does not contain all the information pertaining to a particular account at one place. A ledger consolidates that information under one head of account.

(iv) When transactions are recorded in a journal, it is called journalising. When transactions are entered in a ledger, it is called posting.

(v) A journal entry records both the debit and credit aspects of a transaction whereas a ledger shows only one.

(vi) A journal entry is always accompanied by a narration whereas no narration or description is provided in a ledger.

(vii) Receipts, vouchers, debit and credit notes etc. are the bases for a journal entry whereas the journal is a ledger's basic document.

ILLUSTRATIONS

1. Journalize the following transactions in the books of Collins & Co.

2002		£
January 1	Started business with a capital of	10,000
January 2	Paid into bank	5,000
January 4	Purchased goods from David on credit	3,000
January 6	Paid to Jacob	2,500
January 6	Discount allowed by Jacob	50
January 8	Cash Sales	15,000
January 12	Sold to Alex	5,000
January 15	Purchased goods from Brad on credit	5,500
January 18	Paid Salaries	6,000
January 20	Received from Richard	1,450
January 20	Allowed him discount	20
January 25	Withdrew from bank for office use	7,000

January 28	Withdraw for personal use	1,000
January 30	Paid Roger by cheque	5,000

Solution :

In the books of Collins & Co.

Date	Particulars	L.F.	Dr. £	Cr. £
2002 January 1	Cash A/c To Capital A/c (Capital brought into business)	Dr.	10,000	 10,000
January 2	Bank A/c To Capital A/c (Cash paid into bank)		5,000	 5,000
January 4	Purchases A/c To David's A/c (Purchased goods from David on credit)		3,000	 3,000
January 6	Jacob's A/c To Cash A/c (Cash paid to Jacob)	Dr.	2500	 2500
January 6	Jacob's A/c To Cash A/c (Cash discount allowed by Jacob)	Dr.	50	 50
January 8	Cash A/c To Sales A/c (Cash sales effected)	Dr.	15,000	 15,000
January 12	Alex's A/c To Sales A/c	Dr.	5,000	 5,000

	(Goods sold to Alex)			
January 15	Purchases A/c To Brad's A/c (Purchased Goods from Brad)	Dr.	5,500	5,500
January 18	Salaries A/c To Cash A/c (Salaries paid)	Dr.	6,000	6,000
January 20	Cash A/c To Richard's A/c (Cash received from Richard)	Dr.	1,450	1,450
January 20	Discount A/c To Richard's A/c (Discount allowed to Richard)	Dr.	20	20
January 25	Cash A/c To Bank A/c (Cash withdrawn from bank)	Dr.	7,000	7,000
January 28	Drawing A/c To Cash A/c (Cash withdrawn from bank for personal use)	Dr.	1,000	1,000
January 30	Roger's A/c To Bank A/c (Paid to Roger by cheque)	Dr.	5,000	5,000

Illusration-2

Journalize the following transactions:

2013 June 1	Purchased goods worth £500 from Alex and £1000 from Richard on credit.
June 3	Sale of goods worth £1,000 to Brendon and £700 to Samuel.
June 5	Cash of £200 received from Henry and £1000 from Paul.
June 7	Paid £500 to Lance and £300 to Will.
June 9	Withdrawn from bank £600 for office use and £800 for personal use.

Solution :

Journal

Date	Particulars	L.F.	Dr. £	Cr. £
2013 June 1	Purchases A/c To Alex's A/c To Richard's A/c (Purchases goods from Alex and Richard on credit)	Dr.	500	 1000
June 3	Brendon's A/c Samuel's A/c To Sales A/c (Sales of goods to Brendon and Samuel)	Dr. Dr.	1,000 700	 1,700
June 5	Cash A/c To Henry's A/c To Paul's A/c (Cash received from Henry and Paul)	Dr.	1,200	 200 1000

June 7	Lance's A/c Will's A/c To Cash A/c (Paid Lance and Will)	Dr. Dr.	500 300	 800
June 9	Cash A/c Drawing A/c (To Bank A/c) (Withdrawn from bank for office use and personal use)	Dr. Dr.	600 800	 1,400

Illusration-3

Journalise the following transactions, post the same in relevant ledger account and balance the same.

2013 June 1	Karen commenced business with £ 20, 000.
June 2	Paid into bank £ 5,000.
June 3	Purchased Plant worth £ 10,000 from Hammer & Co.
June 4	Purchased goods worth £ 5,000 form Harold.
June 6	Goods worth £ 4,000 sold to Alan
June 8	Sold goods worth £ 2,000 for cash.
June 10	Goods returned by Alan £ 50.
June 15	Paid rent £ 250
June 18	Withdrawn from bank for office use £ 2,500.
June 20	Paid Salaries £ 1,800.
June 25	Withdrawn for personal use £ 250.
June 26	Goods returned to Harold £ 100.

June 27	Paid for office furniture £ 1,500 by cheque.
June 28	Received £ 3,900 cash from Alan and discount allowed £ 50.
June 29	Paid Harold on account £ 4,800 and discount allowed by him £ 100.

Date	Particulars	L.F.	Dr. £	Cr. £
2013 June 1	Cash A/c To Karen's A/c (Capital brought into the business by Karen)	Dr.	20,000	20,000
June 2	Bank A/c To Cash A/c (Cash Paid in to bank)	Dr.	5,000	5,000
June 3	Plant A/c To Hammer & Co's A/c (Plant purchased from Hammer & Co.)	Dr.	10,000	10,000
June 4	Purchase A/c To Harold's A/c (Goods purchased from Harold)	Dr.	5,000	5,000
June 6	Alan's A/c To Sales A/c (Goods sold to Alan)	Dr.	4,000	4,000
June 8	Cash A/c To Sales A/c (Goods sold for Cash)	Dr.	2,000	2,000

June 10	Sales Returns A/c To Alan's A/c (Goods returned by Alan)	Dr.	50	50
June 15	Rent A/c Cash A/c (Rent Paid)	Dr.	250	250
June 18	Cash A/c To Bank A/c (Withdrawn from Bank for office use)	Dr.	2,500	2,500
June 20	Salaries A/c To Cash A/c (Salaries paid)	Dr.	1,800	1,800
June 25	Drawing A/c To Cash A/c (Withdrawn for personal use)	Dr.	250	250
June 26	Harold's A/c To Purchase Returns A/c (Goods returned to Harold)	Dr.	100	100
June 27	Furniture A/c To Bank A/c (Payment by cheque for office furniture)	Dr.	1,500	1,500
June 28	Cash A/c Discount A/c To Alan's A/c (Cash received from Alan and discount	Dr.	3,900	3,900

	allowed £ 50)			
June 29	Harold's A/c To Cash A/c To Discount A/c (Cash paid to Harold and discount allowed by him)	Dr.	4,900	 4,800 100

Ledger
Cash A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 1	To Karen's Capital A/c		20,000	June 2	By Bank A/c		5,000
June 8	To Sales A/c		2,000	June 15	By Rent A/c		250
June 18	To Bank A/c		2,500	June 20	By Salaries A/c		1,800
June 28	To Alan's A/c		3,900	June 25 June 29	By Drawings a/c By Harold's A/c		250 4,800
							16,300
			28,400	June 30	By Balance c/d		28,400

Bank

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 2	To Cash A/c		5,000 5,000	June 18 June 27 June 30	By Cash A/c By Furniture A/c By Balance c/d		2,500 1,500 **1,000** 5,000
July 1	To Balance b/d		1,000				

Karen's Capital A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 30	To Balance c/d		**20,000** 20,000	June 1 July 1	By Cash A/c By Balance c/d		20,000 20,000 20,000

Plant A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 3	To Hammer & Co's. A/c		10,000	June 30	By Balance c/d		**10,000**

July 1	To Balance c/d		10,000 10,000				10,000

Hammer & Co's. A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 30	To Balance c/d		**10,000** 10,000	June 3 July 1	By Plant A/c By Balance b/d		10,000 10,000 10,000

Purchase A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 4	To Harold's A/c		5,000 5,000	June 30	By Balance C/d		**5,000** 5,000
July 1	To Balance b/d		5,000				

Harold's A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 26	To Purchases Return A/c		100	June 4	By Purchases A/c		5,000
June 29	To Cash A/c		4,800				
June 29	To Discount A/c		100				
June 30			5000				5,000

Sales A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 30	To Balance c/d		**6,000**	June 6	By Alan's A/c		4,000
				June 8	By Cash A/c		2,000
			6,000				6,000

Alan's A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 6	To Sales A/c		4,000	June 10	By Sales Returns A/c		50

				June 28	By Cash A/c		3,900
				June 28	By Discount A/c		50
			4,000				4,000

Purchases Returns A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 30	To Balance c/d		100	June 26	By Harold's A/c		100
			100				100
				July 1	By Balance b/d		100

Sales Returns A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 10	To Alan's A/c		50	June 30	By Balance c/d		50
			50				50
July 1	To Balance b/d		50				

Furniture A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 27 July 1	To Bank A/c To Balance b/d		1,500 1,500 1,500	June 30	By Balance c/d		1,500 1,500

Discount A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 28 June 30	To Alan's A/c To Balance b/d		250 250 250	June 30	By Balance c/d		250 250

Drawings A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 25	To Cash A/c		250 250	June 30	By Balance c/d		250 250

July 1	To Balance b/d		250				

Rent A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 15	To Cash A/c		250	June 30	By Balance c/d		250
			250				250
July 1	To Balance b/d		250				

Salaries A/c

Dr. Date 2013	Particulars	J.F.	£	Date 2013	Particulars	J.F.	Cr. £
June 20	To Cash A/c		1,800	June 30	By Balance c/d		1,800
			1,800				1,800
July 1	To Balance b/d		1,800				1,800

Subsidiary Books

INTRODUCTION

A journal is categorized further into sub-divisions and different parts. Each category is a specific book and a journal of original entry. The Journal entries do not exist when records are created in these books. In the English System, transactions are recorded in particular journal and then in ledger accounts. While working in these types of sub-categorized journals and creating entries we follow the double entry principles of accounting even though the usual type of journal entries are not entered in these sub-categorized journals.

TYPES OF SUBSIDIARY BOOKS

The different kinds of subsidiary books used in businesses are listed below:

- Purchases Book
- Sales Book
- Purchases Returns Books
- Sales Returns Books
- Bills Receivable Books
- Bills Payable Books
- Journal Proper
- Cash Book

Purchases Book

Purchases Book keeps the record of all credit purchases made by businesses. This book is also often called 'Purchases Journal' or 'Invoice Book'. Purchases Book has five columns in which entries are made: Date, Particulars, Ledger Folio, Inward Invoice Number and Amount. For all credit purchases the date of transactions is recorded in the 'Date' Column, the name of suppliers from which the purchases have been made is entered in the 'Particulars' column, the invoice number of the purchase is recorded in 'Inward Invoice Number' column, and the money against which the purchase has been made is entered in the 'Amount' column. As posting is made, ledger folio numbers are recorded in the 'Ledger Folio' column.

Posting: For every specific period the total of purchases book is debited to Ledger's purchases account. By crediting individual accounts the posting of personal accounts is carried out.

Purchases Book (Specimen)

Date	Particulars	L.F.	Inward Invoice Number	Amount £

Sales book

All credits sales made by businesses are recorded in Sales Book. Sales Book is also often known as 'Sales Journal' or 'Sold Book'. The five columns in this book for data entry are: Date, Particulars, Ledger Folio L.F, Outward Invoice Number, and amount. The date of credit sales that are made is recorded in the 'Date' column, the name of customer or party is entered in the 'Particulars Column', the invoice number of the sales is recorded in the

'Outward Invoice Number' column, and the 'Amount' columns reflects the money value of the sales. As posting is made, ledger folio numbers are recorded in the 'Ledger Folio' column.

Posting: For every specific period the total of Sales book is credited to Ledger's Sales account. By debiting individual accounts the posting of personal accounts is carried out.

Sales Book (Specimen)

Date	Particulars	L.F.	Outward Invoice Number	Amount £

Purchases Returns Book

The transactions pertaining to goods returned to suppliers are recorded in Purchases Returns Book. Purchase Returns Book is often called as 'Purchases Returns Journal' or 'Returns Outward Book'.

Purchases Returns Book (Specimen)

Date	Name of Supplier	L.F.	Debit Note	Amount £

The only difference between the specimen of Purchases Book and Purchases Returns Book is that Inward Invoice Number is replaced with the column 'Debit Note'. Debit Note column records the notes detailing value of goods returned by the businesses. These notes are sent to Suppliers.

While all individual and personal accounts are debited in the Ledger, the total worked out in Purchases Returns Book is credited to Purchases Returns Account.

Sales Returns Book

The transactions pertaining to goods returned by customers are recorded in this book. Sales Returns Book is often known as 'Sales Returns Journal' or 'Return Inwards Book'.

Sales Returns Book (Specimen)

Date	Name of Supplier	L.F.	Credit Note	Amount £

Similarly, in the Sales Returns Book, 'Credit Note' column is added. This column keeps the record of credit notes and their numbers. Credit notes are those notes which are sent to customers who have returned the goods.

While all individual and personal accounts are credited in the Ledger, the total worked out in Sales Returns Book is debited to Sales Returns Account.

Bills Receivable Book

Bills Receivable Book records bills received from customers by businesses. Bills Receivable Book carries details of date of the bill, place of payment, amount of the bill, detail of acceptor, due date and term of the bill.

Bills Receivable Book (Specimen)

Date of Receipt	L.F.	Drawer	Acceptor	Term	Due Date	£	Remarks

While all individual and personal accounts are credited, the total worked out in Bills Receivable Book is debited to Bills Receivable Account in the ledger. All of this is done while posting.

Bills Payable Book:

Bills Payable Books carries records of the bills accepted by businesses and are drawn by its creditors. This book has details about names of drawer, date of acceptance, due date, place of payment, term and amount of bill.

Bills Payable Book (Specimen)

Date	Drawer	Payee	L.F	Where Payable	Term	Due Date	£	Remarks

The individual account is debited whether it is drawer's account or payee's account and the Bills payable Account is credited with the total in the Bills Payable Book.

Journal Proper

Entries that do not have a place in any of the subsidiary books are recorded in the journal proper. This journal records both aspects of the transaction. The following are examples of some of the transactions recorded in this journal:

1. Opening entries and closing entries.
2. Adjusting entries
3. Transfer entries from one account to another account.
4. Rectification entries.
5. Bills of Exchange Entries

6. Credit Purchase/sale of an asset other than goods.

Cash Book

Cash Book records transactions related to receipts and payments made in cash and it is a sub-division of the journal. The cashbook plays a dual role of the journal and ledger because when a cash transaction is recorded, it is accompanied with a short narration as well. Cash receipts are recorded on the debit side and payments on the credit side. Entries are made in a chronological order in the cashbook and there will always be balance on the debit side, as payments will never exceed the receipts.

Kinds of Cash Book: We know from our definition of cashbook that it serves both as a subsidiary book and a ledger. Different cashbooks are used depending on the nature of the business and the type of cash transactions that are taking place.

a) Single Column Cash Book
b) Two Column Cash Book or Cash Book with cash and discount columns.
c) Three Column Cash Book or Cash Book with cash, bank and discount columns.
d) 'Bank' Cash Book or Cash Book with bank and discount columns.
e) Petty Cash Book.

a) Single or Simple Column Cash Book: this kind of cashbook is usually used for the simplest kind of cash transactions where no discount is allowed or received. The format of a single column cashbook is as follows:

Single Column Cash Book

Dr. Cr.

Date	Particular	R.No	L.F.	£	Date	Particulars	V.No	L.F.	£

Just like a ledger account, when cash is received it is recorded on the debit or 'receipts' side of the cashbook. The date of the transaction is recorded in the 'date' column, the name of the person or party from which the cash is being received in the 'particulars' column, the receipt number with which the cash has been received is recorded in the 'R. No.' column and the value of the transaction is written in the 'amount' column. The ledger folio (L.F) column records the reference number of the transaction in the ledger.

When there is a cash payment, it is recorded on the credit or 'payment' side of the cashbook. The date is recorded in the 'date' column, the name of the person or party to whom payment is made in the 'particulars' column, the voucher number in the 'V. No.' column and the money being paid is recorded in the 'amount' column. The voucher consists of all supporting documents related to the payment.

Positing: After the transactions have been recorded in the cashbook, entries are posted in the respective ledger accounts. The debit or receipts side of the cashbook contains entries that will be posted on the credit side of the concerned ledger accounts. Similarly, entries on the credit or payments side of the cashbook will be posted on the debit side of the concerned ledger accounts.

b) Two Column Cash Book or Cash Book with Cash and Discount Columns: Cash transactions involving discount is recorded in the two-column cashbook. Discounts are usually allowed or received when prompt cash payments are made. In this type of cashbook, there is a 'discounts' column in addition to the cash column. The discounts that are allowed by the business to its customers are recorded on the debit side and the discounts received by the business are entered on the credit side. Unlike cash columns, which also serve the purpose of a ledger, discount columns need not be balanced. Discount columns merely serve the purpose of keeping memorandum. Separate ledger accounts for 'discounts allowed' and 'discounts received' need to be opened in order to know the balance of discounts allowed and received by the business. The format of the two-column cashbook is as follows:

Two Column Cash Book (with Cash and Discount Columns)

Dr. Cr.

Date	Particular	R.No	L.F.	Discount Allowed	£	Date	Particulars	V.No	L.F.	Discount	£

Posting: The following are some of the points to be remembered when recording entries in the two-column cashbook:

1. The opening and closing balances are not being posted.
2. Entries from the debit side are always credited in their ledger accounts.
3. Entries from the credit side are always debited in their ledger accounts.
4. When recording cash received from a debtor or cash paid to a creditor, personal account with the amount of cash received and the discount allowed must be credited. Similarly, personal account with the amount of cash paid and discount received must be debited.
5. Discounts allowed and discounts received should be posted in separate accounts. The total discount allowed by a business is debited in the 'discounts allowed' account by writing 'to sundries' under the 'particulars' column. Total discounts allowed signify an outflow or loss for a business. Total discounts received should be credited to the 'discount received' account by writing 'by sundries' under the 'particulars' column. Total discount received is a gain for the business.

c) Three Columnar Cash Book or Cash Book with Cash, Bank and Discount Columns: The three column cashbook originated for the convenience of recording bank transactions of the business without having to maintain a separate 'bank' account in the ledger. Every business has a bank account for monetary safety, credit and loan facilities, less clerical work and the convenience of making transactions through cheques. A separate column, called the 'bank' column, is added to the cashbook to record transactions that are taking place through the bank. The format of a three column cashbook is as follows:

Three Columnar Cash Book (with Cash, Bank and Discount Columns)

Dr. Cr.

Date	Particular	R.No	L.F.	Discount Allowed	Cash £	Bank £	Date	Particulars	V.No	L.F	Discount	Cash £	Bank £

All cash receipts are recorded on the debit side of the 'cash' column and all cash payments on the credit side. Similarly, all amounts deposited in the bank are recorded on the debit side of the 'bank' column and all payments made through cheques on the credit side.

d) 'Bank' Cash Book or Cash Book with Bank and Discount Columns: This type of cashbook is used for businesses that carry out all transactions through the bank. All receipts are deposited in the bank and all payments are made through cheques. In this case, there is no use for the 'cash' column in the cashbook and there are columns for 'bank' and 'discounts' only. The format of a Bank Cashbook is as follows:

Two Column Cash Book (with Bank and Discount Columns)

Dr. Cr.

Date	Particular	R.No	L.F.	Discount Allowed	Bank £	Date	Particulars	V.No	L.F.	Discount	Bank £

e) Petty Cash Book: Derived from the French word 'petit', the word 'petty' means small. Petty cashbook maintains a record of various items like entertainment expense, office expense, carriage, postage, telegram, stationery etc. the person who manages the petty cashbook is called 'petty cashier'. The petty cashbook saves the valuable time of senior officials who are more occupied with maintaining the main cashbook and it prevents the overburdening of the main cashbook with petty items.

The petty cashier is given a specific amount of money as 'petty cash' after estimating the amount of money that will be required to cover petty expenses. This money is usually disbursed at the beginning of a specific period, say, fifteen days or a month. In case, the petty cashier needs more money to meet the expenses, he submits the petty cashbook to the chief cashier after ensuring that all entries have been made. The chief cashier verifies entries through vouchers and then disburses the required amount of money to the petty cashier.

Columnar Petty Cash Book or Analytical Petty Cash Book

For recording petty cash payments this Cash Book is used. Various details of such cash payments are entered under various columns in this Cash Book. Under the credit side, cash payments relating to petty expenses are entered, while under the debit side the cash value received for various petty expenses from chief cashier is recorded.

Further, there are other analytical columns for recording details. There are analytical columns for expenses like postage and telegrams, printing and stationery, communication expenses, logistic expenses, entertainment expenses etc. The total of these analytical columns is calculated and then posted in corresponding ledger accounts. There is no need to post payment items separately in ledger. The total payments column section is then balanced.

The Cashier has balance of cash still left with him if the debit side entries exceed the total of credit side entries.

BASIC DOCUMENT FOR SUBSIDIARY BOOKS

Inward Invoice:

Inward Invoice is the document/paper used for making entries in Purchase Book and is sent by suppliers with details of price and value of goods sent.

Outward Invoice:

Outward Invoice is the document/paper used for making entries in Sales Book and is given to customers by the firm containing details of price and value of goods supplied.

Debit Note:

Debit note is a paper reflecting debited amount to an account of a person/entity to whom the debit note is sent. It also carries brief details of the debited amount. There are many similarities between debit notes and invoices but debit notes are mostly printed in red ink. Traders and Businessmen issue these debit notes on purchase returns so that they can later claim reduction in their dues.

Credit Note:

Credit Note is a paper reflecting credited amount to an account of a person/entity to whom the Credit Note is sent. It also carries brief details of the credited account. Credit Notes are also usually printed in red ink. Credit Notes are issued on Sales returns in order to claim abatement or reduction.

Cash Receipts and Vouchers:

Receipts and vouchers are documentary evidence of cash received or paid. They are helpful in making cashbook entries and for auditing purposes.

Contra Entries

A single transaction cannot affect the debit and credit side of the same account; however, there are some transactions, which can affect both sides of a cashbook. A cashbook contains both 'cash' and 'bank' columns, therefore, when cash is deposited in the bank, the 'bank' account is debited and 'cash' account is credited. 'To cash' is written in the particulars column of the debit side of cashbook and the amount is entered in the 'bank' column. On the credit side, 'by bank' is written in the particulars column and the amount is recorded in the 'cash' column.

When cash is withdrawn from the bank, the amount is recorded on the debit side of the cashbook, in the cash column with the words 'to bank' written in the particulars column. The same amount is recorded on the credit side in the bank column, with the words 'by cash' written in the particulars column.

From the example above, we can define Contra Entries as those that are recorded on the debit and credit sides of a cashbook. They are identified by the letter 'C' in the ledger folio on both debit and credit sides. Contra entries are not recorded in the ledger because a double entry is made for such transactions in the cashbook.

In a cashbook with three columns, the total amounts in the bank column and cash column balance and the discount column is simple totaled. In order to determine the balance of a discount column, another account called the 'discount account' is opened in the ledger. The cash column will always show a debit balance, however, it is possible for a bank column to show a credit balance. When a bank column shows credit balance, it is called **bank overdraft.**

ADVANTAGE OF SUBSIDIARY BOOKS

There are several advantages of keeping special journals, some of which are listed as follows:

Division of work

The work of recording original entries in journals can be divided among clerks who work independently to make these entries.

Facilitate posting

Posting of real accounts is facilitated as transactions of similar nature are recorded in one place.

Time Saving

Completing accounting records takes up lesser time and various accounting processes can be performed at the same time.

Minimum frauds and errors

Maintaining special journals and recording transactions systematically lowers the possibility of frauds and helps in identifying errors.

Better information

The journal system does not record certain transactions such as credit sales, credit purchases, returns etc., and so subsidiary books record useful information related to these entries.

Management decisions facilitated

The management benefits from the systematic record of transactions, which is available in subsidiary books. This enables management to make better decisions.

Specialization and efficiency

Clerks who are recording transactions repeatedly over a period of time become experts at their work. This specialization of tasks creates efficiency in accounting.

IMPREST SYSTEM

Under the imprest system, the petty cashier is given a sum of money (termed as 'float') to cover any possible expenses for a specific period of time, say a month. At the end of this time period, the petty cashier, after completing all entries, submits the cashbook to the chief cashier who verifies all entries with the help of supporting documents and vouchers. The chief cashier gives the actual amount spent on all expenses and brings the petty cash balance to the original amount that the petty cashier began with. The system of maintaining the original amount of petty cash is known as the 'imprest system of maintaining petty cashbook'.

DISCOUNTS

Trade discount

A seller usually allows a trade discount to a regular customer or to a customer who buys goods in a bulk. The total amount of the goods bought is calculated and then 5% or 10% (according to the business's policy) is deducted from that amount. This deducted amount is called a trade discount.

Cash Discount

Cash discount is an incentive given by a seller to the buyer in return for settling a bill within a specified period of time. This discount is usually some percentage of the total amount of the bill.

Difference Between Trade Discount and Cash Discount

Trade Discount	Cash Discount
A manufacturer or wholesaler gives it to a retailer.	It is usually given by a seller to a debtor.
It is based on a certain quantity of goods being purchased.	It is based on receipt of payment before a specified date.
It causes a reduction in the recorded price	It causes a reduction in the amount of

of an item.	money that a debtor owes.
It is not usually recorded in journals because the amount left after deduction (net amount) is recorded.	This discount has to be recorded because it is a deduction from the gross selling price.
It is allowed only at the time of sale (cash or credit).	It is allowed only at the time of cash receipt or cash payment (including cheques).
Usually the same rate of discount is offered to all customers.	The percentage of discount varies from customer to customer and with the time of payment.
It depends on the sales policy that is in effect by the business.	It depends entirely on the condition of settling the amount owed within the stipulated period.

ILLUSTRATIONS

Illustration 1

Enter the following transactions in the Purchases Book and post the same in the relevant ledger accounts.

2012			£
Aug	1	Bought goods from Silvia	1,500
Aug	4	Bought goods from Nathan	1,000
Aug	8	Bought goods from Albert	500

Solution:

Purchases Book

Date	Particulars	L.F.	Inward Invoice Number	Amount £
2012				
Aug. 1	Silvia			1,500
Aug. 4	Nathan			1,000
Aug. 8	Albert			5,00
				3,000

Ledger

Purchases A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2012			2012		
Aug. 12	To Sundries	3,000			

Silvia's A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2012			2012		
			Aug. 1	By Purchase A/c	1,500

Nathan's A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
			2012		
			Aug. 1	By Purchase A/c	1,000

Albert's A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2012			2012		
			Aug. 1	By Purchase A/c	5,00

Illustration 2

Enter the following transactions in the Purchases Book and post the same in the relevant ledger accounts.

2013			£
Aug	15	Sold goods to Paul	2,000
Aug	18	Sold goods to Bert	1,500

Aug	22	Sold goods to Sam	1,000

Solution:

Sales Books

Date	Particulars	L.F.	Inward Invoice Number	Amount £
2013				
Aug. 15	Paul		2,000	
Aug. 18	Bert		1500	
Aug. 22	Sam		1,000	
			4,500	

Ledger

Sales A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2013			2002		
			Aug, 31	By Sundries	4,500

Paul's A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2013			2002		
		2,000			
Aug, 15	To Sales A/c				

Bert's A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2013			2002		
Aug, 18	To Sales A/c	1,500			

Illustration 3

Enter the following transactions in the Purchases Book and post the same in the relevant ledger accounts.

2013			£
Aug	1	Bought goods from Greg	2,500
Aug	2	Sold goods to Karen	1,500
Aug	5	Richard sold goods to us	1,500
Aug	8	Paul purchased goods from us	1,200
Aug	11	Received goods returned by Karen	150
Aug	13	Returned goods to Greg	100
Aug	17	Sold goods to Sam	800
Aug	22	Purchased goods from Denver	900
Aug	27	Returned goods to Richard	150

Solution:

Purchases Books

Date	Particulars	L.F.	Inward Invoice Number	Amount £
2013				
Aug. 1	Greg			2,500
Aug. 5	Richard			1500
Aug. 22	Denver			900
				4,900

Sales Books

Date	Particulars	L.F.	Outward Invoice Number	Amount £
2013				
Aug. 2	Karen			1,500
Aug. 8	Paul			1,200
Aug. 17	Sam			800
				3,500

Purchases Returns Books

Date	Particulars	L.F.	Debit Note	Amount £
2013				
Aug. 13	Greg			100
Aug. 27	Richard			150
				250

Sales Returns Books

Date	Name of Customer	L.F.	Credit Note	£
2013				
Aug. 11	Karen			150
				150

Ledger

Purchases A/c

Dr. Cr.

Date	Particulars	£	Date	Particulars	£
2013			2003		
Aug, 31	To Sundries A/c	4,900			

Sales A/c

Dr. Cr.

Date	Particulars	£	Date	Particulars	£
2013			Aug, 31	By Sundries	3,500

Purchases Returns A/c

Dr. Cr.

Date	Particulars	£	Date	Particulars	£
2013			Aug, 31	By Sundries	250

Sales Returns A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2013	To Sundries	150			

Karen's A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2013			2013		
Aug.2	To Sales A/c	1,500	Aug. 11	By Sales Returns A/c	150
				By Balance c/d	1350
		1,500			1,500
Sep. 1	To Balance b/d	1,350			

Paul's A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2013			2013		
Aug.8	To Sales A/c	1,200	Aug. 31	By Balance c/d	1,200
		1,200			1,200
Sep. 1	To Balance b/d	1,200			

Sam's A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2013			2013		
Aug.17	To Sales A/c	800	Aug. 31	By Balance c/d	800
		800			800
Sep.1	To Balance b/d	800			

Greg's A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2013			2013		
Aug.13	To Purchases Return A/c	100	Aug. 1	By Purchase A/c	2,500
Aug.31	To Balance c/d	2,400			
		2,500			2,500
			Sep. 1	By Balance b/d	2,400

Richard's A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2013			2013		
Aug.2	To Purchases Return A/c	1,500	Aug. 1	By Purchase A/c	1,500
Aug.31	To Balance c/d	1,350			
		1,500			1,500
		1,350	Sep. 1	To Balance b/d	1,350

Denver's A/c

Dr.					Cr.
Date	Particulars	£	Date	Particulars	£
2013			2013		
Aug.31	To Balance c/d	900	Aug. 22	By Purchase A/c	900
		900			900
		1,350	Sep. 1	To Balance b/d	900

Illustration 4

Enter the following transactions in a Single Column Cash Book, and post the same in the relevant ledger accounts.

2012			£
July	1	Cash on hand	2,000
July	2	Goods purchased for cash	700
July	3	Paid Carriage Inwards	70
July	4	Cash Sales	600
July	5	Paid Salaries	1,100
July	6	Cash received from Sam	1,100
July	10	Sale of old machinery	800
July	12	Cash Sales	700
July	14	Goods purchased from Jill & Co. on credit	600
July	16	Goods sold to Brad on credit	500
July	18	Stationery purchased	400
July	19	Lent to Vaughn	120
July	20	Received from Dennis	150

July	22	Withdrawn from business for private use	140
July	23	Cash Sales	150
July	24	Paid fro repairs	60
July	25	Paid Rent	150
July	31	Vaughn repaid his loan	120

Solution

Single Column Cash Book

Dr. Date 2012	Particulars	R.No	L.F.	£	Date 2012	Particulars	V.No	L.F.	Cr. £
July 1	To Balance b/d			2,000	July 2	By Purchases A/c (Cash sales effected)			700
July 4	To Sales A/c (Cash sales effected)			600	July				
July 6	To Sam's A/c (Received from Sam)			1,100	July 3	By Carriage Inwards A/c (Carriage Inwards paid)			70
July 10	To Machinery A/c (Sales of old machinery)			800	July 5	By Salaries A/c (Salaries paid)			1,100
July 12	To Sales A/c (Cash sales affected)			700	July 18	By Stationery A/c (Stationery bought)			400
July 20	To Dennis's A/c (Received from Dennis)			150	July 19	By Vaughn's A/c (Lent to Vaughn)			120
July	To Sales A/c			150	July 22	By Drawings			140

23	(Cash sales affected)					A/c (Withdrawn from business for private use)			
July 31	To Vaughn's A/c (Vaughn repaid his loan)			120					

					July 24	By Repairs A/c (Paid for repairs)			60
					July 25	By Rent A/c (Rent Paid)			150
					July 31	By Balance c/d			2,880
				5,602					5,620
Aug 1	To Balance b/d			2,880					

Note: The transactions effected on July 14 & 16 represent credit transactions and hence are not entered in the Cash Book.

Ledger
Sales A/c

Dr. Date 2012	Particulars	£	Date 2012	Particulars	Cr. £
July 31	To Balance c/d	1,450	July 4	By Cash A/c	600
			July 12	By Cash A/c	700
			July 23	By Cash A/c	150
		1,450			1,450
			Aug. 1	By Balance b/d	1,450

Purchases A/c

Dr. Date 2012	Particulars	£	Date 2012	Particulars	Cr. £
July 2	To Cash A/c	700	July 31	By Balance c/d	700
		700			700
Aug 1	To Balance b/d	700			

Carriage A/c

Dr. Date 2012	Particulars	£	Date 2012	Particulars	Cr. £
July 3	To Cash A/c	70	July 31	By Balance c/d	70
		70			70
Aug 1	To Balance b/d	70			

Salaries A/c

Dr. Date 2012	Particulars	£	Date 2012	Particulars	Cr. £
July 5	To Cash A/c	1,100	July 31	By Balance c/d	1,100
		1,100			1,100
Aug 1	To Balance b/d	1,100			

Stationery A/c

Dr. Date 2012	Particulars	£	Date 2012	Particulars	Cr. £
July 18	To Cash A/c	400	July 31	By Balance c/d	400
		400			400
Aug 1	To Balance b/d	400			

Repairs A/c

Dr. Date 2012	Particulars	£	Date 2012	Particulars	Cr. £
July 24	To Cash A/c	60	July 31	By Balance c/d	60
		60			60
Aug 1	To Balance b/d	60			

Rent A/c

Dr. Date 2012	Particulars	£	Date 2012	Particulars	Cr. £
July 25	To Cash A/c	150	July 31	By Balance c/d	150
		150			150
Aug 1	To Balance b/d	150			

Drawings A/c

Dr. Date 2012	Particulars	£	Date 2012	Particulars	Cr. £
July 22	To Cash A/c	140	July 31	By Balance c/d	140
		140			140
Aug 1	To Balance b/d	140			

Drawings A/c

Dr. Date 2012	Particulars	£	Date 2012	Particulars	Cr. £
July 31	To balance c/d	800	July 10	By Cash A/c	800
		140			800
			Aug 1	To Balance b/d	800

Suggested Further Readings

- ✓ V. Rajasekaran, R. Lalitha, (2011), Financial Accounting
- ✓ S. John Gabriel, A Marcus, (2010), Financial Accounting
- ✓ N Ramachandran, Ram Kumar Kakani, (2005), Financial Accounting for Management.