

Prepare a Reconciliation Statement as on June 30, 1988.

(Answer: Overdraft as per Cash Book Rs. 7,915)

- 9 Prepare a Bank Reconciliation Statement from the following particulars and find out the balance as per pass book on December 31, 1987. The bank balance as per cash book was Rs. 5,600.
- 1 Cheques Received from the following persons were paid into the bank in December 1987 but were credited by the bank in January 1988.
Shekhar Rs. 2,500
Madan Rs. 3,200
Rakesh Rs. 4,480
 - 2 Cheques issued by the firm in **December** 1987, were cashed in **January 1988**.
Ahmed Rs. 700
David Rs. 900
Siva Rs. 550
 - 3 The pass book showed a credit of Rs. 100 for interest.
 - 4 A debit of Rs. 20 for bank charges appeared twice in the pass book. However, it did not appear in cash book at **all**.
 - 5 **Jagdeep**, a customer, deposited a cheque of Rs. 100 directly into firm's bank account for which there was no entry in the cash book,
 - 6 A cheque for Rs. 100 received from **Pradeep** and deposited into the bank was returned dishonoured.
 - 7 **A cheque** received from Anil for Rs. 690 was entered twice in **the** cash book.

(Answer: Overdraft as per Pass Book Rs. 3,060)

- 10 Compile a Petty Cash book on the **Imprest** System from the following particulars.

1988

| | | | |
|------|----|----------------------------------|--------|
| Feb. | 1 | Received a cheque for petty cash | 200.00 |
| " | 2 | Bought postage stamps | 4.70 |
| " | 4 | Paid for stationery | 10.00 |
| " | 6 | Paid for tonga hire | 5.00 |
| " | 8 | Paid cartage | 10.00 |
| " | 9 | Paid for two telegrams | 15.20 |
| " | 12 | Coolie charges | 5.00 |
| " | 15 | Paid for tea for customers | 5.50 |
| " | 17 | Paid for minor repairs | 12.00 |
| " | 18 | Bus fare | 4.50 |
| " | 19 | Purchased ink and pencils | 7.50 |
| " | 20 | Purchased soap | 5.50 |
| " | 21 | Paid to sweeper | 5.00 |
| " | 22 | Paid taxi fare | 45.50 |
| " | 23 | Cold drinks for customers | 7.50 |
| " | 25 | Paid travelling expenses | 20.00 |
| " | 26 | Bought Air mail letters | 17.50 |
| " | 28 | Purchased order books | 12.00 |

(Answer: On March 1, 1988, petty cashier will be given a cheque for Rs. 192.40)

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

UNIT 4 OTHER SUBSIDIARY BOOKS

Structure

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Special Purpose Subsidiary Books
 - 4.2.1 Purchases Journal
 - 4.2.2 Purchases Returns Journal
 - 4.2.3 Sales Journal
 - 4.2.4 Sales Returns Journal
- 4.3 Journal Proper
- 4.4 A Comprehensive Illustration
- 4.5 Let Us Sum Up
- 4.6 Key Words
- 4.7 Some Useful Books
- 4.8 Answers to Check Your Progress
- 4.9 Terminal Questions/Exercises

4.8 OBJECTIVES

After studying this unit you should be able to:

- prepare purchases and purchases returns journals and post them into ledger
- prepare sales and sales returns journals and post them into ledger
- identify transactions to be recorded in journal proper and explain the journal entries to be passed

4.1 INTRODUCTION

In Unit 3 you learnt why journal is sub-divided and which subsidiary books are generally used in business. You also learnt about the preparation of different types of cash books and their posting into ledger. In this unit we intend to discuss most of the remaining subsidiary books including Journal Proper. The Bills Receivable Book and Bills Payable Book will be taken up in Unit 5 where bills of exchange transactions have been discussed in detail.

4.2 SPECIAL PURPOSE SUBSIDIARY BOOKS

You have learnt that in any business the number of cash and bank transactions is quite large. Hence, the firms always maintain a separate book called Cash Book to record them. Similarly, the transactions relating to purchase and sale of goods are also large in number and they take place too frequently. It is, therefore, considered desirable to maintain separate books for purchases and sales of goods also. But you know cash purchases and cash sales of goods are recorded in the Cash Book. Therefore, separate books will be needed only for recording credit purchases and credit sales of goods. The firms generally maintain four separate books to record credit transactions relating to goods. These are: (i) Purchases journal, (ii) Purchases Returns Journal, (iii) Sales Journal, and (iv) Sales Returns Journal. Let us now discuss them one by one.

4.2.1 Purchases Journal

The Purchases Journal (also called Purchases Book) is used for recording credit purchases of goods and raw-materials. Note that the credit purchases of fixed assets like furniture, vehicles, etc. are not recorded in this book. They are to be recorded in Journal Proper about which you will learn later in this unit. The Purchases Journal is also called 'Purchases Book', 'Purchases Day Book', and 'Invoice Book'. The proforma of Purchases Journal is given in Figure 4.1.

Figure 4.1: Purchases Journal

| Date | Name of the Supplier | Invoice No. | L. F. | Amount | Remarks |
|------|----------------------|-------------|-------|--------|---------|
| | | | | | |

When goods are purchased on credit you will receive a bill from the seller. Such a bill is called 'Invoice'. It contains the details pertaining to the quantity, description, price, trade discount, total amount, etc. It is generally prepared in duplicate. The original is given to the buyer and the duplicate is retained by the seller. The entries in the Purchase Journal are made on the basis of the purchase invoices received. Although the invoices bear a number but the buyer accords his own serial number to all inward invoices for easy reference. It is this **serial** number which will be entered in the invoice number column of the Purchases Journal.

The **transactions** recorded in the Purchases Journal are to be posted to their respective personal accounts in the ledger. When a purchase is made on credit, the supplier becomes the creditor for the firm. Hence, every credit purchase recorded in **the** Purchases Journal is posted on the credit side of the **personal** account of the supplier by writing 'By Purchases A/c' in particulars column. The Purchases Journal is totalled periodically, say, weekly or monthly. This total is posted to the debit side of Purchases Account in the ledger by writing 'To Sundries—as per Purchases Journal'. Thus, you observe that posting of **Purchases** Journal involves two steps: (i) posting each **purchase** to the credit of the respective personal accounts of suppliers, and (ii) posting the total purchases to **the** debit of the Purchases Account. With this, the double entry for credit purchases is complete.

4.2.2 Purchases Returns Journal

In any business, sometimes goods purchased may have to be returned to the supplier either partly or fully. This may become necessary when they are found to be defective, damaged in transit, inferior quality, short weight, received too late, or not in conformity with the order **given**. If the number of such returns is small they can be recorded in the journal itself. But, if it is large, a separate book called 'Purchases Returns Journal' should be used for recording these transactions. This book is also called 'Returns Outwards Journal' or 'Purchases Returns Book'. The **proforma** of a Purchases Returns Journal is given in Figure 4.2.

Figure 4.2: Purchases Returns Journal

| Date | Name of the Supplier | Debit Note No. | L. F. | Amount | Remnrks |
|------|----------------------|----------------|-------|--------|---------|
| | | | | | |

When goods are **returned** to the supplier, a statement called 'Debit Note' is sent to him intimating that his account has been debited on account of the goods returned. The debit note also contains particulars and the value of goods returned. It is also prepared in duplicate. The original is sent to the supplier and the duplicate is retained by the firm. The entries in the Purchases Returns Journal are made on the basis of the copies of debit notes issued, The debit notes bear a serial number which is duly recorded in the third column of the Purchases Returns Journal. While recording the amount of purchases returns, you **must** remember that if the original purchases involve some trade discount, it is also adjusted in the value of goods returned. The transactions recorded in the Purchases Returns Journal **are** to be posted to their respective personal accounts in the ledger. Separate account in the name of **each** supplier already exists in the ledger (opened at the time of purchase). The entries **made** in the Purchases Returns Journal will be posted to the debit of each supplier's account by writing 'To Purchases Returns A/c'. The total of the **Purchases** Returns Journal is posted to **to** the credit side of the 'Purchases Returns Account' in the **ledger** by writing 'By Sundries—as per **Purchases Returns Journal**'.

4.2.3 Sales Journal

The Sales Journal is used for recording the credit sales of goods only. The credit sale of items which do not constitute goods are not to be recorded in this book. The Sales Journal is also called 'Sales Book' or 'Sales Day Book'.

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

You know when goods are sold on credit, an invoice is given to the buyer. The seller generally has a bound invoice book which contains consecutively numbered invoices in duplicate. While the original copy is given to the buyer, the duplicate remains in the book itself. The entries in the Sales Journal are made with the help of the duplicate copies of the invoices issued.

The customer to whom the goods are sold on credit becomes debtor to the firm. Hence, each sale recorded in the Sales Journal is posted to the debit of the personal account of the customer concerned by writing 'To Sales A/c' in particulars column. The total of the Sales Journal is posted on the credit side of the Sales Account by writing 'By Sundries—as per Sales Book'.

4.2.4 Sales Returns Journal

When customers return goods to the business, it is normally recorded in a separate book called 'Sales Returns Journal'. If, however, the number of such returns are small, they can be recorded in the Journal itself. The Sales Returns Journal is also called 'Returns Inwards Journal' or 'Sales Returns Book'. Its ruling is more or less similar to that of Purchases Returns Journal. The second column of the Sales Returns Journal is used for recording the name of the customer and the third column for credit note number, while in Purchases Returns Journal they are used for recording the name of the supplier and debit note number respectively.

When a customer returns goods to the business, a statement called 'Credit Note' is issued to him. It contains particulars and the value of goods returned by him. The entries in Sales Returns Journal are made with the help of credit notes issued. While recording the account of sales returns, you must remember that if the original sales involve some trade discount, it is also adjusted in the value of goods returned. The transactions recorded in the Sales Returns Journal are posted to the respective personal accounts in the ledger. Separate accounts in the name of each customer already exists in the ledger (opened at the time of sale). Credit the customers' accounts individually by writing 'By Sales Returns A/c' and then post the total of the Sales Returns Journal to the debit side of the Sales Returns A/c by writing 'To Sundries—as per Sales Returns Journal'.

Look at Illustration 1 and study how credit transactions relating to goods are recorded in various special purpose subsidiary books and postings made in the ledger.

Illustration 1

Enter the following transactions in proper subsidiary books of Chekra Enterprises and show their postings into ledger.

| | | Rs. |
|--------|-----------------------------|-------|
| 1987 | | |
| Aug. 1 | Sold goods to Ram Singh | 2,550 |
| " 2 | Bought goods from Dhillon | 1,200 |
| " 3 | Sold goods to Gopinath | 2,500 |
| " 4 | Purchased goods from Habeeb | 3,600 |
| " 5 | Ram Singh returned goods | 350 |
| " 6 | Goods returned to Dhillon | 200 |
| " 9 | Gopinath returned goods | 150 |
| " 10 | Returned goods to Habeeb | 260 |
| " 12 | Bought goods from Sanyal | 4,750 |
| " 13 | Sold goods to Sailo | 6,200 |

1987

| | | | Rs. |
|---------|--|--|-------|
| Aug. 14 | Sold goods to Michael | | 4,850 |
| " 15 | Purchased goods from Anthony | | 3,940 |
| " 18 | Returned goods to Sanyal | | 320 |
| " 19 | Sailo returned goods | | 230 |
| " 22 | Michael returned goods | | 150 |
| " 25 | Returned goods to Anthony | | 250 |
| " 27 | Sold goods to Solanki | | 5,340 |
| " 28 | Purchased goods from Gopalan | | 4,670 |
| " 29 | Sold goods to Harbinder Singh subject to a trade discount of 5% | | 2,000 |
| " 30 | Purchased goods from Bhandari subject to a trade discount of 10% | | 1,000 |

Solution:

PURCHASES JOURNAL

| Date | Name of the Supplier | Invoice No. | L. F. | Amount | Remarks |
|--------|----------------------|-------------|-------|--------|---------|
| 1987 | | | | Rs. | |
| Aug. 2 | Dhillon | | | 1,200 | |
| " 4 | Habeeb | | | 3,600 | |
| " 12 | Sanyal | | | 4,750 | |
| " 15 | Anthony | | | 3,940 | |
| " 28 | Gopalan | | | 4,670 | |
| " 30 | Bhandari | | | 900 | |
| " 31 | Total | | | 19,060 | |

PURCHASES RETURNS JOURNAL

| Date | Name of the Supplier | Debit Note No. | L. F. | Amount | Remarks |
|--------|----------------------|----------------|-------|--------|---------|
| 1987 | | | | Rs. | |
| Aug. 6 | Dhillon | | | 200 | |
| " 10 | Habeeb | | | 260 | |
| " 18 | Sanyal | | | 320 | |
| " 25 | Anthony | | | 250 | |
| " 31 | Total | | | 1,030 | |

SALES JOURNAL

| Date | Name of the Customer | Invoice No. | L. F. | Amount | Remarks |
|--------|----------------------|-------------|-------|--------|---------|
| 1987 | | | | Rs. | |
| Aug. 1 | Ram Singh | | | 2,550 | |
| " 3 | Gopinath | | | 2,500 | |
| " 13 | Sailo | | | 6,200 | |
| " 14 | Michael | | | 4,850 | |
| " 27 | Solanki | | | 5,340 | |
| " 29 | Harbinder Singh | | | 1,900 | |
| " 31 | Total | | | 23,340 | |

SALES RETURNS JOURNAL

Other Subsidiary Books

| Date | Name of the Customer | Credit Note No. | L. F. | Amount | Remarks |
|--------|----------------------|--------------------|-------|--------|---------|
| 1987 | | | | Rs. | |
| Aug. 5 | Ram Singh | | | 350 | |
| " 9 | Gopinath | | | 150 | |
| " 19 | Sailo | | | 230 | |
| " 22 | Michael | | | 150 | |
| " 31. | Total | | | 880 | |

| Purchases Account | | | | | |
|-------------------|---|--------|------|-------------|--------|
| Dr. | | | Cr. | | |
| Date | Particulars | Amount | Date | Particulars | Amount |
| 1987 | | Rs. | | | |
| Aug. 31 | To Sundries—as per Purchases Journal | 19,060 | | | |

| Dhillon's Account | | | | | |
|-------------------|--------------------------|-----|--------|------------------|-------|
| 1987 | | Rs. | 1987 | | Rs. |
| Aug. 6 | To Purchases Returns A/c | 200 | Aug. 2 | By Purchases A/c | 1,200 |

| Habeeb's Account | | | | | |
|------------------|--------------------------|-----|--------|------------------|-------|
| 1987 | | Rs. | 1987 | | Rs. |
| Aug. 10 | To Purchases Returns A/c | 260 | Aug. 4 | By Purchases A/c | 3,600 |

| Sanyal's Account | | | | | |
|------------------|--------------------------|-----|---------|------------------|-------|
| 1987 | | Rs. | 1987 | | Rs. |
| Aug. 18 | To Purchases Returns A/c | 320 | Aug. 12 | By Purchases A/c | 4,750 |

| Anthony's Account | | | | | |
|-------------------|--------------------------|-----|---------|------------------|-------|
| 1987 | | Rs. | 1987 | | Rs. |
| Aug. 25 | To Purchases Returns A/c | 250 | Aug. 15 | By Purchases A/c | 3,940 |

| Gopalan's Account | | | | | |
|-------------------|--|--|---------|------------------|-------|
| | | | 1987 | | Rs. |
| | | | Aug. 28 | By Purchases A/c | 4,670 |

| Bhandari's Account | | | | | |
|--------------------|--|--|---------|------------------|-----|
| | | | 1987 | | Rs. |
| | | | Aug. 30 | By Purchases A/c | 900 |

| Purchases Returns Account : | | | | | |
|-----------------------------|--|--|---------|---|-------|
| | | | 1987 | | Rs. |
| | | | Aug. 31 | By Sundries—as per Purchases Returns Journal | 1,030 |

| Dr. | | Sales Account | | | | Cr. |
|-----|--|---------------|-----------------|----------------------------------|--|---------------|
| | | | 1987 Aug. 31 | By Sundries—as per Sales Journal | | Rs. 23,340 |

| Ram Singh's Account | | | | | |
|---------------------|--------------|--------------|----------------|----------------------|------------|
| 1987 Aug. 1 | To Sales A/c | Rs. 2,550 | 1987 Aug. 5 | By Sales Returns A/c | Rs. 350 |

| Gopinath's Account | | | | | |
|--------------------|--------------|--------------|----------------|----------------------|------------|
| 1987 Aug. 3 | To Sales A/c | Rs. 2,500 | 1987 Aug. 9 | By Sales Returns A/c | Rs. 150 |

| Salle's Account. | | | | | |
|------------------|--------------|--------------|-----------------|----------------------|------------|
| 1987 Aug. 13 | To Sales A/c | Rs. 6,200 | 1987 Aug. 19 | By Sales Returns A/c | Rs. 230 |

| Michael's Account | | | | | |
|-------------------|--------------|--------------|-----------------|----------------------|------------|
| 1987 Aug. 14 | To Sales A/c | Rs. 4,850 | 1987 Aug. 22 | By Sales Returns A/c | Rs. 150 |

| Solanki's Account | | | | | |
|-------------------|--------------|--------------|--|--|--|
| 1987 Aug. 27 | To Sales A/c | Rs. 5,340 | | | |

| Harbinder Singh's Account | | | | | |
|---------------------------|--------------|--------------|--|--|--|
| 1987 Aug. 29 | To Sales A/c | Rs. 1,900 | | | |

| Sales Returns Account | | | | | |
|-----------------------|--|------------|--|--|--|
| 1987 Aug. 31 | To Sundries—as per Sales Returns Journal | Rs. 880 | | | |

Check Your Progress A

1 What is an invoice?

2 What is a debit note?

- 3 What is a credit note?
- 4 Fill in the blanks.
- i) Purchases Journal records credit purchases of only.

ii) Sales Journal records all sales of goods.

iii) A is sent to a customer when he returns the goods.

iv) Total purchases are posted toAccount at the end of every month.

v) Total of Sales Journal is posted on theside of Sales Account at the end of every month.

vi) Sales Returns are also called.....

vii) Purchases Returns are also called.....

viii) Debit Note is sent to the supplier when the goods areto him.

4 3 JOURNAL PROPER

You have learnt that certain types of transactions which are repetitive and large in number are recorded in special journals called subsidiary books. The remaining transactions are to be recorded in the journal itself which is now called the Journal Proper. As a matter of fact, all events and transactions for which the firm does not maintain a special journal shall be recorded in the Journal Proper. The following are the examples of transactions which shall usually be recorded in Journal Proper.

- 1 Opening Entry
- 2 Closing Entries
- 3 Transfer Entries
- 4 Adjustment Entries
- 5 Rectification Entries
- 6 Miscellaneous Entries

Let us now briefly discuss them one by one.

1 Opening Entry: An opening entry is passed in the journal for opening a new set of accounts. This may be needed at the time of commencement of business or at the commencement of new accounting year. If a person commences business only with cash, there is no need to pass a journal entry. The cash brought in is simply entered in the Cash Book, But, if he also brings some other assets, an opening entry will have to be recorded in the journal. You will debit the concerned assets accounts and credit the Capital Account. In case of a running business, an opening entry is passed at the commencement of the new accounting year to incorporate the balances of various assets and liabilities brought forward from the previous year into the current year's books. You have already learnt about it in Unit 2.

2 Closing Entries: At the end of each accounting year, when final accounts are prepared, the nominal accounts are closed by transferring them to Trading Account or Profit and Loss Account. The journal entries passed for this purpose are called 'Closing Entries'. These entries are explained later in Unit 7.

3 Transfer Entries: When an amount is to be transferred from one account to another, you have to pass an entry in the Journal Proper in order to effect the transfer. Such entries are called 'Transfer Entries', Suppose, you want to transfer proprietor's total drawings made during the year to his Capital Account. Total drawings appear in Drawings Account which

shows a debit balance. You will transfer this balance to Capital Account by passing the following entry in the Journal Proper:

| | |
|------------------------|-----|
| Capital Account | Dr. |
| To Drawings Account | |
| (Being Transfer entry) | |

4 Adjustment Entries: At the time of preparing the final accounts, it becomes **necessary** to bring into books of account certain unrecorded items like closing stock, depreciation on fixed assets, interest on capital, expenses incurred but not yet paid, income earned but not yet received, etc. Entries passed in the Journal Proper to record such items are called 'Adjustment Entries'. These entries are explained in detail later in Unit 8.

5 Rectification Entries: You may commit errors while recording transactions in **various** books or while posting, totalling, balancing, etc. Such errors are generally **corrected** through entries in **Journal Proper** and are known as 'Rectification Entries'. Errors and their rectifications will be dealt with in Unit 9.

6 Miscellaneous Entries: If, in addition to the entries mentioned above, there is any transaction which cannot be recorded in any of the special journals, it will be entered in **the** Journal Proper. Examples of such transactions are:

- i) Credit purchases of fixed assets, investments, etc.
- ii) Credit sales of fixed assets, investments, etc.
- iii) Withdrawal of goods from the business by the owner for his personal use.
- iv) Loss of goods by theft, accident, **fire**, etc.
- v) Special allowances received from suppliers or given to **customers**.
- vi) Endorsement or dishonour of bills.
- vii) Writing off bad debts.

Look at the Illustration 2 for entries of such transactions in the Journal Proper.

Illustration 2

Enter the following transactions in Journal Proper of Kansal Enterprises.

1988

| | |
|-------|--|
| May 3 | Sold office van for Rs.15,000 to Ahmed Ali. |
| " 8 | The proprietor took away goods worth Rs. 1,000 for personal use. |
| " 15 | Fire broke out in the premises and goods worth Rs. 5,000 were destroyed. |
| " 21 | Purchased furniture on credit for Rs. 2,000 from Singh & Co. for the office. |
| " 25 | Amount of Rs. 500 due from Shyam is irrecoverable, as he became insolvent. |
| " 28 | Misra , a customer, informed that some goods were damaged in transit. An allowance of Rs. 50 was granted to him for repairs |

Solution:

JOURNAL PROPER

| Date | Particulars | L. F. | Debit Amount | Credit Amount |
|-------|---|-------|--------------|---------------|
| 1988 | | | Rs. | Rs. |
| May 3 | Ahmed Ali Dr. To Office Van A/c (Being the credit sale of office van to Ali) | | 15,000 | 15,000 |
| " 8 | Drawings A/c Dr. To Purchases A/c (Being the withdrawal of goods by the owner for his domestic use) | | 1,000 | 1,000 |
| " 15 | Loss by Fire A/c Dr. To Purchases A/c (Being loss of goods by fire accident) | | 5,000 | 5,000 |
| " 21 | Furniture A/c Dr. To Singh & Co. (Being the furniture bought from Singh) | | 2,000 | 2,000 |

| | | | | | | |
|---|----|---|-----|--|-----|-----|
| " | 25 | Bad Debts A/c To Shyam (Being the amount irrecoverable from Shyam) | Dr. | | 500 | 500 |
| " | 28 | Allowances A/c To Misra (Being an allowance granted for repairs of goods damaged in transit) | Dr. | | 50 | 50 |

Other Subsidiary Books

Check Your Progress B

1 List five transactions which are to be recorded in the Journal Proper.

2 State whether each of the following statements is True or False.

- i) Closing entries **are** passed for transferring the **amount** of one account to another.
- ii) Rectification entries are passed for correction of errors in books of account.
- iii) Credit purchases of fixed assets will be recorded in the Purchases Book.
- iv) Special allowance granted to a **customer** is recorded in Sales Returns Book.
- v) Journal Proper is meant for recording all such transactions which cannot be recorded in any special journal.
- vi) Cash sale of fixed asset will be recorded in Journal Proper.

4.4 A COMPREHENSIVE ILLUSTRATION

You have learnt the **method** of recording transactions In journal and its sub-divisions. **You** have also learnt their posting into the **concerned** accounts in **the** ledger and the **preparation** of a Trial Balance to check the arithmetical accuracy of the books of account: Let us now take a comprehensive example covering all types of transactions, **record** them in appropriate **books**, post them into ledger, and prepare a Trial Balance.

Illustration 3

On **January 1**, 1988 the balances of **Tenali** Traders **stood** as follows :

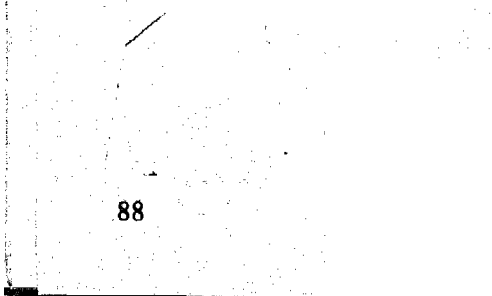
Cash in hand Rs. 2,000; **Cash** at bank **Rs. 12,300**; **Stock** in trade Rs. **51,700**; **Furniture** Rs. 8,200; Debtors Rs. 6,600 (Shyam Rs. **3,500**, Shanker Rs. 2,600, Laxman Rs. 500); Creditors **Rs. 7,100** (Reddy & Co. **Rs. 3,020**, Kishore **Rs. 4,080**); Capital Rs. **73,700**.

Their Transactions during the **month** of January were as follows :

| 1988 | | Rs. |
|------|--|--------|
| Jan. | 1 Borrowed from Globe Finance Co. | 10,000 |
| " | 2 Bought goods for cash | 2,300 |
| " | 2 Purchased from Reddy & Co. | 5,500 |
| " | 3 Paid into Bank | 9,000 |
| " | 5 Received Cheque from Shyam | 3,500 |
| " | 6 Sold goods for cash | 1,200 |
| " | 7 Sold to Shanker | 8,700 |
| " | 8 Paid Kishore by cheque | 2,000 |
| | Discount received | 100 |

| | | | |
|------|----|--|--------|
| Jan. | 9 | Received Cheque from Shanker on account | 5,000 |
| " | 9 | Sold to Reddy & Co. | 380 |
| " | 10 | Sold goods to Thomas | 10,000 |
| " | 10 | Drew cash from bank | 1,000 |
| " | 12 | Purchased postage stamps | 300 |
| " | 14 | Bought goods from Bose & Sons | 9,300 |
| " | 16 | Paid Globe Finance & Co. by cheque in part payment of loan | 5,000 |
| " | 17 | Received cash from Laxman | 500 |
| " | 21 | Paid Reddy & Co. by cheque | 6,000 |
| " | 23 | Carriage paid | 100 |
| " | 24 | Withdrew cash for private expenses | 1,500 |
| " | 28 | Paid salaries in cash | 800 |
| " | 30 | Rent due to landlord | 500 |
| " | 31 | Purchased furniture on credit from Joseph. | 600 |
| " | 31 | Paid interest to Globe Finance Co. | 100 |

Enter the above transactions in the appropriate books, post them into ledger, and prepare a Trial balance.



Solution:

Books of Tanali Traders

CASH BOOK

| Dr. | | | | | | Cr. | | | | | |
|--------|-------------------------------|------|----------|--------|--------|---------|-------------------------------|------|----------|--------|--------|
| Date | Particulars | L.F. | Discount | Cash | Bank | Date | Particulars | L.F. | Discount | Cash | Bank |
| 1988 | | | Rs. | Rs. | Rs. | 1988 | | | Rs. | Rs. | Rs. |
| Jan. 1 | To Balance b/d | | | 2,000 | 12,300 | Jan. 2 | By Purchases A/c | | | 2,300 | |
| " 1 | To Globe Finance Co. Loan A/c | | | 10,000 | | Jan. 3 | By Bank A/c | C | | 9,000 | |
| " 3 | To Cash A/c | C | | | 9,000 | Jan. 8 | By Kishore | | 100 | | 2,000 |
| " 5 | To Shyam | | | | 3,500 | Jan. 10 | By Cash A/c | C | | | 1,000 |
| " 6 | To Sales A/c | | | 1,200 | | Jan. 12 | By Postage A/c | | | 300 | |
| " 9 | To Shanker | | | | 5,000 | Jan. 16 | By Globe Finance Co. Loan A/c | | | | 5,000 |
| " 10 | To Bank A/c | C | | 1,000 | | Jan. 21 | By Reddy & Co. | | | | 6,000 |
| " 17 | To Laxman | | | 500 | | Jan. 23 | By Carriage A/c | | | 100 | |
| | | | | | | Jan. 24 | By Drawings A/c | | | 1,500 | |
| | | | | | | Jan. 28 | By Salaries A/c | | | 800 | |
| | | | | | | Jan. 31 | By Interest A/c | | | 100 | |
| | | | | 14,700 | 29,800 | Jan. 31 | By Balance c/d | | | 600 | 15,800 |
| Feb. 1 | To Balance b/d | | | 600 | 15,800 | | | | 100 | 14,700 | 29,800 |

PURCHASES JOURNAL

| Date | Name of the Supplier | Invoice No. | L.F. | Amount | Remarks |
|--------|----------------------|-------------|------|--------|---------|
| 1988 | | | | Rs. | |
| Jan. 2 | Reddy & Co. | | | 5,500 | |
| " 14 | Bose & Sons | | | 9,300 | |
| " 31 | Total | | | 14,800 | |

SALES JOURNAL

| Date | Name of the Customer | Invoice No. | L.F. | Amount | Remark~ |
|--------|----------------------|-------------|------|--------|---------|
| 1988 | | | | Rs. | |
| Jan. 7 | Shanker | | | 8,700 | |
| " 9 | Reddy & Co. | | | 380 | |
| " 10 | Thomas | | | 10,000 | |
| " 31 | Total | | | 19,080 | |

JOURNAL

| Date | Particulars | L. F. | Dr. Amount | Cr. Amount |
|--------|--|-------|------------|------------|
| 1988 | | | Rr. | Rs. |
| Jan. 1 | Cash A/c Dr. | | 2,000 | |
| | Bank A/c Dr. | | 12,300 | |
| | Stock A/c Dr. | | 51,700 | |
| | Furniture A/c Dr. | | 8,200 | |
| | Shyam Dr. | | 3,500 | |
| | Shanker Dr. | | 2,600 | |
| | Laxman Dr. | | 500 | |
| | To Reddy & Co. | | | 3,020 |
| | To Kishore | | | 4,080 |
| | To Capital A/c | | | 73,700 |
| | (Being an opening entry) | | | |
| " 30 | Rent A/c Dr. | | 500 | |
| | To Rent Outstanding A/c | | | 500 |
| | (Being rent due to landlord) | | | |
| " 31 | Furniture A/c Dr. | | 600 | |
| | To Joseph | | | 600 |
| | (Being furniture bought on credit from Joseph) | | | |
| " 31 | Total | | 81,900 | 81,900 |

LEDGER

Globe Finance Co's, Loan Account

| Dr. | | | Cr. | | |
|---------|----------------|--------|--------|----------------|--------|
| Date | Particulars | Amount | Date | Particulars | Amount |
| 1988 | | Rs. | 1988 | | Rs. |
| Jan. 16 | To Bank A/c | 5,000 | Jan. 1 | By Cash A/c | 10,000 |
| 31 | To Balance c/d | 5,000 | | | |
| | | 10,000 | | | 10,000 |
| | | | Feb. 1 | By Balance b/d | 5,000 |

Shyam's Account

| | | | | | |
|--------|----------------|-------|--------|-------------|-------|
| 1988 | | Rs. | 1988 | | Rs. |
| Jan. 1 | To Balance b/d | 3,500 | Jan. 5 | By Bank A/c | 3,500 |

Sales Account

| | | | | | |
|---------|----------------|--------|--------|------------------------------------|--------|
| 1988 | | Rs. | 1988 | | Rs. |
| Jan. 31 | To Balance c/d | 20,280 | Jan. 6 | By Cash A/c | 1,200 |
| | | | " 31 | By Sundries — as per Sales Journal | 19,080 |
| | | | | | 20,280 |
| | | 20,280 | Feb. 1 | By Balance b/d | 20,280 |

Shanker's Account

| | | | | | |
|--------|----------------|--------|--------|----------------|--------|
| 1988 | | Rs. | 1988 | | Rs. |
| Jan. 1 | To Balance b/d | 2,600 | Jan. 9 | By Bank A/c | 5,000 |
| " 7 | To Sales A/c | 8,700 | " 31 | By Balance c/d | 6,300 |
| | | 11,300 | | | 11,300 |
| Feb. 1 | To Balance b/d | 6,300 | | | |

Laxman's Account

| | | | | | |
|--------|----------------|-----|---------|-------------|-----|
| 1988 | | Rs. | 1988 | | Rs. |
| Jan. 1 | To Balance b/d | 500 | Jan. 17 | By Cash A/c | 500 |

Purchases Account

| | | | | | |
|--------|--|--------|---------|----------------|--------|
| 1988 | | Rs. | 1988 | | Rs. |
| Jan. 2 | To Cash A/c | 2,300 | Jan. 31 | By Balance c/d | 17,100 |
| " 31 | To Sundries — as per Purchases Journal | 14,800 | | | |
| | | 17,100 | | | 17,100 |
| Feb. 1 | To Balance b/d | 17,100 | | | |

Kishore's Account

| | | | | | |
|--------|--------------------------|-------|--------|----------------|-------|
| 1988 | | Rs. | 1988 | | Rs. |
| Jan. 8 | To Bank A/c | 2,000 | Jan. 1 | By Balance b/d | 4,080 |
| " 10 | To Discount Received A/c | 100 | | | |
| " 31 | To Balance c/d | 1,980 | | | 4,080 |
| | | 4,080 | Feb. 1 | By Balance b/d | 1,980 |

Discount Received Account

| | | | | | |
|---------|----------------|-----|--------|----------------|-----|
| 1988 | | Rs. | 1988 | | Rs. |
| Jan. 31 | To Balance c/d | 100 | Jan. 8 | By Kishore | 100 |
| | | | Feb. 1 | By Balance b/d | 100 |

Postage Account

| | | | | | |
|---------|----------------|-----|---------|----------------|-----|
| 1988 | | Rs. | 1988 | | Rs. |
| Jan. 12 | To Cash A/c | 300 | Jan. 31 | By Balance c/d | 300 |
| Feb. 1 | To Balance b/d | 300 | | | |

| 1988 | | Rs. | 1988 | | Rs. |
|--------|----------------|-------|--------|------------------|-------|
| Jan. 9 | To Sales A/c | 380 | Jan. 1 | By Balance b/d | 3,020 |
| 21 | To Bank A/c | 6,000 | " 2 | By Purchases A/c | 5,500 |
| " 31 | To Balance c/d | 2,140 | | | |
| | | 8,520 | | | 8,520 |
| | | | Feb. 1 | By Balance b/d | 2,140 |

Carriage Account

| 1988 | | Rs. | 1988 | | Rs. |
|---------|----------------|-----|---------|----------------|-----|
| Jan. 23 | To Cash A/c | 100 | Jan. 31 | By Balance c/d | 100 |
| Feb. 1 | To Balance b/d | 100 | | | |

Drawings Account

| 1988 | | Rs. | 1988 | | Rs. |
|---------|----------------|-------|---------|----------------|-------|
| Jan. 24 | To Cash A/c | 1,500 | Jan. 31 | By Balance c/d | 1,500 |
| Feb. 1 | To Balance b/d | 1,500 | | | |

Salaries Account

| 1988 | | Rs. | 1988 | | Rs. |
|---------|----------------|-----|---------|----------------|-----|
| Jan. 28 | To Cash A/c | 800 | Jan. 31 | By Balance c/d | 800 |
| Feb. 1 | To Balance b/d | 800 | | | |

Interest Paid Account

| 1988 | | Rs. | 1988 | | Rs. |
|---------|----------------|-----|---------|----------------|-----|
| Jan. 31 | To Cash A/c | 100 | Jan. 31 | By Balance c/d | 100 |
| Feb. 1 | To Balance b/d | 100 | | | |

Stock Account

| 1988 | | Rs. | 1988 | | Rs. |
|--------|----------------|--------|---------|----------------|--------|
| Jan. 1 | To Balance b/d | 51,700 | Jan. 31 | By Balance c/d | 51,700 |
| Feb. 1 | To Balance b/d | 51,700 | | | |

Furniture Account

| 1988 | | Rs. | 1988 | | Rs. |
|--------|----------------|-------|---------|----------------|-------|
| Jan. 1 | To Balance b/d | 8,200 | Jan. 31 | By Balance c/d | 8,800 |
| " 31 | To Joseph | 600 | | | |
| | | 8,800 | | | 8,800 |
| Feb. 1 | To Balance b/d | 8,800 | | | |

Capital Account

| 1988 | | Rs. | 1988 | | Rs. |
|---------|----------------|--------|--------|----------------|--------|
| Jan. 31 | To Balance c/d | 73,700 | Jan. 1 | By Balance b/d | 73,700 |
| | | | Feb. 1 | By Balance b/d | 73,700 |

Rent Account

| 1988 | | Rs. | 1988 | | Rs. |
|---------|-------------------------|-----|---------|----------------|-----|
| Jan. 30 | To Rent Outstanding A/c | 500 | Jan. 31 | By Balance c/d | 500 |
| Feb. 1 | To Balance b/d | 500 | | | |

Rent Outstanding Account

| | | | | | Rs. |
|------|----------------|--|---------|----------------|-----|
| Jan. | To Balance c/d | | Jan. 30 | By Rent A/c | 500 |
| | | | Feb. 1 | By Balance b/d | 500 |

Joseph's Account

| 1988 | | Rs. | 1988 | | Rs. |
|---------|----------------|-----|---------|------------------|-----|
| Jan. 31 | To Balance c/d | 600 | Jan. 31 | By Furniture A/c | 600 |
| | | | Feb. 1 | By Balance b/d | 600 |

Dose & Son's Account

| 1988 | | Rs. | 1988 | | Rs. |
|---------|----------------|-------|---------|------------------|-------|
| Jan. 31 | To Balance c/d | 9,300 | Jan. 14 | By Purchases A/c | 9,300 |
| | | | Feb. 1 | By Balance b/d | 9,300 |

Thomas's Account

| 1988 | | Rs. | 1988 | | Rs. |
|---------|----------------|--------|---------|----------------|--------|
| Jan. 10 | To Sales A/c | | Jan. 31 | By Balance c/d | 10,000 |
| Feb. 1 | To Balance b/d | 10,000 | | | |

TRIAL BALANCE as on January 31, 1988

| Name of Account | L. F. | Dr. Balances | Cr. Balances |
|------------------------------|-------|-----------------|-----------------|
| Cash in hand | | Rs. 600 | Rs. |
| Cash at bank | | 15,800 | |
| Globe Finance Co's. Loan A/c | | | 5,000 |
| Sales A/c | | | 20,280 |
| Shanker | | 6,300 | |
| Purchases A/c | | 17,100 | |
| Kishore | | | 1,980 |
| Discount Received A/c | | | 100 |
| Postage A/c | | 300 | |
| Reddy & Co. | | | 2,140 |
| Carriage A/c | | 100 | |
| Drawings A/c | | | 1,500 |
| Salaries A/c | | 800 | |
| Interest Paid A/c | | | 100 |
| Stock A/c | | 51,700 | |
| Furniture A/c | | 8,800 | |
| Capital A/c | | | 73,700 |
| Rent A/c | | 500 | |
| Rent Outstanding A/c | | | 500 |
| Joseph | | 600 | |
| Bose & Sons | | | 9,300 |
| Thomas | | 10,000 | |
| Total | | 1,13,600 | 1,13,600 |

Other Subsidiary Books

4.5 LET US SUM UP

In addition to Cash Book, the **firms** maintain some other special purpose subsidiary books to record credit transactions relating to goods. They are: (i) Purchases Journal, (ii) Purchases Returns Journal, (iii) Sales **Journal**, and (iv) Sales Returns Journal. The Purchases Journal is meant for recording **all credit** purchases of goods and the Sales Journal for credit sales of goods. The goods returned to suppliers is recorded in Purchases Returns Journal and the goods **returned** by customers in Sales Returns Journal. The transactions recorded in these books are posted individually to the concerned personal accounts in ledger. The **postings** into Purchases Account, Purchases Returns Account, Sales Account and Sales Returns Account are **made** only for the totals of respective books periodically.

All transactions which cannot be recorded in any of the special journals will be recorded in the Journal Proper. Some examples of such transactions are: opening entry, closing entries, transfer entries, adjustment entries, rectification enmes, credit purchases and credit sales of fixed assets.

4.6 KEY WORDS

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

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

Credit Note: A statement sent by the seller to his customer intimating that his account has been credited with the amount of goods returned by him or any other allowance granted to him.

Debit Note: A statement sent by the buyer to his supplier intimating that his **account** has been debited with the amount of goods returned to him.

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

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

Rectification Entry: An entry passed to rectify an error.

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

4.7 SOME USEFUL BOOKS

- 1 **Maheshwari S.N.**, 1986. *Introduction to Accounting*, Vikas Publishing House, New Delhi. (Chapter 5)
- 2 Patil, V.A. and J.S. Korlahalli, 1986. *Principles and Practice of Accounting*, R. Chand & Co., New **Delhi**. (Chapters 6, 14) ,
- 3 Gupta R. L. and M. Radhaswamy, 1986. *Advanced Accountancy*, Sultan **Chand & Sons**, New Delhi. (Chapter 3)

4.8 ANSWERS TO CHECK YOUR PROGRESS

- A 4 (i) goods **(ii)** credit **(iii)** credit note (iv) purchases (v) credit (vi) returns inwards (vii) returns outwards (viii) returned
- B 2 (i) False (ii) True **(iii)** False (iv) False **(v)** True (vi) False

4.9 TERMINAL QUESTIONS/EXERCISES

Questions

- 1 Give the **proforma** of Purchases Journal. **Explain the** method of recording the transactions in Purchases Journal and its posting into ledger.
- 2 What is Journal Proper? **What** entries are usually recorded in the Journal Proper?
- 3 **Discuss** briefly the utility of debit note, credit note and invoice.

Exercises

Other Subsidiary Books

1 From the following particulars, prepare the Purchases and Purchases Returns Journals. Also show their postings into ledger.

1987

- Nov. 6 Purchased from Mohan Brothers, Delhi
100 metres silk @ Rs. 15 per meter
60 metres Velvet @ Rs. 10 per metre
Less 10% trade discount
- Nov. 18 Purchased from Ram Kishan, Bombay
70 shirts @ Rs. 60 per shirt
40 sarees @ Rs. 50 per saree
Less 5% trade discount
- " 19 Returned to Ram Kishan, Bombay
10 shirts @ Rs. 60 per shirt
Less 5% trade discount
- " 21 Bought of Jankidas, Kanpur
100 meters longcloth @ Rs. 10 per meter
200 meters voile @ Rs.15 per meter
Less 15% trade discount
- " 28 Returned to Jankidas, Kanpur
20 meters voile @ Rs.15 per meter
Less 15% trade discount

(Answer: Purchases Book Total Rs.11,180; Purchases Returns Book Total Rs. 825)

2 Enter the following transactions in Sales Journal and Post them into ledger.

1988

- Jan. 5 Sold to Raj Kumar of Delhi
50 meters coating @ Rs.110 per meter
200 meters poplin @ Rs.7 per meter
Less 5% trade discount
- " 18 Returned by Raj Kumar of Delhi
40 meters poplin @ Rs. 7 per meter
Less 5% trade discount
- " 20 Sold to Gopal Brothers, Lucknow
100 meters shirting @ Rs.15 per meter
60 sarees @ Rs. 70 per saree
Less 10% trade discount
- " 25 Sold to Mohan & Co., Sonapat
100 meters artificial silk @ Rs.12 per meter
75 meters voile @ Rs.18 per meter
Less 10% trade discount
- " 30 Returned by Mohan & Co., Sonapat
20 meters artificial silk @ Rs.12 per meter
Less 10% trade discount

(Answer: Sales Book Total Rs. 13,980; Sales Returns Book Total Rs. 482)

3 From the following transactions of Shankar, write up Journal Proper and the other subsidiary books involved. Show their postings into ledger and prepare a Trial Balance.

1987

| | Rs. |
|----------------|--------|
| Mar. 1 Assets: | |
| Cash in hand | 1,000 |
| Cash at bank | 34,000 |
| Stock of goods | 20,000 |
| Machinery | 50,000 |
| Furniture | 5,000 |
| Sudhir owes | 5,000 |
| Naveen owes | 12,500 |

| | | | | |
|-------------|----|--|---------------------|--------|
| | | | Liabilities: | |
| | | | Loan | 20,000 |
| | | | Sum owing to Samuel | 10,000 |
| Mar. | 2 | Bought goods on credit from Naresh | | 5,000 |
| " | 3 | Cash sales | | 2,000 |
| " | 4 | Sold goods to Raman | | 5,000 |
| " | 5 | Received from Sudhir in settlement of his account | | 5,000 |
| " | 6 | Payment made to Samuel by cheque, in full settlement | | 9,950 |
| " | 9 | Old furniture sold for cash | | 500 |
| " | 10 | Cash purchases | | 4,000 |
| " | 11 | Naveen pays by cheque which was deposited into bank | | 12,500 |
| " | 11 | Paid for repairs to machinery | | 500 |
| " | 13 | Purchased goods from Shyam | | 5,000 |
| " | 13 | Paid carriage on these goods | | 250 |
| " | 16 | Received cheque from Raman | | 5,000 |
| " | 17 | Paid to Shyam by cheque | | 5,000 |
| " | 18 | Bank intimates that cheque of Raman has been returned unpaid | | |
| " | 19 | Cash sales | | 3,000 |
| " | 21 | Cash deposited into bank | | 2,500 |
| " | 25 | Paid municipal taxes in cash | | 500 |
| " | 26 | Old newspaper sold | | 50 |
| " | 28 | Paid for advertisements | | 500 |
| " | 31 | Paid rent by cheque | | 600 |

(Answer: Cash in hand Rs. 2,800; Cash at bank Rs. 33,450; Total of Trial Balance Rs. 1,32,600.)

Hint: Find out the opening capital before working on the problem.

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

UNIT 5 BILLS OF EXCHANGE

Structure

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Types of Instruments of Credit
 - 5.2.1 Bill of Exchange
 - 5.2.2 Promissory Note
 - 5.2.3 Distinction between Bill of Exchange and Promissory Note
- 5.3 Term and Due Date of a Bill
- 5.4 Treatment of Bill by the Holder and its Accounting
 - 5.4.1 Retaining the Bill
 - 5.4.2 Discounting the Bill with the Bank
 - 5.4.3 Endorsing the Bill
- 5.5 Treatment of the Bill by the Acceptor and its Accounting
 - 5.5.1 Dishonouring the Bill
 - 5.5.2 Renewal of the Bill
 - 5.5.3 Retiring the Bill
- 5.6 Accommodation Bills
- 5.7 Bills Sent for Collection
- 5.8 Bill Books
 - 5.8.1 Recording in Bills Receivable Journal and its Posting
 - 5.8.2 Recording in Bills Payable Journal and its Posting
- 5.9 Let Us Sum Up
- 5.10 Key Words
- 5.11 Some Useful Books
- 5.12 Answers to Check Your Progress
- 5.13 Terminal Questions/Exercises

5.0 OBJECTIVES

- After studying this unit, you should be able to:
- identify various **instruments** of credit
 - define bill of exchange
 - define promissory note
 - distinguish between bill of exchange and promissory note
 - record transactions relating to bills in the journal of drawer, drawee and endorsee
 - explain the nature of accommodation bills and their accounting treatment
 - prepare bills receivable and bills payable journals

5.1 INTRODUCTION

In Unit 4 you have learnt about various subsidiary books **commonly** used in the business for recording certain transactions. The businessman can also maintain separate subsidiary books for the transactions relating to bills of exchange. But the number of such transactions is usually small and therefore one may prefer to record them in the Journal itself. In this unit we shall first discuss the nature of various instruments of credit including bills of exchange and promissory notes, identify the type of transactions which usually take place in connection with bills and study how they are to be recorded in the books of various parties. We shall also discuss the preparation of Bills Receivable and Bills Payable Books and study how various details relating to bills are recorded in these books and how postings are done.

5.2 TYPES OF INSTRUMENTS OF CREDIT

Selling goods on credit has become a very **common** phenomenon in business. The producer takes raw material **on credit** and supplies the finished goods to the wholesalers on credit. **The** wholesalers in **turn** provide the credit facilities to the retailers. The retailers also sell on