

Chapter 2D

Accounting Process – Subsidiary Books

CHAPTER OVERVIEW



Subsidiary Books

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| 1. Meaning
2. Types of Subsidiary Books
3. Purchases Book and Sales Book
4. Purchase Returns and Sales Returns Book
5. Trade Discount Vs Cash Discount | 6. Bills Payable and Bills Receivable Books
7. Cash Book
8. Journal Proper
9. Advantages
10. Illustration for posting to Ledger |
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This Chapter deals with Subsidiary Books. Such Subsidiary Books replace the Journal. Hence, these books again tackle the function of "Recording". Under this chapter, the Students will also see the concept of discount and the method of accounting for it.

GLOSSARY OF SIGNIFICANT TERMS USED

Term	Meaning
Debit Note	1. It is a document which is sent by the Buyer of goods to their Supplier during Purchase Returns . 2. This document is used by the buyer to communicate to the seller that the seller's account is debited by the buyer in his books (at the time of purchase returns) 3. Example: A is the buyer of chocolates from B. A returned some chocolates to B. While returning them, A will credit B's Account in his ledger. To inform this debit, A will send a Debit Note to B.
Credit Note	1. It is a document which is sent by the Seller of goods to their buyer during Sales Returns . 2. This document is used by the seller to communicate to the buyer that the buyer's account is debited by the seller in his books (at the time of sales returns) 3. Example: A is the buyer of chocolates from B. B received back some chocolates from A. While returning them, B will credit A's A/c in his ledger. To inform this credit, B will send a Credit Note to A. 4. This is exactly opposite to Debit Note.

1.1 Meaning of Subsidiary Books

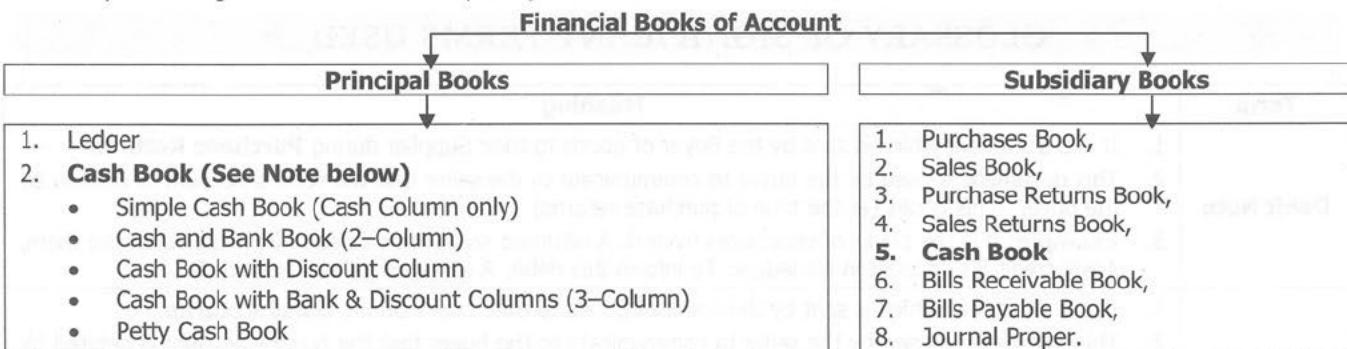
- 1. Meaning:**
 - (a) "Subsidiary Books" refer to **Specific Purpose Books** maintained for recording **Specific Business transactions**.
 - (b) The special transactions of each type are **listed** in the respective books. There is **NO Journal Entry**. From each Subsidiary Book, the total of transactions for each period (e.g. a month), are posted into Ledger.
 - (c) These books are also called as "**Books of Original Entry**" or "**Books of Prime Entry**".
- 2. Need for Subsidiary Books:**
 - (a) When transactions are few in number, they are journalised individually in **one Journal Book**, but when transactions are many, it is inconvenient to record all the transactions in one Journal Book.
 - (b) To avoid the Journal Book from becoming bulky and voluminous, the Journal Book is sub-divided into **Subsidiary Books**, (also known as **Special Journals / Subsidiary Journals / Day Books / Journals**).
 - (c) Each Subsidiary Book records a specific type of transaction. The purposes for which the separate books will be prepared are identified based on the volume and importance of such purposes.

1.2 Types of Subsidiary Books

The various types of Subsidiary Books for recording specific types of transactions are .

Journal	Purpose
(a) Purchases Day Book	To record transactions relating to Credit Purchases
(b) Sales Day Book	To record transactions relating to Credit Sales
(c) Purchases Return Book	To record transactions relating to Purchase Returns made to Suppliers. (cash is not involved) .
(d) Sales Return Book	To record transactions relating to Sales Returns made by Customers. (cash is not involved)
(e) Cash Book	To record Cash, Bank and Discount transactions.
(f) Bills Receivable Book	To record transactions in respect of Bills Receivable. (i.e. Promissory Notes, Bills of Exchange and Hundies from Debtors / other parties)
(g) Bills Payable Book	To record transactions in respect of Bills Payable, (i.e. Promissory Notes, Bills of Exchange and Hundies issued to Creditors / other parties)
(h) Journal Proper	To record other transactions for which no specific book is maintained. <i>Note: The format of Journal and Journal Proper is the same.</i>

(Note that Journal and Journal Entry are different. The former refers to the Book containing the entries, the latter refers to the entry consisting of Debit and Credit aspects.)



Note: The Cash Book is both a Principal Book (since Debit and Credit Aspects are involved therein), as well as a Subsidiary Book (since all Cash and Bank transactions are first recorded therein).

1.3 Purchases and Sales Book

Book	Purchase Book	Sales Book
1. Purpose / Inclusions	To record all Credit Purchases of goods and materials.	To record all Credit Sales of goods and materials.
2. Omissions / Exclusions	(a) Cash Purchases are not recorded here. There are directly recorded in the Cash Book . (b) Credit Purchases of Capital Assets/Items e.g. Machinery, Furniture, etc. are not recorded. They are recorded through the Journal Proper .	(a) Cash Sales are not recorded here. These are directly recorded in Cash Book . (b) Credit Sales of Capital Assets / Items , e.g. Machinery, Furniture, are not recorded. They are recorded in Journal Proper .
3. Entry in Subsidiary Book	Individual items of Credit Purchases are posted in this book along with the date and amount. Trade Discount if any, is reduced , and only the net amount is recorded in the Purchases Book.	Individual items of Credit Sales are posted in this book along with the date and amount. Trade Discount if any, is reduced , and only the net amount is recorded in the Sales Book.
4. Source	Purchase Invoice is the base document	Sales Invoice is the base document
5. Posting in Parties Ledger A/c	Suppliers' / Creditors' Account will be credited for the amount of credit purchases as " By Purchases Account ". This posting is on individual basis .	Customers' / Debtors' A/c will be debited for the amount of credit sales as " To Sales Account ". This posting is on individual basis .
6. Posting in Nominal A/c	Total of Purchases Book is posted to the debit side of Purchases A/c as "To Sundries as per Purchases Book".	Total of Sales Book is posted to credit side of Sales A/c as "By Sundries as per Sales Book".

Note: Refer the method of posting from Subsidiary Books to Ledger Accounts at the end of this Chapter

Note – Recording of Sales Tax: In both Purchases and Sales Book, separate amount columns may be used to record Sales Tax on Purchases (VAT Credit Available) and Sales Tax on Sales (VAT Payable), so that they can be reconciled and settled at the end of every period (say, a month).

Format of a Purchases Book

Date	Supplier Name	Inv. No.	Qty	Value (₹)	Sales Tax / VAT / Excise Duty	Total Value
12.01.2018	Kabir (Note)	215	1,000 kgs	50,000	2,000	52,000
	TOTAL		XXX	XXXXXX	XXX	XXXXXX

(**Note:** It represents purchases of 1000 kgs on credit from Kabir on 12.01.2018 for ₹ 52,000 including Sales Tax.)

Format of a Sales Book

Date	Customer Name	Inv. No.	Qty	Value (₹)	Sales Tax / VAT / Excise Duty	Total Value
15.01.2018	Rahman (Note)	1025	500 kgs	80,000	3,200	83,200
	TOTAL		XXX	XXXXXX	XXX	XXXXXX

(**Note:** It represents sale of 500 kgs on credit from Rahman on 15.01.2018 for ₹ 83,200 including Sales Tax.)

1.4 Purchase Returns and Sales Returns Books

Book	Purchase Returns Book (also called Returns Outward Book)	Sales Returns Book (also called Returns Inward Book)
1. Purpose / Inclusions	When goods / materials earlier purchased on credit are returned by the Firm to the Supplier, they are recorded in Purchase Returns book.	When goods / materials earlier sold on credit are returned to the Firm by the Customer, they are recorded in Sales Returns book.
2. Entry in Subsidiary Book	Individual items of Purchases Returns are posted in this book along with the date and amount.	Individual items of Sales Returns are posted in this book along with the date and amount.
3. Omissions / Exclusions	(a) Goods returned to supplier & cash received (b) Fixed Assets returned to the supplier (c) Goods earlier purchased for Cash	1. Goods received from the buyer & cash paid 2. Fixed Assets received from back from buyer 3. Goods earlier sold for cash
4. Source	Debit Note	Credit Note
5. Posting in Parties Ledger A/c	Suppliers' / Creditors' A/c will be debited for the amount of purchase returns as " To Purchases Returns A/c ". This posting is on individual basis .	Customers' / Debtors' A/c will be credited for the amount of sales returns as " By Sales Returns A/c ". This posting is on individual basis .
6. Posting in Nominal Account	Total of Purchases Returns Book is posted in the credit side of Purchases Returns A/c as "By Sundries as per Purchase Returns Book".	Total of Sales Returns Book is posted in the debit side of Sales Returns A/c as "To Sundries as per Sales Returns Book".
7. Format	Format is the same as Purchases Book, except that Debit Note will appear instead of Invoice.	Format is the same as Sales Book, except that Credit Note will appear instead of Invoice.

1.5 Trade Discount vs Cash Discount

1. Trade Discount:

- (a) Trade Discount refers to reduction in price offered by the seller for **HIGHER QUANTITY** of purchases.
- (b) It is allowed as deduction from the **List Price. (Trade Discount = % of discount × List Price)**
- (c) The price after deducting the trade discount is **called Invoice Price**.
- (d) Trade Discount is **not recorded** in Accounts Books. i.e. directly Invoice Price itself is recorded in Accounts Books.

2. Cash Discount:

- (a) Cash Discount refers to **reduction in AMOUNT DUE** offered by seller if **payment is received before due date**.
- (b) It is sometimes technically referred as "**2/10 net 30**". This implies 2% cash discount is allowed if payment is made within 10 days. Otherwise payment has to be made within 30 days from date of sale.
- (c) Cash Discount is **recorded** in Accounts Books. i.e. It is an **Expense** for the **seller / Income** for the **buyer**.
- (d) It is recorded in the books under the head "Discount allowed" (for Supplier) / "Discount Received" (for Buyer).
- (e) **Cash Discount = % of discount × Amount actually payable (Invoice Price)**

3. Example:

Goods worth ₹ 5,000 sold by Lakshman @ 10% trade discount and @ 1% cash discount on payment within 10 days. Lakshman received payment from debtor within 7 days. Calculate the amount payable

Particulars	(₹)	Books of Seller	Books of Buyer
List Price	5,000	Not Passed	Not Passed
Less: Trade Discount @ 10% of ₹ 5,000	(500)	Not Passed	Not Passed
Invoice Price – Amount recorded as Sales	4,500	Debtor A/c Dr. 4,500 To Sales 4,500	Purchases A/c Dr. 4,500 To Creditor 4,500
Less: Cash Discount @ 1% of ₹ 4,500	(45)	Cash A/c Dr. 4,455 Discount All. Dr. 45	Creditor A/c Dr. 4,500 To Disc. Recd. 45
Net Amount received, if payment made in 7 days	4,455	To Debtors 4,500	To Cash 4,455

Note: If Subsidiary Books are maintained – Books of Seller

- **During Sales** – Lakshman records only ₹ 4,500 as sales in his "Sales Book".
- **During Settlement** – Lakshman records ₹ 45 as expense under "Discount Allowed" along with receipt of ₹ 4,455
- In the **Books of the buyer**, Purchases is recorded for ₹ 4,500 and "Discount received" recorded for ₹ 45

1.6 Bills Payable Book and Bills Receivable Books

Refer Detailed Discussions in Chapter on "Bills of Exchange"

1.7 Cash Book

Refer detailed discussion on Cash Book in the next Chapter

1.8 Journal Proper

1. **Significance:** "Journal Proper" is used to record those transactions which cannot be recorded in any of the specific Subsidiary Books.

2. Features:

- (a) Journal Proper is a **Residuary Subsidiary Book** to record the residuary transactions.
- (b) The **format** of Journal is **exactly similar to the format of a normal Journal Book** (Refer Chapter 2A).

3. **Transactions recorded in Journal Proper:** More particularly, the following transactions are recorded –

(i) Opening Entries

- Normally, while moving from one accounting year to another, the old accounts books are closed and a fresh set of accounts books are opened for the new Accounting year.
- Hence, it becomes necessary to carry forward all the assets and liabilities of the business, which exist on the last day of the previous accounting period from the past accounts books to the current accounts books.
- **Thus the opening balances of assets and liabilities are brought forward from the previous accounting period by passing opening entries.**
- **Journal Entry for recording of opening balances –**

Particulars	Debit	Credit
Assets A/c Dr.	xxx	
To Liabilities A/c		xxx
To Capital A/c		xxx

For Example: M/s B & Co. has the following opening balances –

(a) Motor Car: ₹ 5,00,000	(b) Cash Balance: ₹ 50,000	(c) Bank: ₹ 1,50,000	(d) Stock: ₹ 2,00,000
(e) Debtors: ₹ 2,00,000	(f) Building: ₹ 10,00,000	(g) Creditors: ₹ 3,00,000	(h) Bank Loan: 10,00,000
(i) Capital: ₹ 8,00,000			

Opening Entry is as follows :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
01.01.2018	Motor Car A/c Dr.		5,00,000	
	Cash A/c Dr.		50,000	
	Bank A/c Dr.		1,50,000	
	Stock A/c Dr.		2,00,000	
	Debtors A/c Dr.		2,00,000	
	Building A/c Dr.		10,00,000	
	To Creditors A/c			3,00,000
	To Bank Loan A/c			10,00,000
	To Capital A/c			8,00,000
	(Being the opening balances of assets and liabilities brought into books)			

- (ii) **Closing Entries:** At the end of the year the Trading Account and Profit & Loss Account are prepared to determine the profits / losses of the business. To determine such profits, all the nominal account balances must be transferred to the above accounts. Such entries are called Closing entries.

- **For transferring Expenses / Losses to Trading Account / Profit and Loss A/c –**

Trading Account / Profit and Loss Account Dr.
To Expenses A/c / Losses A/c

Reason: All expenses / Losses Accounts are to be CLOSED by transfer to Trading A/c / P & L A/c. Expenses A/c will have debit balance in the respective accounts. If a debit balance account is to be closed, then it has to be credited (as per common sense rule). Hence, the other aspect "Trading A/c / P & L A/c" has to be credited.

- **For transferring Incomes / Gains to Trading Account / Profit and Loss A/c –**

Incomes A/c / Gains A/c Dr.
To Trading A/c / Profit & Loss A/c

Reason: All Incomes / Gains Accounts are to be CLOSED by transfer to Trading A/c / P & L A/c. Incomes A/c will have Credit Balance in the respective accounts. If a Credit Balance account is to be closed, then it has to be debited (as per common sense rule). Hence, the other aspect "Trading A/c / P & L A/c" has to be debited.

- (iii) **Rectification entries:** Entries passed to rectify the errors occurred during the accounting process. (**Refer detailed discussions under chapter "Rectification of Errors"**)

- (iv) **Transfer Entries:** If some amount is to be transferred from one account to another account, the transfer will be made through a Journal Entry. **For Example**, when goods purchased worth ₹ 50,000 are used for construction of a building, then a transfer entry has to be made for transferring ₹ 50,000 from Purchases A/c to Building A/c.

- (v) **Adjusting Entries:** Adjusting entries refer to entries passed to adjust the incomes / expenses for the current period, to ensure that only current year's incomes and expenses are matched. Hence, entries passed for the following purposes are called "Adjusting Entries". (**For journal entries, refer Chapter 2A – Journal**)

Prepaid Expenses	Outstanding Expenses	Accrued Incomes
Incomes received in Advance	Depreciation	Interest on Capital / Interest on Drawings
Provision for Bad Debts	Provision for Discount on Debtors	Provision for Discount on Creditors

(vi) **Miscellaneous Entries:**

- Introduction of capital in kind i.e. motor car / goods introduced as capital into business.
- Credit Purchase of assets,
- Credit / Debit Notes towards allowances, adjustments, discounts from / to Suppliers / Customers,
- Entries on dishonour of Bills Receivable,
- Receipt of Promissory Notes / Bills of Exchange or their issue if separate Subsidiary Books are not maintained.
- Entries for Discount received / allowed, if double column Cash Book is prepared without Discount columns.
- Good originally purchased for cash, now returned to supplier. Cash is not received immediately. Such transaction is recorded in Journal Proper and not in Purchase Returns Book.
- Goods originally sold for cash, now returned by the customer. Cash is not paid immediately. Such transaction is recorded in Journal Proper and not in Sales Returns Book.

1.9 Advantages of Subsidiary Books

1. **Information Management:** Since a separate register or book is kept for each class of transactions, the information relating to each class of transactions will be available at one place.
2. **Division of Work:** The accounting work may be divided amongst a number of clerks since there will be separate books for recording various transactions.
3. **Specialisation:** When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.
4. **Saving of time:** Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.
5. **Control:** When the Trial Balance does not agree, the location of the error(s) is facilitated by the existence of separate books. Further, the possibility of errors and frauds will be checked by the use of various Subsidiary Books.

1.10 Illustration – Recording in and Posting from Subsidiary Books

Illustration: A & Co., a dealer in steel products, carried out the following transactions in January 2018 –

1. A & Co. introduced steel worth ₹ 25,000 as his capital.
2. Purchased steel on credit from Kabir for ₹ 50,000 + Sales Tax of ₹ 2,000
3. Purchased motor car on credit from Ram for ₹ 2 Lakhs
4. Sold Steel on Credit to Rahman for ₹ 80,000 + VAT of ₹ 3,200
5. Sold Motor Car on credit to David for ₹ 2,00,000 during the same year. (no loss / no profit)
6. Purchased steel on credit from Amit Agarwal for ₹ 80,000
7. Sold Steel for ₹ 25,000 on credit to Raghu.

Purchases Book

Date	Name of the Supplier	Invoice No.	Quantity	Value (₹)	Sales Tax / VAT (₹)	Total Value
TR - 2	Kabir			50,000	2,000	52,000
TR - 6	Amit Agarwal			80,000		80,000
	TOTAL		xxx	1,30,000	2,000	1,32,000

Sales Book

Date	Name of the Supplier	Invoice No.	Quantity	Value (₹)	Sales Tax / VAT (₹)	Total Value
TR - 4	Rahman			80,000	3,200	83,200
TR - 7	Raghu			25,000	–	25,000
	TOTAL			1,05,000	3,200	1,08,200

Journal Proper

Date	Particulars	LF	Debit ₹	Credit ₹
(1)	(2)	(3)	(4)	(5)
TR-1	Purchases A/c To A's Capital A/c (Being the goods "steel" introduced as capital into business)	Dr.	25,000	25,000
TR-3	Motor Car A/c To Ram A/c (Being Motor Car purchased on Credit from Mr.Ram)	Dr.	2,00,000	2,00,000
TR-5	David A/c To Furniture A/c (Being Sale of furniture on credit to David)	Dr.	15,000	15,000
	Total		2,40,000	2,40,000

Total is Posted only
on last date of month

LEDGER ACCOUNTS IN THE ACCOUNTS BOOKS OF M/S A & CO.

Each amount is posted
on transaction date
itself

DEBTORS LEDGER ACCOUNTS

Dr.	(A) Kabir A/c				Cr.
Date	Particulars	₹	Date	Particulars	₹
Month End	To Balance c/d	52,000	(TR-2)	By Purchases A/c	52,000
	Total	52,000		Total	52,000

Dr.	(B) Amit Agarwal A/c				Cr.
Date	Particulars	₹	Date	Particulars	₹
Month End	To Balance c/d	80,000	(TR-6)	By Purchases A/c	80,000
	Total	80,000		Total	80,000

Dr.	(C) Purchases A/c				Cr.
Date	Particulars	₹	Date	Particulars	₹
Month End (TR - 1)	To Sundry Creditors A/c To A's Capital A/c	1,32,000 25,000	Month End	By balance c/d	1,57,000
	Total	1,57,000		Total	1,57,000

Dr.	(D) Rahman A/c				Cr.
Date	Particulars	₹	Date	Particulars	₹
(TR-4)	To Sales A/c	80,000	Month End	By balance c/d	80,000
	Total	80,000		Total	80,000

Dr.		(E) Raghu A/c			Cr.	
Date	Particulars	₹	Date	Particulars	₹	
(TR-7)	To Sales A/c	25,000	Month End	By balance c/d	25,000	
	Total	25,000		Total	25,000	

Dr.		(F) Sales A/c			Cr.	
Date	Particulars	₹	Date	Particulars	₹	
Month End	To Balance c/d	1,05,000	Month End	By Sundry Debtors A/c	1,05,000	
	Total	1,05,000		Total	1,05,000	

Note: The Explanation for posting from Purchases Book applies for posting from Sales Book also.

Dr.		(G) A's Capital A/c			Cr.	
Date	Particulars	₹	Date	Particulars	₹	
Month End	To Balance c/d	25,000		By Purchases A/c (TR-1)	25,000	
	Total			Total		

Dr.		(H) Motor Car A/c			Cr.	
Date	Particulars	₹	Date	Particulars	₹	
(TR - 3)	To Ram A/c	2,00,000	(TR - 5)	By David A/c	2,00,000	
	Total	2,00,000		Total	2,00,000	

Dr.		(I) Ram A/c			Cr.	
Date	Particulars	₹	Date	Particulars	₹	
Month End	To Balance c/d	2,00,000	(TR - 3)	By Motor Car A/c	2,00,000	
	Total	1,05,000		Total	1,05,000	

Dr.		(J) David A/c			Cr.	
Date	Particulars	₹	Date	Particulars	₹	
(TR - 5)	To Motor Car A/c	2,00,000	Month End	By Balance c/d	2,00,000	
	Total	2,00,000		Total	2,00,000	

Question Types in this Chapter

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| 1. Direct Theory Questions – Purpose of Subsidiary Books, Types of transactions that can come in subsidiary Books, Purpose of various documents |
| 2. Problem Questions – Computation of Trade Discount and Cash Discount, Determination of totals of Subsidiary Books |