

RECORDING OF TRANSACTIONS

CASH BOOK AND THE SUBSIDIARY BOOKS

ADVANTAGES OF MAINTAINING SUBSIDIARY BOOKS :

- | | | |
|---|---|--|
| <input type="checkbox"/> Division of work | <input type="checkbox"/> Leads to Specialization | <input type="checkbox"/> Easy to maintain Ledger |
| <input type="checkbox"/> Check on frauds | <input type="checkbox"/> Easy to fix responsibility | <input type="checkbox"/> Quick availability of required information. |

CASH BOOK :

Cash book shows all the transactions related to cash receipts and payments. Cash Book serves two purposes. First, all the cash transactions are recorded first time in cash book it becomes BOOK OF ORIGINAL ENTRY. Second, there is no need to prepare Cash a/c in ledger it also play the role of Principal Book.

SIMPLE CASH BOOK :

All the cash receipts are shown in left hand side i.e. Debit side and all the cash payments are shown in right hand side i.e. Credit side.

Points to Remember :

Cash in hand/opening balance of cash is shown in Dr. side of the Cash book as “to Bal b/d”. Only transactions of cash receipts and payments are recorded in this book. This book never show a credit balance because one can't pay more than the cash one have.

1. In a Simple Cash Book only cash receipts and cash payments are recorded. Credit transactions are not recorded.
2. The debit side is always bigger than the credit side since the payments can never exceed the available cash. This is true even for daily balances.
3. It is like an ordinary account.

CASH BOOK WITH BANK COLUMN :

A two column cash book enables the management to know the cash and bank balance instantly. In this book, amount column is divided into Cash and Bank columns.

Points to Remember :

Bank column can show a credit balance as banks give overdraft facility to its reputed customers. If there is an overdraft or credit bank balance “By Bal b/d” will be shown in bank column in credit side. If bank balance increases, the bank column is debited and if decreases bank column is credited.

Some Special entries -

Contra entries :

If both cash and bank columns are affected by any transaction, it is called a contra entry. To indicate contra entry “C” is mentioned in the L.F. column.

Treatment of cheques received from customers under different situations

1. If there is no information about the disposal of received cheque. When there is no information given in question, it is considered that the cheque has been deposited into bank the same day it is received.
2. When received cheque is deposited into bank later. When cheque is not deposited into Bank same day, it is considered as Cash. When the received cheque is deposited at later date, it will be considered as cash being deposited into bank hence contra entry has been passed.
3. If cheque is endorsed in favour of creditor of business. Then the cheque is being treated as Cash hence it is considered that Cash given to Ram.
4. When cheque is dishonoured due to any reason. The effect of dishonour : The customer/debtor who has given cheque is again considered as Debtor and bank balance decreases hence bank balance is credited.

PETTY CASH BOOK :

Business has to incur small expenses which are repetitive in nature. To save the time and efforts of head cashier, business appoints a petty cashier. He is entrusted with the duty of paying these expenses.

IMPREST SYSTEM OF PETTY CASH BOOK :

Under this system, Head cashier gives a fixed amount to petty cashier for a definite period. At the end of given period, Head cashier reimburses the amount actually spent by the petty cashier resulting the same amount with petty cashier which he had in the beginning of the period. This can be illustrated as under.

Advantages of Petty Cash book :

- ☐ Saves time & efforts of Head cashier
- ☐ Control on Petty expenses.
- ☐ Less chances of fraud.

The petty cashier can prepare different columns in “Analysis of Payments” as per his requirement depending upon the number of transactions.

SPECIAL PURPOSE SUBSIDIARY BOOKS -

PURCHASES BOOK :

In this book, only those transactions are recorded which are related to credit purchases of goods in which the business deals in. Recording is made on the basis of Bills/Invoice issued by the Suppliers.

Transactions not in purchases Book

Purchases of goods for cash. Purchases of Assets meant for long term, not for resale purpose.

SALES BOOK/SALES JOURNAL :

In this book, transactions of credit sales of goods are recorded. The source document for this book is duplicate copy of invoice/bills issued to the customers.

Transactions not recorded in Sales Book

- ☐ Sales of goods for cash,
- ☐ Sales of Assets.

PURCHASES RETURNS/ RETURNS OUTWARD BOOK :

This book includes only those transactions which are related to returns of goods bought on credit. The goods may be returned due to various reasons such as goods bought being defective, supply of inferior quality goods etc.

Entries in this book are made on the basis of Debit Note. A debit note contains the name of the supplier to whom goods are being returned, details of goods returned.

NOTE : Trade discount will be deducted if it was allowed at the time of purchase of goods.

SALES RETURNS BOOK :

This book includes all the returns by customers of credit sales of goods. The Credit note is used for recording entries in this book. The credit note contains the details of Customers and goods returned.

BILLS RECEIVABLE BOOK :

This book is prepared when bills receivable is a routine matter of business. A bill receivable is drawn by the seller of goods to the buyer and is returned by the buyer after accepting it. This book keeps the records of all the bill receivable and how it is being disposed by the firm.

BILLS PAYABLE BOOK : This book keeps the records of all the bill payable that are accepted by the firm.

JOURNAL PROPER :

All those transactions, which can not be recorded in any of the subsidiary books mentioned above, are recorded in the journal proper or General journal. The following types of transactions are recorded in this :-

- | | | |
|---|---|---|
| <input type="checkbox"/> Opening entries | <input type="checkbox"/> Closing entries | <input type="checkbox"/> Transfer entries |
| <input type="checkbox"/> Adjustment entries | <input type="checkbox"/> Rectifying entries | <input type="checkbox"/> Other entries |



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