

Module 4

SUB-DIVISION OF JOURNALS & NEGOTIABLE INSTRUMENTS

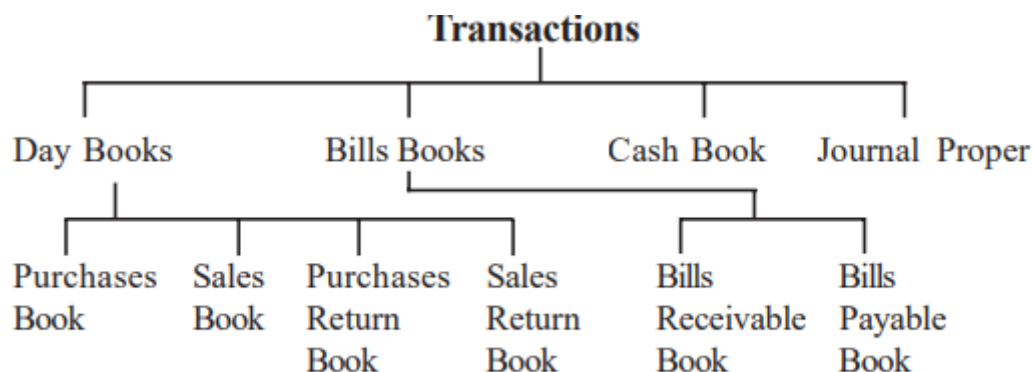
Sub-division of journals: Cash Journal, Petty Cash Book, Purchase Journal, Sales Journal, Sales Return Journal.

Negotiable Instruments: Promissory Note, Specimen of Promissory note, Bill of Exchange, Cheque, Some Important Terms, Accounting Entries, Billes sent for collection, Accommodation Bills, Bills receivable and payable books.

Sub-division of journals – Meaning

1. Sub-Division of Journal refers to the process of dividing the journal into different books to manage the large volume of transactions. The Sub-Division of the Journal helps to organize and simplify the recording process, making it easier to manage and retrieve information.
2. Sub – division of Journal is also called as Subsidiary Books.
3. Subsidiary books are sub-divisions of journal in each of which transactions of similar nature are recorded. These are the books of prime entry. Instead of recording in one journal, the transactions are recorded in a number of prescribed books.

Types of Sub-division of Journal.



Purpose

- Purchases Book** records only credit purchases of goods by the trader.
- Sales Book** is meant for entering only credit sales of goods by the trader.
- Purchases Return Book** records the goods returned by the trader to suppliers.
- Sales Return Book** deals with goods returned (out of previous sales) by the customers.
- Bills Receivable Book** records the receipts of bills (Bills Receivable).
- Bills Payable Book** records the issue of bills (Bills Payable).
- Cash Book** is used for recording only cash transactions i.e., receipts and payments of cash.
- Journal Proper** is the journal which records the entries which cannot be entered in any of the above listed subsidiary books.

Petty Cash book - A petty cash book is not similar to your computer accounting record. Instead, it is a ledger book used to note down all petty expenses. Whenever there is any payment made for smaller office or business expenses, that expense is recorded along with the amount and date in a petty cash book.

I. Purchase Book.

Purchases Book also known as **Bought Day Book** is used to record all credit purchases of goods which are meant for resale in the business. **Cash purchases of goods, cash and credit purchases of assets are not entered in this book.** Before discussing the Purchase Day Book, in detail we are to explain the most significant terms, Trade Discount and Cash Discount.

Trade discount - is an allowance or concession granted by the seller to the buyer, if the customer purchases goods above a certain quantity or above a certain amount. The amount of the purchase made, is always arrived at after deducting the trade discount, i.e., only the net amount is considered.

For example, if the list price (price prescribed by the manufacturers or wholesalers) of a commodity is Rs.100, and trade discount granted by manufacturer to the wholesaler is 20% then cost price of the commodity to the wholesaler is Rs.80. Trade discount is not recorded in the books. They are used for determining the net price.

Cash Discount Sale of goods on credit is a common phenomenon in any business. When goods are sold on credit the customers enjoy a facility of making payment on some date in the future. In order to encourage them to make the payment before the expiry of the credit period a deduction is offered. The deduction so made is known as cash discount.

For example, If Ram purchases goods worth Rs.5,000 on 30 days credit then, as per the terms of contract, he is authorised to make payment 30 days after the date of purchase. If he is offered a cash discount of 2% on payment within 10 days and if he does so, he is entitled to deduct Rs.100 from the invoice price and pay Rs.4,900. In this case Rs.100 is cash discount. But if he does not choose to make payment within 10 days then he will not get any cash discount. In this case he will pay Rs.5,000 after 30 days.

Format of Purchases Book.

Purchases Book						
Date	Particulars	Inward Invoice No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

- i. **Date Column** – Represents the date on which the transaction took place.
- ii. **Particulars Column** – This column includes the name of the seller and the particulars of goods purchased.
- iii. **Inward Invoice No. Column** – Reveals the serial number of the inward invoice.
- iv. **LF. Column** – This column shows the page number of the suppliers account in the ledger accounts.
- v. **Details Column** – Reveals the amount of goods purchased and the amount of trade discount.
- vi. **Total Column** – This column represents the net price of the goods, i.e., the amount which is payable to the creditors after adjusting discount and expenses if any.
- vii. **Remarks Column** – Contains any extra information.

Posting and Balancing

Once transactions are properly recorded in purchases journal, they are posted into the ledger. The procedure for posting is stated as under.

Step 1 - an Entries will be posted to the credit side of the respective creditors (supplier) account in the ledger by writing “By Purchases A/c” in the particular’s column.

Step 2 – a Periodic total is posted to the debit of purchases account by writing “To sundries as per purchases book” in the particular’s column.

Problems Based on Purchase Book.

1. From the following transactions of Ram for July, 2003 prepare the Purchases Book and ledger accounts connected with this book.

2003 July 5 Purchased on credit from Kannan & Co.

50 Iron boxes @ Rs. 500

10 Grinders @ Rs. 3,000

July 6 Purchased for cash from Siva & Bros.

25 Fans @ Rs. 1,250

July 10 Purchased from Balan & Sons on credit

20 Grinders @ Rs. 2,500

10 Mixie @ Rs. 3,000

July 20 Purchased, on credit, one Computer from Kumar for Rs. 35,000.

Solution :**In the books of Ram
Purchases Book**

Date	Particulars	Inward Invoice No.	L.F.	Amount	
				Details Rs.	Total Rs.
2003 July 5	Kannan & Co. 50 Iron boxes @ Rs. 500 10 Grinders @ Rs. 3,000 Goods purchased vide their bill No..... Dated.....			25,000 30,000	55,000
10	Balan & Co. 20 Grinders @ Rs.2,500 10 Mixie @ Rs. 3,000 Goods purchased vide their bill No..... Dated.....			50,000 30,000	80,000
	Total				1,35,000

Ledger Accounts Purchases Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 July 31	To Sundries as per Purchases Book		1,35,000				

Kannan & Co. Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 July 5	By Purchases A/c		55,000

Balan & Co. Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 July 10	By Purchases A/c		80,000

Note : July 6th transaction is a cash transaction and July 20th transaction is purchase of an asset, so both will not be recorded in the purchases book.

2. Record the following transactions in the purchases book of Shanthi Furniture Mart: 2017

March 1 - Purchased from Mohan Furniture Mart, Madurai
 20 chairs @ Rs. 450 each
 2 tables @ Rs. 1,000 each
 Less: Trade discount @ 10%

March 7 – Bought from Ramesh & Co., Royapettah
 2 stools @ Rs. 500 each
 10 rolling chairs @ Rs. 200 each
 Delivery charges and cartage Rs. 150

March 21 – Purchased from Kamal & Co., Karaikkal
 10 chairs @ Rs. 750 each
 15 steel cabinets @ Rs. 1,500 each
 Packing and delivery charges Rs. 250
 Less: Trade discount @ 10%

March 25 – Purchased from Jemini & Sons, Chennai
 2 typewriters @ Rs. 7,750 for office use.

In the books of Shanthi Furniture Mart
Purchases book / Purchases journal

Date	Particulars	Invoice No.	L.F.	Amount ₹	
				Details	Total
2017	Mohan Furniture Mart, Madurai				
March 1	20 chairs @ ₹450 each			9,000	
	2 tables @ ₹ 1,000 each			2,000	
				11,000	
	Less: Trade discount @ 10%			1,100	9,900
March 7	Ramesh & Co., Royapettah				
	2 stools @ ₹ 500 each			1,000	
	10 rolling chairs @ ₹ 200 each			2,000	
				3,000	
	Add: Delivery charges and cartage			150	3,150
March 21	Kamal & Co., Karaikal				
	10 chairs @ ₹ 750 each			7,500	
	15 steel cabinets @ ₹ 1,500 each			22,500	
				30,000	
	Less: Trade discount @ 10%			3,000	
				27,000	
	Add: Packing and delivery charges			250	27,250
	Purchases A/c Dr.				40,300

Tutorial notes

- Trade discount is allowed on the purchase price of goods excluding delivery charges and cartage.
- Delivery charges and cartage are direct expenses, chargeable from purchaser, so they are added to the amount payable.

3. Record the following transactions in the purchases book of Raja Furniture: 2017

May 4 - Purchased from Kasi Furniture's, Kanyakumari 10 chairs @ Rs. 300 each 4 tables @ Rs. 800 each

May 6 - Purchased for cash from Welcome Furniture, Vellore 2 almirahs @ Rs. 2,000 each 4 chairs @ Rs. 200 each
Less: Trade discount 5%

May 10 - Bought furniture from Murugan Furniture Mart, Nagapattinam 10 chairs @ Rs. 250 each
5 tables @ Rs. 750 each
Delivery and packing charges Rs. 150

May 20 - Purchased 2 computers for office use from Anandan & Co., Adyar on credit for Rs.15,550 each

May 25 - Purchased from Gowtham & Co., Chennai
10 chairs @ Rs. 550 each
15 steel cabinets @ Rs. 2,000 each
Delivery charges Rs. 200
Less: Trade discount 10%

In the books of Raja Furniture
Purchases Book / Purchases Journal

Date	Particulars	Invoice No.	L.F.	Amount ₹	
				Details	Total
2017					
May 4	Kasi Furnitures, Kanyakumari				
	10 chairs @ ₹ 300 each			3,000	
	4 tables @ ₹ 800 each			3,200	6,200
May 10	Murugan Furniture Mart, Nagapattinam				
	10 chairs @ ₹ 250 each			2,500	
	5 tables @ ₹ 750 each			3,750	
				6,250	
	Add: Delivery and packing charges			150	6,400
May 25	Gowtham & Co., Chennai				
	10 chairs @ ₹ 550 each			5,500	
	15 steel cabinets @ ₹ 2,000 each			30,000	
				35,500	
	Less: Trade discount @ 10%			3,550	
				31,950	
	Add: Delivery charges			200	32,150
	Purchases A/c Dr.				44,750

Note:

- Purchases on 6th May, 2017 will not be recorded in the purchases book, because it is cash purchases.
- Purchases of computers on 20th May, 2017 will not be recorded in the purchases book, because computer is an asset for the firm dealing in furniture and it is for office use.

4. From the following transactions of Ram Home Appliances for July, 2017 prepare purchases book and ledger accounts connected with this book:

2017

July 5 - Purchased on credit from Kannan & Co.

50 iron boxes @ Rs. 500 each

10 grinders @ Rs. 3,000 each

July 6 - Purchased for cash from Siva & Bros.

25 fans @ Rs. 1,250 each

July 10 - Purchased from Balan & Co. on credit

20 grinders @ Rs. 2,500 each

10 mixes @ Rs. 3,000 each

Trade discount 10%

Delivery charges Rs. 1,000

July 20 - Purchased on credit, one copier machine from Kumar for Rs. 35,000

In the books of Ram Home Appliances

Purchases book

Date	Particulars	Invoice No.	L.F.	Amount ₹	
				Details	Total
2017					
July 5	Kannan & Co.				
	50 iron boxes @ ₹ 500			25,000	
	10 grinders @ ₹ 3,000			30,000	55,000
July 10	Balan & Co.				
	20 grinders @ ₹ 2,500			50,000	
	10 Mixies @ ₹ 3,000			30,000	
				80,000	
	Less: Trade discount 10%			8,000	
				72,000	
	Add: Delivery charges			1,000	73,000
	Purchases A/c Dr.				1,28,000

Ledger Accounts

Dr. Purchases A/c				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017							
July 31	To Sundry creditors		1,28,000				

Dr. Kannan & Co. Account				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017			
				July 5	By Purchases A/c		55,000

Dr. Balan & Co. Account				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017			
				July 10	By Purchases A/c		73,000

Note: 6th July, transaction is a cash transaction and 20th July, transaction is purchase of an asset. Hence, both will not be recorded in the purchases book.

5. Prepare Purchase Book.

The Rough Book of M/s. Narain & Co. contains the following :
2020

- Feb.**
1. Purchased from Brown & Co. on credit :
 5 gross pencils @ ₹100 per gross,
 1 gross register @ ₹ 240 per doz.
 Less : Trade Discount @ 10%
 2. Purchased for cash from the Stationery Mart;
 10 gross exercise books @ ₹ 300 per doz.
 3. Purchased computer for office use from M/s. office Goods Co. on credit for ₹ 30,000.
 4. Purchased on credit from The Paper Co.
 5 reams of white paper @ ₹100 per ream.
 10 reams of ruled paper @ ₹150 per ream.
 Less : Trade Discount @ 10%
 5. Purchased one dozen gel pens @ ₹15 each from M/s. Verma Bros. on credit.

Make out the Purchase Book of M/s. Narain & Co.

Purchases Book

Date	Particulars		L.F.	Amount
2020		₹		₹
Feb. 1	M/s. Brown & Co.			
	5 gross pencils @ ₹ 100 per gross	500.00		
	1 gross register @ ₹ 240 per doz.	<u>2880.00</u>		
		3380.00		
	Less : 10% trade discount	<u>(338)</u>		3,042
"4	The Paper Co.			
	5 reams white paper @ ₹ 100 per ream	500.00		
	10 reams ruled paper @ ₹ 150 per ream	<u>1500.00</u>		
		2,000.00		
	Less : 10% trade discount	<u>(200.00)</u>		1,800
5	M/s. Verma Bros.			
	1 doz. gel pens @ ₹ 15 each	180		<u>180</u>
		Total		5022

Note : Purchases of cash and purchase of computer cannot be entered in the Purchase Book.

6. Enter the following transactions in the Purchase Journal (Book) of M/s Gupta Traders of July 2017:

July 01 Bought from Rahul Traders as per invoice no.20041

- 40 Registers @ ₹ 60 each
- 80 Gel Pens @ ₹ 15 each
- 50 note books @ ₹ 20 each
- Trade discount 10%.

July 15 Bought from Global Stationers as per invoice no.1132

- 40 Ink Pads @ ₹ 8 each
- 50 Files @ ₹ 10 each
- 20 Color Books @ ₹ 20 each
- Trade Discount 5%

July 23 Purchased from Lamba Furniture as per invoice no.3201

2 Chairs @ ₹ 600 per chair

1 Table

July 25 Bought from Mumbai Traders as per invoice no.1111

10 Paper Rim @ ₹ 100 per rim

400 drawing Sheets @ ₹ 3 each

20 Packets water colour @ ₹ 40 per packet

Books of M/s Gupta Traders

Purchases Book

Date	Invoice No.	Name of the Supplier (Account to be credited)	L.F.	Details ₹	Amount ₹
2017 01 Jul	20041	Rahul Traders 40 Registers @ ₹ 60 each 80 Gel Pens @ ₹ 15 each 50 Note Books @ ₹ 20 each		2,400 1,200 1,000 4,600	
		<i>Less:</i> Trade Discount 10%		(460)	4,140
15 Jul	1132	Global Stationers 40 Ink Pads @ ₹ 8 each 50 Files @ ₹ 10 each 20 Colour Books @ ₹ 20 each		320 500 400 1,220	
		<i>Less:</i> Trade discount 5%		(61)	1,159
25 Jul	1111	Mumbai Traders 10 Paper rims @ ₹ 100 each 400 Drawing Sheets @ ₹ 3 each 20 Packets Water Colour @ ₹ 40 per pack		1,000 1,200 800	3,000
		Purchases Account			8,299

II. Sales Book

The sales book is used to record all credit sales of goods dealt with by the trader in his business. Cash sales, cash and credit sales of assets are not entered in this book. The entries in the sales book are on the basis of the invoices issued to the customers with the net amount of sale. The format of sales book is shown below: -

Format of Sales Book

Sales Book						
Date	Particulars	Outward Invoice No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

- i. **Date Column** – Represents the date on which the transaction took place.
- ii. **Particulars Column** – This column includes the name of purchasers and the particulars of goods sold.
- iii. **Outward Invoice No. Column** – Reveals the serial number of the outward invoice.
- iv. **L.F. Column** – The page number of the customers' accounts in the Ledger is recorded.
- v. **Details Column** – Contains the amount of goods sold and the amount of trade discount if any
- vi. **Total Column** – This column shows the net amount which is receivable from the customers.
- vii. **Remarks Column** – Any other extra information will be recorded.

Posting and Balancing

At the end of the month the individual entries and the total of the sales book column are posted into the ledgers as under.

Step 1- an Individual amounts are daily posted to the debit of Customers' Accounts by writing "To Sales A/c" in the particular's column.

Step 2 – a Grand total of the sales book is posted to the credit of sales account by writing "By Sundries as per Sales Book" in the particular's column.

Problems based on Sales book.

1. From the transactions given below prepare the Sales Book of Ram for July 2003.

2003 July 5 - Sold on credit to S.S. Traders

10 Chairs @ Rs. 250

10 Tables @ Rs. 850

Less 10% Discount

July 8 - Sold to Raja for cash

15 Chairs @ Rs. 250

July 20 - Sold to Mohan & Co.

5 Almirah @ Rs. 2,200

10 Tables @ Rs. 850

July 23 - Sold on credit to Narayanan old computer for Rs. 5,000

July 28 - Sold to Kumaran for cash

15 Chairs @ Rs. 250

Solution :**In the books of Ram
Sales Book**

Date	Particulars	Outward Invoice No.	L.F.	Amount	
				Details Rs.	Total Rs.
2003 July 5	S.S. Traders & Co. 10 Chairs @ Rs. 250 10 Tables @ Rs. 850 Less : 10% Discount Sold to S.S. Traders, Invoice No..... dated			2,500	9,900
				8,500	
				11,000	
				1,100	
20	Mohan & Co. 5 Almirah @ Rs. 2,200 10 Tables @ Rs. 850 Sales as per Invoice No..... dated			11,000	19,500
				8,500	
Total					29,400

Ledger Accounts

Dr. Sales Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 July 31	By Sundries as per sales book		29,400

Dr. S.S. Trader's Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 July 5	To Sales A/c		9,900				

Dr. Mohan & Co.'s Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 July 20	To Sales A/c		19,500				

2. From the transactions given below, prepare the sales book of Kumar Stationery for July 2017.

July 5 - Sold on credit to Saravana Traders of Sayalkudi
 10 packs of A4 sheets @ Rs. 250 per pack
 10 dozen of writing pads @ Rs. 850 per dozen
 Less: 10% trade discount for both

July 8 - Sold to Raja for cash
 15 packs of A4 sheets @ Rs. 250 per pack

July 20 - Sold to Mohan & Co. of Mudukulathur
 5 white boards @ Rs. 2,200 each
 10 dozen of writing pads @ Rs. 850 per dozen

July 23 - Sold on credit to Narayanan old motor car for Rs. 5,000

July 28 - Sold to Kumaran for cash 15 packets of marker pens @ Rs. 250 per packet

In the books of Kumar Stationery

Sales book

Date	Particulars	Invoice No.	L.F.	Amount	
				Details ₹	Total ₹
2017	Saravana Traders, Sayalkudi				
July 5	10 packs of A4 Sheets @ ₹ 250 per pack			2,500	
	10 dozens writing pads @ ₹ 850 per dozen			8,500	
				11,000	
	Less: 10% Trade discount			1,100	9,900
July 20	Mohan & Co., Mudukulathur				
	5 white boards @ ₹ 2,200 each			11,000	
	10 dozens writing pads @ ₹ 850 per dozen			8,500	19,500
	Sales A/c Cr.				29,400

Note:

- Sales on 8th July and 28th July will not be recorded in the sales because they are cash sales.
- Sale of old motor car on 23rd July will not be recorded in the sales book, because motor car is an asset for the firm dealing in stationery.

Ledger Accounts

Dr. Sales A/c Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017	By Sundry		
				July 31	debtors A/c		29,400

Dr. Saravana traders A/c Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017							
July 5	To Sales A/c		9,900				

Dr. Mohan & Co. A/c Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017							
July 20	To Sales A/c		19,500				

3. Prepare Sales book.

The following are some of the transaction of M/s Kishore & Sons of the year 2020 as per their Waste Book. Make out their Sales Book.

Sold to M/s. Gupta & Verma on credit:

30 shirts @ ₹ 800 per shirt.

20 trousers @ ₹1,000 per trouser.

Less : Trade Discount @ 10%

Sold furniture to M/s. Sehgal & Co. on credit ₹8,000.

Sold 50 shirts of M/s. Jain & Sons @ ₹800 per shirt.

Sold 13 shirts to Cheap Stores @ ₹750 each for cash.

Sold on credit to M/s. Mathur & Jain.

100 shirts @ ₹750 per shirt

10 overcoats @ ₹5,000 per overcoat.

Less: Trade Discount @ 10%

Sales Book

Date	Particulars	Details ₹	L.F.	Amount ₹
2020	M/s. Gupta & Verma			
	30 shirts @ ₹800	24,000		
	20 Trousers @ ₹1,000	20,000		
		44,000		
	Less : 10%	(4,400)		
	Sales as per invoice no. dated			39,600
	M/s. Jain & Sons 50 shirts @ ₹800			
	Sale as per invoice no. dated			40,000
	M/s Mathur & Jain			
	100 shirts @ ₹750	75,000		
	10 overcoats @ ₹5,000	50,000		
		1,25,000		
	Less : 10%	(12,500)		
	Sales as per invoice no. dated.....			1,12,500
		Total		1,92,100

Note : Cash sale and sale of furniture are not entered in Sales Book.

4. Enter the following transactions in sales (journal) book of M/s.Bansal electronics:
2014 September

- 01 - Sold to Amit Traders as per bill no.4321
20 Pocket Radio @ 70 per Radio
2, T.V. set, B&W.(6") @ 800 Per T.V.
10 - Sold to Arun Electronics as per bill no.4351
5 T.V. sets (20") B&W @ ₹ 3,000 per T.V.
2 T.V. sets (21") Colour @ ₹ 4,800 per T.V.
22 - Sold to Handa Electronics as per bill no.4,399
10 Tape recorders @ ₹ 600 each
5 Walkman @ ₹ 300 each
28 - Sold to Harish Trader as per bill no.4430
10 Mixer Juicer Grinder @ ₹ 800 each.

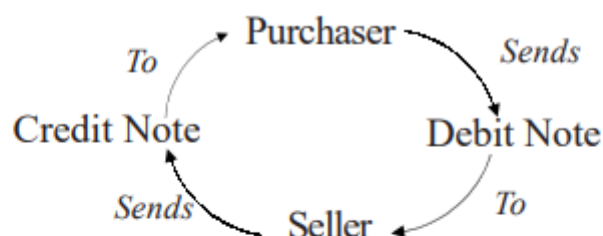
Books of M/s Bansal Electronics

Sales Book

Date	Bill No.	Name of the Customer (Account to be debited)	L.F.	Details ₹	Amount ₹
2014 Sep 01	4321	Amit Traders 20 Pocket Radio @ ₹ 70 Per Radio 2 T.V Set, B&W (6") @ ₹ 800 Per T.V.		1,400 1,600	3,000
Sep 10	4351	Arun Electronics 5 T.V. sets (20") B&W @ ₹ 3,000 per T.V. 2 T.V. sets (21") Colour @ ₹ 4,800 per T.V		15,000 9,600	24,600
Sep 22	4399	Handa Electronics 10 Tape Recorders @ ₹ 600 each 5 Walkman @ ₹ 300 each		6,000 1,500	7,500
Sep 28	4430	Harish Traders 10 Mixer Juicer Grider @ ₹ 800 each		8,000	8,000
		Sales Account			43,100

III. Purchases Return Book.

Purchases returns book is a subsidiary book in which transactions relating to return of previously purchased goods to the suppliers, for which cash is not immediately received are recorded. Since goods are going out to the suppliers, they are also known as returns outward and the book is called as 'returns outward book or returns outward journal'.



6.4.2.1 Format

Purchases Return Book

Date	Particulars	Debit Note No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

Note : The reason for goods returned is recorded in Remarks column.

Posting and Balancing

The individual entries and the periodic total of the Purchase Return Book are posted into the Ledger as under:

Step 1 - an Individual amounts are daily posted to the debit of supplier accounts by writing "To Purchases Return A/c" in the particular's column.

Step 2 – a Periodic total is posted to the credit of purchases return account by writing "By Sundries as per Purchases Return Book" in the particular's column.

Debit note – the source document for returns outward

A 'debit note' is a document, bill or statement sent to the person to whom goods are returned. This statement informs that the supplier's account is debited to the extent of the value of goods returned. It contains the description and details of goods returned, name of the party to whom goods are returned and net value of the goods so returned with reason for return.

Problems on Purchase Return Book or Return Inward.

- Enter the following transactions in the purchases return book of Hari and post them into the ledger.
 2003 Jan 5 - Returned goods to Anand 5 chairs @ Rs.200 each, not in accordance with order.
 Jan14 - Returned goods to Chandran 4 chairs @ Rs.200 each and 10 tables @ Rs.350 each, due to inferior quality.

Solution :**In the books of Hari
Purchases Return Book**

Date	Particulars	Debit Note No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	
2003 Jan 5	Anand 5 Chairs @ Rs.200				1,000	Not in accordance with order
14	Chandran 4 Chairs @ Rs.200 10 Tables @ Rs.350			800 3,500	4,300	Due to inferior quality
	Total				5,300	

Ledger Accounts

Dr. Purchases Return Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 Jan 31	By Sundries as per Purchases return book		5,300

Dr. Anand Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 Jan 5	To Purchases Return A/c		1,000				

Dr. Chandran Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 Jan 14	To Purchases Return A/c.		4,300				

2. Enter the following transactions in the purchases returns book of Hari who is dealing in automobiles and post them into the ledger.

2017

Jan. 5 - Returned to Anand 5 clutch plates @ Rs. 200 each, not in accordance with order.

Jan. 14 - Returned to Chandran 4 brake shoes @ Rs. 200 each and 10 rear view mirrors @ Rs. 350 each, due to inferior quality.

In the books of Hari
Purchases returns book

Date	Particulars	Debit Note No.	L.F.	Amount		Remarks
				Details	Total	
2017 Jan 5	Anand 5 clutch plates @ ₹ 200 each				1,000	Not in accordance with order Due to inferior quality
Jan 14	Chandran 4 brake shoes @ ₹ 200 each 10 rear view mirrors @ ₹ 350 each			800		
				3,500	4,300	
	Purchases Returns A/c Cr.				5,300	

Ledger Accounts

Dr. Purchases returns A/c Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017 Jan 31	By Sundry creditors A/c		5,300

Dr. Anand Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 Jan 5	To Purchases returns A/c		1,000				

Dr. Chandran Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 Jan 14	To Purchases returns A/c		4,300				

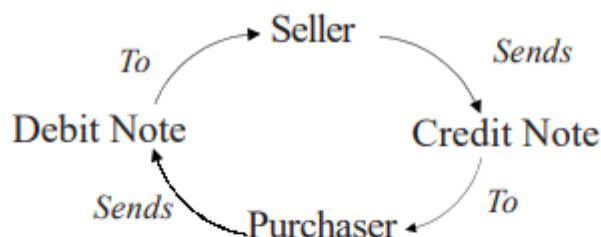
3. Prepare a purchases return (journal) book from the following transactions for Apr 2017:
- 2017
April
- 05 - Returned goods to M/s Karthik Traders 1,200
- 10 - Goods returned to Sahil Pvt. Ltd. 2,500
- 17 - Goods returned to M/s Kohinoor Traders. for list price ₹ 2,000 less 10% trade discount.
- 28 - Return outwards to M/s Handa Traders 550

Purchases Returns Book

Date	Debit Note No.	Name of the Supplier (Account to be debited)	L.F.	Details ₹	Amount ₹
2017					
Apr 05		M/s Kartik Traders			1,200
Apr 10		Sahil Pvt. Ltd.			2,500
Apr 17		M/s Kohinoor Traders			
		List Price		2,000	
		<i>Less:</i> 10% Trade discount		<u>(200)</u>	1,800
Apr 28		M/s Handa Traders			550
		Purchases Return Account			6,050

IV. Sales Return Book or Return Outward.

This book is used to record all returns of goods to the business by the customers. The entries in the sales return book are usually on the basis of credit notes issued to the customers or debit notes issued by the customers.



6.4.3.1 Format

Sales Returns Book

Date	Particulars	Credit Note No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

Note : Remarks column is meant to record the reason for return of goods.

Posting and Balancing

The individual entries and the periodic total of sales return book are posted into the ledger as under.

Step 1- an Individual amounts are daily posted to the credit of customers account by writing “By Sales return A/c” in the particular’s column.

Step 2 – a Periodic total is posted to the debit of sales return account by writing “To Sundries as per sales return book “in the particular’s column.

Credit note – Source document for returns inward

A credit note is prepared by the seller and sent to the buyer when goods are returned indicating that the buyer’s account is credited in respect of goods returned. Credit note is a statement prepared by a trader who receives back from his customer the goods sold. It contains details such as the description of goods returned by the buyer, quantity returned and also their value.

Problems based on Sales return or return outward.

1. Enter the following transactions in Returns Inward Book:
2003

April 6 - Returned by Shankar 30 shirts each costing Rs.150, due to inferior quality.

April 8 - Amar Tailors returned 10 Baba suits, each costing Rs.100, on account of being not in accordance with their order.

April 21 - T.N. Stores returned 12 Salwar sets each costing Rs.200, being not in accordance with order.

Solution:**Sales Return Book**

Date	Particulars	Credit Note No.	L.F.	Details Rs.	Amount Rs.	Remarks
2003 April 6	Shankar 30 shirts @ Rs.150			4,500		Due to inferior quality
8	Amar Tailors 10 Baba suits @ Rs. 100			1,000		Not in accordance with the order
21	T.N Stores 12 Salwar sets @ Rs.200			2,400		Not in accordance with the order
					7,900	
	Total				7,900	

Ledger Accounts Sales Return Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 April 30	To Sundries as per Sales return book		7,900				

Shankar Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 April 6	By Sales Return A/c.		4,500

Amar Tailors Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 April 8	By Sales Return A/c.		1,000

T.N. Stores Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 April 21	By Sales Return A/c.		2,400

2. Enter the following transactions in returns inward book of Magesh a textile dealer:

2017 April 6	Returned by Shankar 30 shirts each costing ₹ 150 due to inferior quality.
April 8	Amar Tailors returned 10 T-shirts, each costing ₹ 100, on account of being not in accordance with their order.
April 21	Prema Stores returned 12 Salwar sets each costing ₹ 200, being not in accordance with order.

In the books of Magesh
Sales returns book

Date	Particulars	L.F.	Credit Note No.	Amount		Remarks
				Details ₹	Total ₹	
2017 April 6	Shankar 30 Shirts @ ₹ 150			4,500		Due to inferior quality
April 8	Amar Tailors 10 T-Shirts @ ₹ 100			1,000		
April 21	Prema Stores 12 Salwar sets @ ₹200			2,400	7,900	Not in accordance with the order
	Sales Returns A/c Dr.				7,900	

Ledger Accounts

Dr. Sales returns A/c Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 April 30	To Sundry debtors A/c		7,900				

Dr. Shankar A/c Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017 April 6	By Sales returns A/c		4,500

Dr. Amar Tailors A/c Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017 April 8	By Sales returns A/c		1,000

Dr. Prema Stores A/c Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017 April 21	By Sales returns A/c		2,400

3. Prepare Return Inward Journal (Book) from the following transactions of M/s Bansal Electronics for July 2017:

2017

July

04 - M/s Gupta Traders returned the goods 1,500

10 - Goods returned from M/s Harish Traders 800

18 - M/s Rahul Traders returned the goods not as per specifications 1,200

28 - Goods returned from Sushil Traders 1,000

Sales Returns Book

Date	Credit Note No.	Name of the Customer (Account to be credited)	L.F.	Amount ₹
2017				
Jul 04		M/s Gupta Traders		1,200
Jul 10		M/s Harish Traders		800
Jul 18		M/s Rahul Traders		1,200
Jul 28		Sushil Traders		1,000
		Sales Return Account		4,500

Additional Problems to solve.

1. Enter the following transactions in the Purchase Book of M/s.Subhashree.

2003

- March 1 Purchased 100 Kg. of coffee seeds from Suresh @ Rs.40 per Kg.
- 5 Purchased 80 Kg. of tea dust from Hari @ Rs.20 per Kg.
- 12 Bought from Rekha Sugars, Trichy 1,200 Kg.of Sugar @ Rs.8 per Kg.
- 18 Bought from Perumal Sweets, Chennai, 40 tins of Sweets @ Rs.200 per tin.
20. Purchased from Govinda Biscuit Company, Chennai 20 tins of biscuits @ Rs.400 per tin.

[Answer : Purchases book total Rs.31,200]

2. From the following particulars prepare the sales book of Modern Furniture Mart

2003

- June 5 Sold on credit to Arvind & Co.
20 tables @ Rs.600 per table
20 chairs @ Rs.300 per chair
- 7 Cash sales to Anand & Co.,
10 tables @ Rs.300 per table
20 chairs @ Rs.150 per chair
- 10 Sold to Baskar & Co., on credit
10 almirahs @ Rs.3,000 per almirah
10 tables @ Rs.200 per table
- 15 Sold old typewriter for Rs.1,000 to Madan on credit
20. Sold to Gopinath on credit.
10 tables @ Rs.1,000 per table
2 revolving chairs @ Rs.1,200 per chair

[Answer : Sales book Rs.62,400]

3. Enter the following transactions in proper subsidiary books.

2003

- March 1 Purchased goods from Balaraman Rs.2000
- 2 Sold goods to Senthil Rs.1,000
- 3 Goods purchased from Durai Rs.1,000
- 5 Sold goods to Saravanan Rs.700
- 8 Sold goods to Senthil Rs.500
- 10 Purchased goods from Elangovan Rs.600
- 14 Purchased goods from Parthiban Rs.300
- 20 Sold goods to Sukumar Rs.600

[Answer : Purchase book Rs.3,900; Sales book Rs.2,800]

4. Record the following transactions in the proper subsidiary books of M/s.Ram & Co., and post them to the ledger.

2003

- April 1 Goods sold to Ramesh Rs.1,000
- 5 Sold goods to Kumar Rs.2,200
- 8 Sold goods to Shankar Rs.300
- 10 Goods returned by Kumar Rs.600
- 15 Credit Note sent to Shankar for Rs.200 being the invoice overcharged.

[Answer : Sales book Rs.3,500; Sales return book Rs.800]

5. Write the following transactions in proper subsidiary books of Mr.Rajasekaran.

2003

- May 10 Purchased goods from Raman Rs.15,000
14 Returned goods to Raman Rs.500
18 Purchased goods from Sekaran Rs.10,000
20 Pradeep sold goods to us Rs.20,000
24 Sent a debit note to Sekaran for goods damaged in transit Rs.1,000.

[Answer : Purchases book Rs.45,000;
Purchases return book Rs.1,500]

6. Enter the following transactions in the proper subsidiary books of Mr.Somu

2003

- Nov. 1 Bought from Gopal 300 bags of wheat Rs.1,000 per bag less trade discount 10%
3 Purchased from Madhavan 150 bags of rice Rs.900 per bag less trade discount 10%
5 Returned to Gopal 10 bags of wheat which were purchased on 1.11.03.
7 Sold to Shiva 50 bags of rice Rs.1,200 per bag less Trade Discount 5%.
12 Sold to Sharma 25 bags of Wheat Rs.1,300 per bag less Trade Discount 10%.
14 Returned 15 bags of rice to Madhavan.
15 Shiva returned 5 bags of rice.

- 17 Bought from Rajan 200 bags of wheat Rs.950 per bag

- 24 50 bags of wheat returned to Rajan

[Answer : Purchases book Rs.5,81,500; Sales book Rs.86,250;
Purchases return book Rs.68,650; Sales return book Rs.5,700]

7. Enter the following transactions in the appropriate Special Journal of M/s. Sita & Co.

2002

- Oct 2 Bought goods from Satish Rs.2,400 as per invoice No.63.
4 Sold to Sivagami goods Rs.1,600 as per invoice No.71.
7 Returned to Satish goods of Rs.250 as per debit note No.4
8 Sivagami returned goods Rs.150 as per credit note No.8
12 Sold to Vijaya goods of Rs.950 as per invoice No.72
14 Purchased from Velan goods worth Rs.1,100
18 Returned to Sampath goods of Rs.150 as per debit note No.5
22 Vijaya returned goods of Rs.240 Credit Note No.9

[Answer : Purchases book Rs.3,500; Sales book Rs.2,550;
Purchases return book Rs.400; Sales return book Rs.390]

V. Cash Book

Meaning of Cash Book.

- Cash book is the book in which only cash transactions are recorded in the chronological order.
- The cash book is the book of original entry or prime entry as cash transactions are recorded for the first time in it.
- Cash transactions here may include bank transactions also.
- Cash receipts are recorded on the debit side while cash payments are recorded on the credit side.

Cash Book – A subsidiary book and principal book of accounts

- All the cash transactions are recorded first in the cash book.
- It is therefore a subsidiary book.
- When cash book is maintained, there is no need for preparing cash account and bank account in the ledger because in the cash book cash receipts and cash payments are compared and the cash and bank balances at the end are arrived at.
- Thus, it serves as a ledger account also. Hence, the cash book, unlike any other subsidiary book, is both a subsidiary book and a principal book.

Features of Cash Book

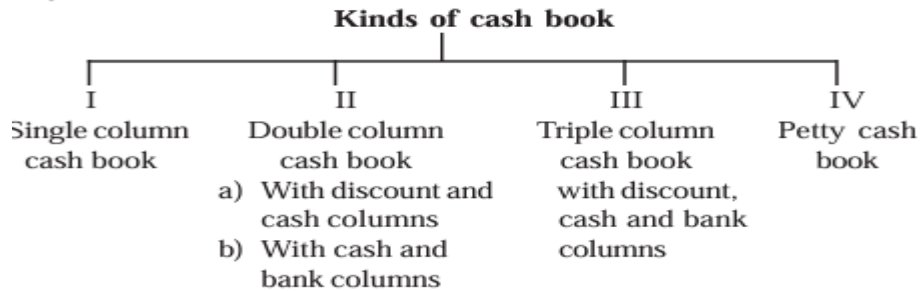
- To keep record of only cash transactions
- All receipts are recorded in debit side
- All payments are recorded in credit side
- Chronological (date wise) transaction recording of all transactions.
- Performs function of both journal and ledger.

Advantages of Cash book

1. Saves time and labour: When cash transactions are recorded in the journal a lot of time and labour will be involved. To avoid this all-cash transactions are straight away recorded in the cash book which is in the form of a ledger.
2. To know cash and bank balance: It helps the proprietor to know the cash and bank balance at any point of time.
3. Mistakes and frauds can be prevented: Regular balancing of cash book reveals the balance of cash in hand. In case the cash book is maintained by business concern, it can avoid frauds. Discrepancies if any, can be identified and rectified.
4. Effective cash management: Cash book provides all information regarding total receipts and payments of the business concern at a particular period. So that, effective policy of cash management can be formulated.

Kinds of Cash book.

The various kinds of cash book from the point of view of uses may be as follow:



I. Single Column Cash Book

Single column cash book (simple cash book) has one amount column in each side. All cash receipts are recorded on the debit side and all cash payments on the credit side. In fact, this book is nothing but a Cash Account. Hence, there is no need to open cash account in the ledger. The format of a single column cash book is given below.

Format

Debit Side					Single Column Cash Book of		Credit Side		
Date	Particulars	R. N.	L. F.	Amount Rs.	Date	Particulars	V. N.	L. F.	Amount Rs.

Explanation :

- i. Date: This column appears in both the debit and credit side. It records the date of receiving cash at debit side and paying cash at credit side.
- ii. Particulars: This column is used at both debit and credit side. It records the names of parties (personal account), heads (nominal account) and items (real account) from whom payment has been received and to whom payment has been made.
- iii. Receipt Number (R.N): This refers to the serial number of the cash receipt.
- iv. Voucher Number (V.N): This refers to the serial number of the voucher for which payment is made.
- v. Ledger Folio (L.F): This column is used in both the debit and credit side of cash book. The ledger page (folio) of every account in the cash book is recorded against it.
- vi. Amount: This column appears in both sides of the cash book. The actual amount of cash receipt is recorded on the debit side. The actual payments are entered on the credit side.

Balancing: The cash book is balanced like any other account. The total of the receipt (debit side) column will always be greater than the total of the payment column (credit side). The difference will be written on the credit side as “By Balance c/d”. In the beginning of the next period, to show the cash balance in hand, the balance amount is recorded in the debit side as “To balance b/d”.

Problems on Cash book

1.

Enter the following transactions in a single column cash book of Mr.Kumaran.

2004 Jan	1	Started business with cash	...	Rs.	1,000
	3	Purchased goods for cash	...	Rs.	500
	4	Sold goods	...	Rs.	1,700
	5	Cash received from Siva	...	Rs.	200
	12	Paid Balan	...	Rs.	150
	14	Bought furniture	...	Rs.	200
	15	Purchased goods from Kala on credit	...	Rs.	2,000
	20	Paid electric charges	...	Rs.	225
	24	Paid salaries	...	Rs.	250
	28	Received commission	...	Rs.	75

Solution:

Cash Book of Mr. Kumaran

Dr.					Cr.				
Date	Particulars	R. N.	L. F.	Amount Rs.	Date	Particulars	V. N.	L. F.	Amount Rs.
2004					2004				
Jan 1	To Capital A/c			1,000	Jan 3	By Purchases			
4	To Sales A/c			1,700		A/c			500
5	To Siva A/c			200	12	„ Balan A/c			150
28	To Commission A/c			75	14	„ Furniture A/c			200
					20	„ Electric charges A/c			225
					24	„ Salaries A/c			250
					31	„ Balance c/d			1,650
				2,975					2,975
2004									
Feb 1	To Balance b/d			1,650					

Note : The transaction dated January 15th will not be recorded in the cash book as it is a credit transaction.

2. Enter the following transactions in a simple cash book for December 2016:

01	Cash in hand	12,000
05	Cash received from Bhanu	4,000
07	Rent Paid	2,000
10	Purchased goods Murari for cash	6,000
15	Sold goods for cash	9,000
18	Purchase Stationery	300
22	Cash paid to Rahul on account	2,000
28	Paid salary	1,000
30	Paid Rent	500

Cash Book

Dr.

Cr.

Date	Receipts	L.F.	Amount ₹	Date	Payments	L.F.	Amount ₹
2016				2016			
01 Dec	To Balance b/d		12,000	07 Dec	By Rent A/c		2,000
05 Dec	To Bhanu A/c		4,000	10 Dec	By Purchases A/c		6,000
15 Dec	To Sales A/c		9,000	18 Dec	By Stationery A/c		300
				22 Dec	By Rahul A/c		2,000
				28 Dec	By Salaries A/c		1,000
				30 Dec	By Rent A/c		500
				31 Dec	By Balance c/d		13,200
			25,000				25,000

3. Record the following transaction in simple cash book for November 2016:

		₹
01	Cash in hand	12,500
04	Cash paid to Hari	600
07	Purchased goods	800
12	Cash received from Amit	1,960
16	Sold goods for cash	800
20	Paid to Manish	590
25	Paid cartage	100
31	Paid salary	1,000

Cash Book							
Dr.				Cr.			
Date	Receipts	L.F.	Amount ₹	Date	Payments	L.F.	Amount ₹
2016				2016			
01 Nov	To Balance b/d		12,500	04 Nov	By Hari A/c		600
12 Nov	To Amit A/c		1,960	07 Nov	By Purchases A/c		800
16 Nov	To Sales A/c		800	20 Nov	By Manish A/c		590
				25 Nov	By Cartage A/c		100
				30 Nov	By Salaries A/c		1,000
				30 Nov	By Balance c/d		12,170
			15,260				15,260

4. Enter the following transaction in simple cash book for December 2017

01	Cash in hand	7,750
06	Paid to Sonu	45
08	Purchased goods	600
15	Received cash from Parkash	960
20	Cash sales	500
25	Paid to S.Kumar	1,200
30	Paid rent	600

Cash Book							
Dr.				Cr.			
Date	Receipts	L.F.	Amount ₹	Date	Payments	L.F.	Amount ₹
2017				2017			
01 Dec	To Balance b/d		7,750	06 Dec	By Sonu A/c		45
15 Dec	To Parkash A/c		960	08 Dec	By Purchases A/c		600
20 Dec	To Sales A/c		500	25 Dec	By S.Kumar A/c		1,200
				30 Dec	By Rent A/c		600
				31 Dec	By Balance c/d		6,765
			9,210				9,210

5. Enter the following transactions in a simple cash book of Kunal Jan 2017

- 1 Cash in hand 11,200
- 5 Received from Ramesh 300
- 7 Paid rent 30
- 8 Sold goods for cash 300
- 10 Paid Mohan 700
- 27 Purchased furniture for cash 200
- 31 Paid salaries 100

In the books of Kunal							
Dr.				Cr.			
Cash Book (Single column)							
Date	Receipts	L.F.	Amount ₹	Date	Payments	L.F.	Amount ₹
2017				2017			
Jan 1	To Balance b/d		11,200	Jan 7	By Rent A/c		30
Jan 5	To Ramesh A/c		300	Jan 10	By Mohan A/c		700
Jan 8	To Sales A/c		300	Jan 27	By Furniture A/c		200
				Jan 31	By Salaries A/c		100
				Jan 31	By Balance c/d		10,770
			11,800				11,800
Feb 1	To Balance b/d		10,770				

Explanation

Jan 1: Cash in hand is the opening balance with the firm. This would have been the closing balance on 31st December, 2017. Cash account always has debit balance so it has been shown in the debit side of the cash book.

Jan 5: It is a receipt from Ramesh, so it has been recorded in receipt side (debit side) of the cash book.

Jan 7: Payment of rent will decrease cash, so it has been recorded in payment side (credit side) of the cash book.

Jan 8: Cash sales of goods will bring cash and increases the cash balance, so it has been recorded in the debit side of the cash book.

Jan 10: Payment to Mohan decreases cash, so it has been recorded in the credit side.

Jan 27: Purchase of furniture for cash reduces cash, so it has been recorded in credit side.

Jan 31: Payment of salaries in cash reduces cash, so it has been recorded in the credit side of cash book.

6. Enter the following transactions in a single column cash book of Pradeep for April, 2017

- 1 Commenced business with cash 27,000
- 5 Bought goods for cash 6,000
- 10 Goods sold for cash 11,000
- 13 Paid into bank 5,000
- 14 Goods sold to Sangeetha for cash 9,000
- 17 Goods purchased from Preethi on credit 13,000
- 21 Purchased stationeries by cash 200

- 25 Paid Murugan by cash 14,000
 26 Commission paid by cash 700
 29 Drew from bank for office use 4,000
 30 Rent paid by cheque 3,000

Solution

In the books of Pradeep							
Dr.				Cr.			
Cash Book (Single column)							
Date	Receipts	L.F.	Amount ₹	Date	Payments	L.F.	Amount ₹
2017				2017			
April 1	To Pradeep's capital A/c		27,000	April 5	By Purchases A/c		6,000
10	To Sales A/c		11,000	13	By Bank A/c		5,000
14	To Sales A/c		9,000	21	By Stationery A/c		200
29	To Bank A/c		4,000	25	By Murugan A/c		14,000
				26	By Commission A/c		700
				30	By Balance c/d		25,100
			51,000				51,000
May 1	To Balance b/d		25,100				

Note: The transaction dated April 17th will not be recorded in the cash book as it is a credit transaction. The transaction on 30th is not recorded as the payment is made through bank which does not involve cash.

Following are the difference between cash discount and trade discount:

Basis	Cash discount	Trade discount
1. Purpose	Cash discount is allowed to encourage the buyers of goods to make payment at an early date.	Trade discount is allowed to encourage buyers to buy goods in large quantities.
2. Time of allowance	Cash discount is allowed by the seller or creditor to the buyer or debtor at the time of making payment.	Trade discount is allowed by the seller to the buyer when goods are sold.
3. Amount of discount	Cash discount is related to time. The earlier the payment, the more will be the cash discount.	Trade discount is generally related to the quantity of purchase or sale. The more the purchases, the more will be the rate and amount of discount.
4. Recording in books of accounts	Cash discount is recorded in the books of account. Cash discount allowed is shown on the debit side of cash book. Cash discount received is shown on the credit side of the cash book.	Trade discount is not recorded in the books of account. No journal entry is made for the same. Details are just shown in the purchases or sales book.
5. Deduction from invoice value	Cash discount is not deducted from the invoice value of goods.	Trade discount is deducted from the list price of the goods.

II. Double Column Cash Book

The most common double column cash books are

- Cash book with discount and cash columns
- Cash book with cash and bank columns.

a. Cash Book with discount and cash columns

On either side of the single column cash book, another column is added to record discount allowed and discount received. The format is given below.

Format

Double Column Cash Book											
(Cash book with Discount and Cash Column)											
Debit						Credit					
Date	Parti- culars	R. N.	L. F.	Dis- count Allowed Rs.	Amount Rs.	Date	Parti- -culars	V. N.	L. F.	Dis- count Received Rs.	Amount Rs.

It should be noted that in the double column cash book, cash column is balanced like any other ledger account. But the discount column on each side is merely totalled. The total of the discount column on the debit side shows the total discount allowed to customers and is debited to Discount Allowed Account. The total of the discount column on the credit side shows total discount received and is credited to Discount Received Account.

Balancing the double column cash book

The cash columns should be balanced as usual and the balance should be carried forward to the next date or period.

However, discount columns are not to be balanced. They are to be totalled on the debit side and credit side separately. The total of discount column on the debit side represents total discount allowed to customers and is debited to discount allowed account. Total of discount column on the credit side represents total discount received and is credited to discount received account. The periodical totals of discount columns are posted as under:

- Debit Discount allowed account as 'To Sundry Accounts as per Cash book', with the periodical total of the discount allowed column.
- Credit Discount received account as 'By Sundry Accounts as per Cash Book' with the periodical total of the discount received column.

Problems On double column cash book.

1. Prepare a Double Column Cash Book from the following transactions of Mr. Gopalan:

		Rs.
2004		
Jan. 1	Cash in hand	4,000
6	Cash Purchases	2,000
10	Wages paid	40
11	Cash Sales	6,000
12	Cash received from Suresh and allowed him discount	1,980
19	Cash paid to Meena and discount received	2,470
27	Cash paid to Radha	30
28	Purchased goods for cash	400
		2,070

Solution :

Double Column Cash Book of Mr. Gopalan
(Cash book with Discount Column)

Dr.						Cr.					
Date	Particulars	RN	L.F	Discount Allowed	Amount Rs.	Date	Particulars	VN	L.F	Discount Received	Amount Rs.
2004						2004					
Jan 1	To Balance b/d				4,000	Jan 6	By Purchases A/c				2,000
11	To Sales A/c				6,000	10	By Wages A/c				40
12	To Suresh A/c			20	1,980	19	By Meena A/c			30	2,470
						27	By Radha A/c				400
						28	By Purchases A/c				2,070
						31	By Balance c/d				5,000
				20	11,980					30	11,980
Feb 1	To Balance b/d				5,000						

2. Enter the following transactions in a cash book with cash and discount columns Jan 2017

Jan 1 - Cash in hand 11,500

Jan 5 - Paid to Ramanathan by depositing in cash deposit machine 300

Discount allowed by him 10

Jan 8 - Purchased goods for cash 400

Jan 10 - Cash received from Rajagopal 980

Discount allowed 20

Jan 15 - Sold goods for cash 400

Jan 21 - Paid cash to Shanthi 295,

Discount received 5

Jan 25 - Paid wages by cash 50

Jan 31 - Paid to Sanjeev Rs. 390 in full settlement of his account 400

Solution

Dr.		Cash book with cash and discount columns						Cr.	
Date	Receipts	L.F.	Amount ₹		Date	Payments	L.F.	Amount ₹	
			Discount	Cash				Discount	Cash
2017					2017				
Jan 1	To Balance b/d			11,500	Jan 5	By Ramanathan A/c		10	300
10	To Rajagopal A/c		20	980	8	By Purchases A/c			400
15	To Sales A/c			400	21	By Shanthi A/c		5	295
					25	By Wages A/c			50
					31	By Sanjeev A/c		10	390
					31	By Balance c/d			11,445
			20	12,880				25	12,880
Feb 1	To Balance b/d			11,445					

Note: Discount column is not to be balanced.

Posting from double column cash book

Following is the procedure for posting entries from double column cash book:

Cash columns: Debit the accounts mentioned on the credit side and the credit is to Cash A/c with the amount mentioned in cash column; credit the accounts mentioned on the debit side and the debit is for Cash A/c with the amount mentioned in cash column.

Discount columns: Debit the concerned personal account mentioned on the credit side and the credit is to Discount received A/c with the amount mentioned in the discount received column. Credit the concerned personal account mentioned on the debit side and the debit is for Discount allowed A/c with the amount entered in the discount allowed column.

b. Cash Book with Cash and Bank Columns

bank transactions are more in number, it is advisable to open a cash book by providing a separate column on either side of the cash book to record the bank transactions therein.

In such case, it is not necessary to open a separate Bank Account in the Ledger because the two columns in the cash book serve the purpose of Cash Account and Bank Account respectively. It is a combination of Cash Account and Bank Account. The format of this cash book is given below.

There are two amount columns on debit side one for cash receipts and the other for bank deposits (i.e., payment made into Bank Account). Similarly, there are two amount columns on the credit side, one for payments in cash and the other for payments by cheques respectively.

Double Column Cash Book											
Debit Side						Credit Side					
(Cash book with Cash and Bank Columns)											
Date	Parti- culars	R. N.	L. F.	Cash Rs.	Bank Rs.	Date	Parti- -culars	V. N.	L. F.	Cash Rs.	Bank Rs.

Contra Entry - When an entry affects both cash and bank accounts it is called a contra entry. Contra in Latin means opposite. In contra entries both the debit and credit aspects of a transaction are recorded in the cash book itself.

Problems based on double column cash book with cash & bank columns.

1. Enter the following transactions in the double column cash book of Mr. Rajesh and balance it. 2003

- Aug. 1 Opening Balance : Cash in Hand Rs.4,250
Cash at Bank Rs.13,750
- 2 Paid to petty cashier Rs.2,500
 - 2 Cash sales Rs.1,750
 - 3 Paid to Arun by cheque Rs.3,750
 - 3 Received a cheque from Mr.Ram Babu Rs.4,500 paid into bank.
 - 5 Received cheque from Mr.Jayaraman Rs.6,000 paid into bank
 - 8 Cash purchases Rs.2,500
 - 8 Paid rent by cheque Rs. 2,500
 - 9 Cash withdrawn from bank for office use Rs.2,500
 - 10 Cash sales Rs.3,750
 - 14 Stationery purchased Rs.1,000
 - 20 Cash sales Rs.6750
 - 21 Paid into bank Rs.10,000
 - 23 Withdrew cash for personal use Rs.1,000
 - 25 Salaries paid by cheque Rs.9000.

Solution:**Double Column Cash Book of Mr. Rajesh**
(Cash book with Cash and Bank Column)

Dr.

Cr.

Date	Particulars	R. N.	L.F.	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Cash Rs.	Bank Rs.
2003						2003					
Aug 1	To Balance b/d			4,250	13,750	Aug 2	By Petty Cash A/c			2,500	
2	„ Sales A/c			1,750		3	„ Arun's A/c				3,750
3	„ Ram Babu's A/c				4500	8	„ Purchases A/c			2,500	
5	„ Jayaramans A/c				6,000	8	„ Rent A/c				2,500
9	„ Bank A/c		C	2,500		9	„ Cash A/c		C		2,500
10	„ Sales A/c			3,750		14	„ Stationery A/c			1,000	
20	„ Sales A/c			6,750		21	„ Bank A/c		C	10,000	
21	„ Cash A/c		C		10,000	23	„ Drawings A/c				1,000
						25	„ Salary A/c				9,000
						31	„ Balance c/d			3,000	15,500
				19,000	34,250					19,000	34,250
Sep 1	To Balance b/d			3,000	15,500						

2. Record the following transactions in a bank column cash book for December 2016:

01	Started business with cash	80,000
04	Deposited in bank	50,000
10	Received cash from Rahul	1,000
15	Bought goods for cash	8,000
22	Bought goods by cheque	10,000
25	Paid to Shyam by cash	20,000
30	Drew from Bank for office use	2,000
31	Rent paid by cheque	1,000

Cash Book

Dr.

Cr.

Date	Receipts	L.F.	Cash ₹	Bank ₹	Date	Payments	L.F.	Cash ₹	Bank ₹
2016					2016				
01 Dec	To Capital A/c		80,000		04 Dec	By Bank A/c	C	50,000	
04 Dec	To Cash A/c	C		50,000	15 Dec	By Purchases A/c		8,000	
10 Dec	To Rahul A/c		1,000		22 Dec	By Purchases A/c			10,000
30 Dec	To Bank A/c	C	2,000		25 Dec	By Shyam A/c		20,000	
					30 Dec	By Cash A/c	C		2,000
					31 Dec	By Rent A/c			1,000
					31 Dec	By Balance c/d		5,000	37,000
			83,000	50,000				83,000	50,000

3. Prepare double column cash book from the following information for July 2017:

		₹
01	Cash in hand	7,500
	Bank overdraft	3,500
03	Paid wages	200
05	Cash sales	7,000
10	Cash deposited into bank	4,000
15	Goods purchased and paid by cheque	2,000
20	Paid rent	500
25	Drew from bank for personal use	400
30	Salary paid	1,000

Cash Book

Dr.					Cr.				
Date	Receipts	L.F.	Cash ₹	Bank ₹	Date	Payments	L.F.	Cash ₹	Bank ₹
2017					2017				
01 Jul	To Balance b/d		7,500		01 Jul	By Balance b/d			3,500
05 Jul	To Sales A/c		7,000			(Overdraft)			
10 Jul	To Cash A/c	C		4,000	03 Jul	By Wages A/c		200	
30 Jul	To Balance c/d (Overdraft)			1,900	10 Jul	By Bank A/c	C	4,000	
					15 Jul	By Purchases A/c			2,000
					20 Jul	By Rent A/c		500	
					25 Jul	By Drawings A/c			400
					30 Jul	By Salaries A/c		1,000	
					30 Jul	By Balance c/d		8,800	
			14,500	5,900				14,500	5,900

c. Three column cash books (Cash book with cash, discount and bank column)

Large business concerns receive and make payments in cash and by cheques. Where cash discount is a regular feature, a Triple Column Cash Book is more advantageous. This cash book has three amount columns (cash, bank and discount) on each side. All cash receipts, deposits into bank and discount allowed are recorded on debit side and all cash payments, withdrawals from bank and discount received are recorded on credit side.

Format.

Dr. Cash book with cash, discount and bank columns or three column cash book Cr.											
Date	Receipts	L.F	Amount ₹			Date	Payments	L.F.	Amount ₹		
			Discount	Cash	Bank				Discount	Cash	Bank

Tutorial notes

- If a business entity has more than one bank account, columns may be provided in the cash book for each bank account separately.
- Treatment of cheques: In addition to cash dealings every business may use cheques as a means of payment. For the purpose of accounting, cheques received are treated as cash received. When cheques received are banked on the same day the amount is to be directly debited to the bank account. When payments is made by cheque, the bank account is credited.

Contra entry

When the two accounts involved in a transaction are cash account and bank account, then both the aspects are entered in cash book itself. As both the debit and credit aspects of a transaction are recorded in the cash book, such entries are called contra entries.

Example

- When cash is paid into bank, it is recorded in the bank column on the debit side and in the cash column on the credit side of the cash book.
- When cash is drawn from bank for office use, it is entered in cash column on the debit side and in the bank column on the credit side of the cash book.
- To denote that there are contra entries, the alphabet 'C' is written in L.F. column on both sides. Contra means that particular entry is posted on the other side (contra) of the same book, because Cash account and Bank account are there in the cash book only and there are no separate ledger accounts needed for this purpose. The alphabet 'C' indicates that no further posting is required and the relevant account is posted on the opposite side.

Problems on Triple column cash book.

1. Prepare three column cash books in the books of Thiru Durairaj 2017 March

March 1 Cash in hand 12,000
 Cash at bank 15,000
 2 Cash paid into bank 11,000
 3. Goods sold Rs. 18,500. Half of it is received in cash and half
 of it is received by cheque which is immediately deposited in
 the bank
 4 Sold on credit to Jayaraj for 7,000
 8 Jayaraj sent a cheque in full settlement 6,900
 12 Jayaraj's cheque was sent to bank
 14 Bought goods from Iqbal and issued a cheque
 to him immediately 8,500
 15 Bought goods from Murali on credit 4,000
 19 Received a cheque from Kannappan in full
 settlement of his account of Rs. 2,000 1,975
 20 Drew cash Rs. 3,000 and by cheque Rs. 5,000 for personal use
 25 Paid Vinod by cheque in full settlement of his account of
 Rs. 2,000 1,850

In the books of Durairaj

Dr.							Three-column (cash book							Cr.		
Date	Particulars	R.N	L.F	Amount ₹			Date	Particulars	V.N	L.F.	Amount ₹					
				Discount Allowed	Cash	Bank					Discount Received	Cash	Bank			
2017							2017									
Mar 1	To Balance b/d				12,000	15,000	Mar 2	By Bank A/c		C		11,000				
2	To Cash A/c		C			11,000	12	By Bank A/c		C		6,900				
3	To Sales				9,250	9,250	14	By Purchases A/c					8,500			
8	To Jayaraj A/c			100	6,900		20	By Drawings A/c				3,000	5,000			
12	To Cash A/c		C			6,900	25	By Vinod A/c			150		1,850			
19	To Kannappan A/c			25	1,975		31	By Balance c/d				9,225	26,800			
				125	30,125	42,150					150	30,125	42,150			
Apr 1	To Balance b/d				9,225	26,800										

2. Prepare three column cash books of Mr. Sundar from the following transactions:

2002

- Aug 1 Sundar started business with cash Rs.2,00,000
- 2 Deposited into Bank Rs.50,000.
- 4 Cash purchases Rs.5,000.
- 5 Purchases by cheque Rs.6,000.
- 6 Goods sold to Nathan on credit Rs. 5,000.
- 8 Received cheque from Mano Rs.490, Discount allowed Rs.10.
- 10 Paid carriage Rs.1,000.
- 12 Withdrew from Bank for office use Rs.10,000.
- 15 Paid to Sundari Rs.4,960, Discount allowed by her Rs.40.
- 20 Received a cheque for Rs.4950 from Nathan in full settlement of his account, which is deposited into Bank.

Triple Column Cash Book of Mr.Sundar

Dr.							Cr.						
Date	Particulars	R. N.	L.F.	Dis. Allo -wed	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Dis. Recei -ved	Cash Rs.	Bank Rs.
2002							2002						
Aug 1	To Capital A/c				2,00,000		Aug 2	By Bank A/c		C		50,000	
2	„ Cash A/c		C			50,000	4	„ Purchases A/c				5,000	
8	„ Mano's A/c			10	490		5	„ Purchases A/c					6,000
12	„ Bank A/c		C		10,000		10	„ Carriage A/c				1,000	
20	„ Nathan's A/c			50		4,950	12	„ Cash A/c		C			10,000
							15	„ Sundari's A/c			40	4,960	
							31	„ Balance c/d				1,49,530	38,950
				60	2,10,490	54,950					40	2,10,490	54,950
Sep 1	To Balance b/d				1,49,530	38,950							

Note : Transaction dated 6th August will not appear in the cash book as it is a credit transaction.

3. Prepare three column cash books Mr. Muthu and balance the same.

2003

Aug 1	Cash in hand Rs.75,000 Cash at bank Rs.40,000
4	Paid into bank Rs.20,000.
6	Purchased machinery by cheque Rs.10,000.
8	Received from Mohan Rs.2,560 Discount allowed Rs. 40.
10	Paid to Somu by cheque Rs.3,970 in full settlement of his account Rs.4,000.
11	Withdrew cash from Bank for personal use Rs.5,000.
15	Received cheque from Balan Rs.4,900. Allowed him discount Rs.100.
19	Balan's cheque deposited into Bank
24	Anandan our customer has paid directly into our bank account Rs.10,000.
27	Rent paid by cheque Rs.3,000.

Solution:**Triple Column Cash Book of Mr.Muthu**

Dr.							Cr.						
Date	Particulars	R. N.	L.F.	Dis. Allo- -wed Rs.	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Dis. Recei- -ved Rs.	Cash Rs.	Bank Rs.
2003							2003						
Aug 1	To Balance b/d				75,000	40,000	Aug 4	By Bank A/c		C		20,000	
4	„ Cash A/c		C			20,000	6	„ Machinery A/c					10,000
8	„ Mohan's A/c			40	2,560		10	„ Somu's A/c			30		3,970
15	„ Balan's A/c			100	4,900		11	„ Drawings A/c					5,000
19	„ Cash A/c		C			4,900	19	„ Bank A/c		C		4,900	
24	„ Anandan's A/c					10,000	27	„ Rent A/c					3,000
							31	„ Balance c/d				57,560	52,930
				140	82,460	74,900					30	82460	74900
Sep 1	To Balance b/d				57,560	52,930							

4. Prepare three column cash book of Mrs.Eswari from the following transactions and balance the cash book on 30th June 2003.

2003

June 1	Cash in hand Rs.50,000 Bank overdraft Rs.15,000
3	Paid into bank Rs.25,000
5	Parthiban settled his account for Rs.3,750 by giving a cheque for Rs.3,690.
8	Parthiban's cheque sent to bank for collection.
10	Cash withdrawn from bank Rs.8,000.
14	Parthiban's cheque returned dishonoured
15	Received from Ramesh a currency note for Rs.5,000 and gave him a change for it.
18	Paid rent Rs.500.
20	Bank charges as per pass book Rs.150.
30	Deposited into Bank all cash in excess of Rs.5,000.

Solution:**Triple Column Cash Book of Mrs.Eswari**

Dr.							Cr.						
Date	Particulars	R. N.	L.F.	Dis. Allo -wed	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Dis. Recei -ved	Cash Rs.	Bank Rs.
2003							2003						
June 1	To Balance b/d				50,000		June 1	By Balance b/d					15,000
3	„ Cash A/c		C			25,000	3	„ Bank A/c		C		25,000	
5	„ Parthiban's A/c			60	3,690		8	„ Bank A/c		C		3,690	
8	„ Cash A/c		C			3,690	10	„ Cash A/c		C			8,000
10	„ Bank A/c		C		8,000		14	„ Parthiban's A/c					3,690
30	„ Cash A/c		C			27,500	18	„ Rent A/c				500	
							20	„ Bank Charges					150
							30	„ Bank A/c		C		27,500	
							30	„ Balance c/d				5,000	29,350
				60	61,690	56,190						61,690	56,190
July 1	To Balance b/d				5,000	29,350							

Note : Transaction dated 15th June will not be recorded in the cash book.

5. Enter the following transactions in three column cash books of Mrs. Anu Radha.

2002

- Sep 1 Cash in hand Rs.50,000
Bank balance Rs.15,000
- 2 Sold goods to Udayakumar for Rs.15,000, cash discount allowed 1% and received cash for the balance.
- 3 Tax paid Rs.1,000.
- 7 Bought goods from Munuswamy for Rs.2,400, cash discount received 2% and paid cheque for the balance.
- 9 Received repayment of loan from Elangovan Rs.10,000.
- 12 Paid into Bank Rs.5,000.
- 14 Paid Rs.1,400 to Aravind & Co., half by cash and half by cheque.
- 16 Dividend collected by the Bank as per pass book Rs.2,000.
- 18 Sold goods for cash and deposited into the bank on the same day Rs.5,000.
- 20 Sent to Bharathi by money order Rs.460, the money order commission being Rs.20.

Solution:**Triple Column Cash Book of Mrs. Anu Radha**

Dr.							Cr.						
Date	Particulars	R. N.	L.F.	Dis. Al-low	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Dis. Recei ved	Cash Rs.	Bank Rs.
2002							2002						
Sept 1	To Balance b/d				50,000	15,000	Sept 3	By Tax A/c				1,000	
2	„ Sales A/c			150	14,850		7	„ Purchases A/c			48		2,352
9	„ Elangovan's Loan				10,000		12	„ Bank A/c		C		5,000	
12	„ Cash A/c		C			5,000	14	„ Aravind & Co.				700	700
16	„ Dividend A/c					2,000		A/c					
18	„ Sales A/c					5,000	20	„ Bharathi A/c				460	
							20	„ Money Order Commission A/c				20	
							30	„ Balance c/d A/c				67,670	23,948
				150	74,850	27,000					48	74,850	27,000
Oct 1	To Balance b/d				67,670	23,948							

6. From the following information show how Mr. Venu Gopal's triple column cash book would appear for the week ended 7th October 2002 and close the cash book for the day.

2002

- Oct 1 Cash in hand Rs.30,000
Bank balance Rs.1,000
- 2 Sivan, our customer has paid directly into our bank account Rs.5,000.
- 3 Paid rent by cheque Rs.500.
- 4 Cheque issued in favour of Bharathi for purchase of furniture Rs.2,400.
- 5 Received from Vinoth Rs.2,225
Discount allowed Rs.75.
- 6 Paid into bank Rs.4,000
- 7 Cash withdrawn from bank Rs.2,000.
Bharathi, to whom we have issued a cheque of Rs.2,400 has reported that our cheque is dishonoured.

Solution:**Triple Column Cash Book of Mr. Venu Gopal****Dr.****Cr.**

Date	Particulars	R. N.	L.F.	Dis. Allow	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Dis. Recei ved	Cash Rs.	Bank Rs.
2002							2002						
Oct 1	To Balance b/d				30,000	1,000	Oct 3	By Rent A/c					500
2	„ Sivan's A/c					5,000	4	„ Bharathi A/c					2,400
5	„ Vinoth's A/c			75	2,225		6	„ Bank A/c		C		4,000	
6	„ Cash A/c		C			4,000	7	„ Cash A/c		C			2,000
7	„ Bank A/c		C		2,000								
7	„ Bharathi A/c					2,400							
							7	„ Balance c/d				30,225	7,500
				75	34,225	12,400						34,225	12,400
Oct 8	To Balance b/d				30,225	7,500							

Problems based on Petty cash book.

1.

Prepare a petty cash book with analysis columns for stationery, motor expenses, cleaning expenses, sundry expenses and ledger account. The amount spent was reimbursed on 1 May 2009. (14 marks)

2009			\$
Apr 1	Received \$3,000 as the petty cash float.		
" 5	Cleaning expenses	400	
" 6	Postage stamps	46	
" 11	Paper clips	125	
" 16	Paid Brian Tse, a trade creditor.	350	
" 20	Envelopes	40	
" 23	Petrol	500	
" 27	Delivery van repairs	1,100	
" 29	Cleaning expenses	400	

Answer:

Petty Cash Book									
Receipt	Date		Details	Total	Stationery	Motor expenses	Cleaning expenses	Sundry expenses	Ledger account
\$ 3,000	2009 Apr 1		Cash	\$	\$	\$	\$	\$	\$
	" 5		Cleaning expenses	400			400		
	" 6		Postage stamps	46				46	
	" 11		Paper clips	125	125				
	" 16		Brian Tse	350					350
	" 20		Envelopes	40	40				
	" 23		Petrol	500		500			
	" 27		Delivery van repairs	1,100		1,100			
	" 29		Cleaning expenses	400			400		
				2,961	165	1,600	800	46	350
	" 30		Balance c/d	39					
3,000				3,000					
39	May 1		Balance b/d						
2,961	" 1		Cash						

2.

Phoebe Shek keeps her petty cash book on the imprest system. The cash float is set at \$1,500. On 1 December 2008, the balance of petty cash brought forward was \$215. The amount spent in December 2008 was to be reimbursed with cash at the end of the month. The following transactions took place during December 2008:

2008			\$
Dec	1	Cash received to restore the imprest amount.	
"	4	Postage stamps	20
"	5	MTR fares	150
"	9	Petrol for the motor car	300
"	10	Stationery	12
"	11	Bus fares	100
"	15	Refund to Winnie Poon, a trade debtor, who had overpaid.	18
"	17	Donation	300
"	18	Cleaning expenses	200
"	20	Settlement of Candy Li's account in the accounts payable ledger.	78
"	22	Registered letter postage	23
"	26	Refund to Steven Wu, a trade debtor, who had overpaid.	22
"	28	Cleaning expenses	200
"	30	Envelopes	26

Petty Cash Book									
Receipt	Date	Details	Total	Postage	Travelling expenses	Cleaning	Stationery	Miscellaneous expenses	Ledger account
\$ 215	2008 Dec 1	Balance b/d	\$	\$	\$	\$	\$	\$	\$
1,285	" 1	Cash							
	" 4	Postage stamps	20	20					
	" 5	MTR fares	150		150				
	" 9	Petrol for the motor car	300					300	
	" 10	Stationery	12				12		
	" 11	Bus fares	100		100				
	" 15	Winnie Poon	18						18
	" 17	Donation	300					300	
	" 18	Cleaning expenses	200			200			
	" 20	Candy Li	78						78
	" 22	Registered letter postage	23	23					
	" 26	Steven Wu	22						22
	" 28	Cleaning expenses	200			200			
	" 30	Envelopes	26				26		
			1,449	43	250	400	38	600	118
1,449	" 31	Cash							
	" 31	Balance c/d	1,500						
2,949			2,949						
1,500	2009 Jan 1	Balance b/d							

3.

Transactions involving the petty cash book of Minnie Nam's business for the month of May 2008 are as follows:

2008

- May 1 Petty cash in hand \$1,000.
 " 2 Bought coffee and snacks totalling \$334 for the office.
 " 3 Paid wages of \$340.
 " 5 Paid \$130 for postage.
 " 9 Paid \$158 for stationery.
 " 10 Restored the imprest amount and increased the amount to \$1,300.
 " 18 Bought envelopes and writing paper for \$50.
 " 21 Paid \$250 for office carpet cleaning.
 " 28 Paid \$300 for courier charge.
 " 29 Paid \$450 for newspapers and magazines.
 " 30 Refunded \$168 to Kim Chan, a trade debtor, for an overpayment on his account.
 " 31 Restored the imprest amount to \$1,300.

Petty Cash Book								
Receipt	Date		Details	Total	Wages	Sundry expenses	Postage	Ledger account
\$	2008			\$	\$	\$	\$	\$
1,000	May	1	Balance b/d					
	"	2	Coffee and snacks	334		334		
	"	3	Wages	340	340			
	"	5	Postage	130			130	
	"	9	Stationery	158				158
1,262	"	10	Cash					
	"	18	Envelopes and writing paper	50				50
	"	21	Carpet cleaning	250		250		
	"	28	Courier charge	300			300	
	"	29	Newspapers and magazines	450		450		
	"	30	Kim Chan	168				168
				2,180	340	1,034	430	208
1,218	"	31	Cash					
	"	31	Balance c/d	1,300				
3,480				3,480				
1,300	Jun	1	Balance b/d					

Negotiable Instrument

- The word negotiable means “**transferable from one person to another in return for consideration**” and an instrument means “**A written document by which a right is created in favor of some person**”.
- Thus, a negotiable instrument is a document which entitles a person to a sum of money and which is transferable from one person to another.

Characteristics of a negotiable instrument

- **Freely Transferable:-** The property in a negotiable instrument passes from one person to another by delivery
 - **Consideration:-** Every negotiable instrument is presumed to have been made, drawn, accepted, negotiated or transferred for consideration.
 - **Date:-** Every negotiable instrument bearing date is presumed to have been drawn on such date.
-
- **Recovery:-** The holder in due course can sue upon a negotiable instrument in his own name for the recovery of the amount.
 - **Time of acceptance:-** When a bill of exchange has been accepted it is presumed that it was accepted within a reasonable time of its date and before its maturity.
 - **Time of Transfer:-** Every transfer of a negotiable instrument is presumed to have been made before its maturity.

Types of negotiable instrument

- There are three types of negotiable instruments & these are:
 - a) Promissory Note
 - b) Bill of Exchange
 - c) Cheque

Promissory Note

- A promissory note is an **instrument in writing** (not being a bank note or a currency note) containing an **unconditional undertaking** signed by the maker to pay **a certain sum of money** only to or to the order of a certain person or to the bearer of the instrument. (Sec.4)
- The person who makes the promissory note & promises to pay is called the **maker** & the person to whom the payment is to be made is called the **payee**.

Specimen of a promissory note

Rs. 1000	Kanpur, Nov. 17, 2015		
Three months after date, I promise to pay Shyam or order the sum of one thousand rupees, for value received.			
To, Shyam Saket Nagar Kanpur	<table border="1"><tr><td>Stamp</td></tr><tr><td>Sd/- Ram</td></tr></table>	Stamp	Sd/- Ram
Stamp			
Sd/- Ram			

Essential elements of a promissory note

- **Writing:-** The instrument **must be in writing**. Writing includes print & typewriting and may also be in pen or ink.
- **Promise to pay:-** The instrument must contain **an express promise to pay**. The following instrument signed by A is not a promissory note:
Ex. I am bound to pay the sum of Rs. 500 which I received from you.

- **Definite and Unconditional:-** The promise to pay must be definite and unconditional. If it is conditional or uncertain, the instrument is invalid.
Ex. I promise to pay B Rs. 500 when he delivers the goods.
- **Signed by the maker:-** The instrument must be signed by the maker otherwise it is incomplete & of no effect.
- **Certain parties:-** The instrument must point out with certainty as to **who the maker is & who the payee is**. Where the maker & the payee can't be identified with certainty with the instrument itself, the instrument even if contain an unconditional promise to pay is not a promissory note.
- **Certain sum of money:-** The sum payable must be certain and must not be capable of contingent addition or subtraction.
Ex. I promise to pay B Rs. 1000 and all other sums due to him.
- **Promise to pay money only:-** The payment to be made under the instrument must be in the legal tender money of India. If the instrument contains a promise to pay something in addition to money, it cannot be a promissory note.
Ex. I promise to pay B 20 shares & 10 bonds of XY limited.
- It may be payable on demand or after a definite period of time.

Bill of exchange

Definition

According to the Negotiable Instruments Act, 1881, 'Bill of Exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument'.

An analysis of the definition given above highlights the following important features of a bill of exchange.

1. It is a written document.
2. It is an unconditional order.
3. It is an order to pay a certain sum of money.
4. It is signed by the drawer.
5. It bears stamp or it is drafted on a stamp paper.
6. It is accepted by the acceptor.
7. The amount is paid to drawer or endorsee

Format of Bills of Exchange.**Bill of Exchange**

<div style="border: 1px solid black; padding: 5px; display: inline-block;">Stamp</div> Rs. 10,000/-	<i>Accepted Sundaram 4/6/2003</i>	328, Bazaar Street, Trichy - 4, 01.06.2003
Three months after date pay to me or to my order the sum of Rupees Ten Thousand only for value received.		
To Thiru.Sundaram, 430, Mint Street, Chennai - 1.	Damodaran	

Cheque

- **A cheque is a bill of exchange drawn upon a specified banker and payable on demand** and it includes the electronic image of a cheque or a cheque in the electronic form.
- A cheque in the electronic form means, "Cheque which contains the exact mirror image of a proper cheque and is generated, written & signed in a secure system ensuring the minimum safety standard with the use of digital signature".

A cheque is the species of a bill of exchange but it has the following two additional qualifications:

- a) It is always drawn on specified banker.**
- b) It is always payable on demand.**

All cheques are bill of exchange but all bill of exchange are not cheque. A cheque must have all the essential elements of a bill of exchange **but it doesn't require acceptance as it is intended for immediate payment.**

Some Important Terms.

1. Drawing of a Bill

The seller (creditor) prepares the bill in the form presented above. The act of preparing the bill in its complete form with the signature is known as '**drawing**' a bill.

2. Parties

There are three parties to a bill of exchange as under.

- i. **Drawer:** The person who prepares the bill is called the drawer i.e., a creditor.
- ii. **Drawee:** The person who has to make the payment or who accepts to make the payment is called the drawee i.e., a debtor.
- iii. **Payee:** The person who receives the payment is payee. He may be a third party or the drawer himself.

In the above format drawer and payee is Damodaran. Sundaram is the drawee.

3. Acceptance

In a bill drawee gives his acceptance by writing the word '**accepted**' and also puts his signature and the date. Now the bill becomes a legal document enforceable in the court of law.

4. Due date and Days of grace

When a bill is drawn payable after a specified period the date on which the payment should be made is called '**Due Date**'. In the calculation of the due date three extra days are added to the specified period of the bill are known as '**Days of Grace**'. If the date of maturity falls on a holiday, the bill will be due for payment on the preceeding day.

Example :

Date of Bill	Period of Bill	Days of Grace	Due date
1st March	2 month	3	4th May
12th July	1 month	3	14th Aug. since 15th Aug. (being independence day) is a public holiday.
1st Oct.	30 days	3	3rd November

5. Endorsement

Endorsement means writing of one's signature on the face or back of a bill for the purpose of transferring the title of the bill to another person. The person who endorses is called the "**Endorser**". The person to whom a bill is endorsed is called the "**Endorsee**". The endorsee is entitled to collect the money.

6. Discounting

When the holder of a bill is in need of money before the due date of a bill he can convert it into cash by discounting the bill with his banker. This process is referred to as '**discounting of bill**'. The banker deducts a small amount of the bill which is called discount and pay the balance in cash immediately to the holder of the bill.

7. Retiring of Bill

An acceptor may make the payment of a bill before its due date and discharge his liability, it is called as '**retirement of a bill**'. Usually the holder of the bill allows a concession called rebate to the drawee for the unexpired period of the bill.

8. Renewal

When the acceptor of a bill knows in advance that he will not be able to meet the bill on its due date, he may approach the drawer

with a request for extension of time for payment. The drawer of the bill may agree to cancel the original bill and draw a new bill for the amount due with interest thereon. This is referred to as **renewal**.

9. Dishonour

Dishonour of the bill means the non-payment of bill, when it is presented for payment.

10. Noting and Protesting

If a bill is dishonoured, the drawer may approach the court, and file a suit against the drawee. In order to collect documentary evidence, the drawer may approach a lawyer and explain the fact of the dishonour of the bill. The lawyer will take the bill to the drawee and ask for the payment. If the drawee does not make the payment, the lawyer will note the statement of the drawee and get the statement signed by him. The lawyer will then put his signature. The statement noted by the lawyer will be the documentary evidence for the dishonour of the bill. Writing this statement by the lawyer is known as **noting** of the bill. The lawyer performing this work of noting the bill is called as the '**Notary Public**'. A notary public is an official appointed by the Government.

After recording a note of dishonour on the dishonoured bill, the Notary Public issues a certificate to this effect which is called **protest**. A protest is a certificate issued by the Notary Public attesting that the bill has been dishonoured.

Bills Books

When the number of bills received or issued is large journalising of all bill transactions will result in enormous waste of time. Hence, suitable registers like bills receivable book and bills payable book are maintained to record the receipt of bills receivable and issue of bills payable respectively. These books are also called Bills Journals / Books.

Bills Receivable Book

Bills receivable (B/R) book is used for the purpose of recording the details of bills receivable. The individual accounts of parties from whom bills are received will be credited with the amount in the bills receivable book. The periodic total is posted to the debit of bills receivable account in the ledger by writing "To sundries as per Bills Receivable Book".

Bills Payable Book

Bills payable (B/P) book is used for the purpose of recording the details of bills payable. The individual accounts of the parties to whom the bills are issued will be debited with the corresponding amount in the bills payable book. The periodic total is posted to the credit of bills payable account in the ledger by writing "By Sundries as per Bills Payable Book"

Journal Proper

Journal proper is used for making the original record of such transactions for which no special journal has been kept in the business. The usual entries that are put through this journal is explained below.

1. Opening Entries

Opening entries are used at the beginning of the financial year to open the books by recording the assets, liabilities and capital appearing in the balance sheet of the previous year.

Example: Mr. Ramnath commenced business with the following items, make the opening entries in journal proper as on 1st January 2003.

Cash	Rs. 30,000
Stock	Rs. 15,000
Furniture	Rs. 3,000
Sundry creditors	Rs. 10,000

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Jan. 1	Cash A/c Dr. Stock A/c Dr. Furniture A/c Dr. To Sundry creditors A/c To Capital A/c (Commencement of business with assets & liabilities)		30,000 15,000 3,000	10,000 38,000

2. Closing Entries

Closing entries are recorded at the end of the accounting year for closing accounts relating to expenses and revenues. These accounts are closed by transferring the balances to the Trading, Profit and Loss Account.

Example: Salaries paid Rs.15,000. Give the closing entry as on Dec. 31, 2003.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Profit & Loss A/c Dr. To Salaries A/c (Closing entry for salaries paid)		15,000	15,000

3. Adjusting Entries

To arrive at a correct figure of profits and loss, certain accounts require some adjustments. Entries for making such adjustments are called as adjusting entries.

These are needed at the time of preparing the final accounts.

Example: Provide depreciation on furniture Rs.1,00,000 @ 10% per annum. Give adjustment entry as on Dec. 31, 2003

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Depreciation A/c Dr. To Furniture A/c (Depreciation written off)		10,000	10,000

4. Transfer Entries

Transfer entries are passed in the journal proper for transferring an item entered in one account to another account.

Example: When the proprietor takes goods Rs.5,000 for personal use. Give transfer entry on Dec. 31, 2003.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Drawings A/c Dr. To Purchases A/c (Goods withdrawn for personal use)		5,000	5,000

5. Rectifying Entries

Rectifying entries are passed for rectifying errors which might have committed in the book of accounts.

Example: Purchase of furniture for Rs.10,000 was debited to Purchases Account. Pass rectifying entry on Dec. 31, 2003.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Furniture A/c Dr. To Purchases A/c (Wrong debit to purchases account rectified)		10,000	10,000

6. Miscellaneous Entries or Entries of Casual Nature

These are entries of casual nature which do not occur so frequently. Such transactions include the following:

- i. Credit purchases and credit sale of assets which cannot be recorded through purchases or sales book.
- ii. Endorsement, renewal and dishonour of bill of exchange which cannot be recorded through bills book.
- iii. Other adjustments like interest on capital and loan, bad debts, reserves etc.