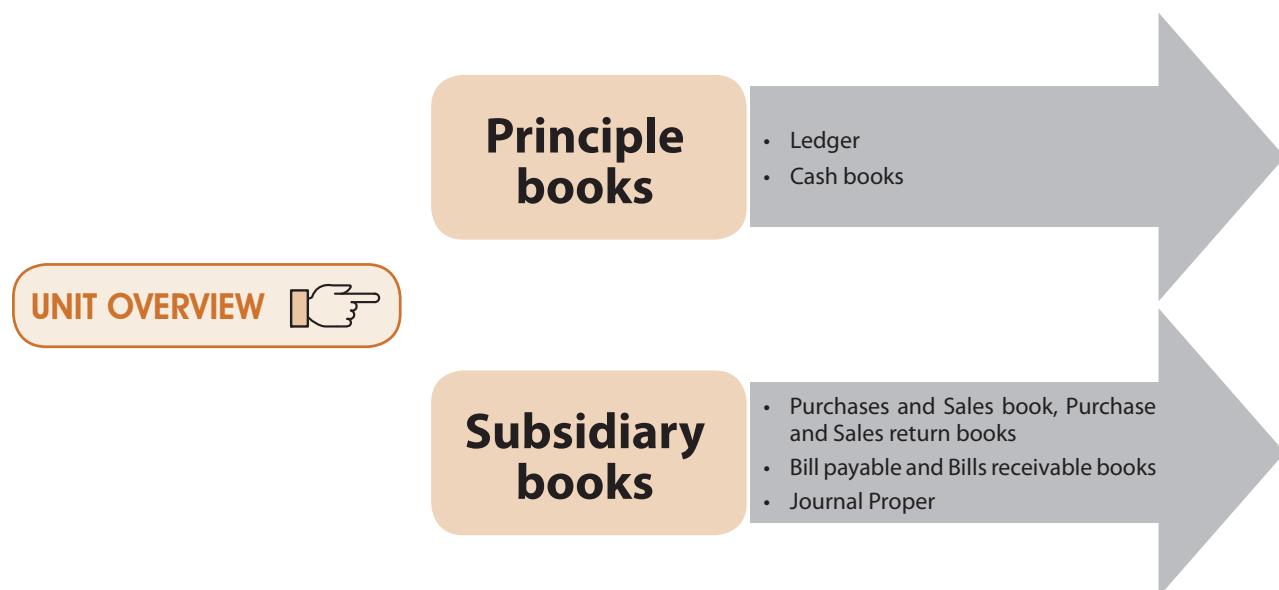


UNIT 4 : SUBSIDIARY BOOKS

LEARNING OUTCOMES

After studying this unit, you will be able to :

- ◆ Understand the techniques of recording transactions in Purchase Book, Sales Book; Returns Inward Book and Returns Outward Book; Bills Receivable and Bills Payable Book.
- ◆ Learn the technique of posting from Subsidiary Books to Ledger.
- ◆ Understand that even if subsidiary books are maintained, journalisation is required for many other transactions and events.
- ◆ Learn the difference between the subsidiary books and principal books.



4.1 INTRODUCTION

In a business, most of the transactions generally relate to receipts and payments of cash, sale of goods and their purchase. It is convenient to keep a separate register for each such class of transactions one for receipts and payments of cash, one for purchase of goods and one for sale of goods. A register of this type is called a book of original entry or of prime entry. For transactions recorded in such books there will be no journal entry. The system by which transactions of a class are first recorded in the book, specially meant for it and on the basis of which ledger accounts are then prepared is known as the Practical System of Book keeping or even the English System. It should be noted that in this system, there is no departure from the rules of the double entry system.

These books of original or prime entry are also called subsidiary books since ledger accounts are prepared on their basis and, without the further process of ledger posting, a trial balance cannot be taken out. Normally, the following subsidiary books are used in a business:

- (i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.
- (ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.
- (iii) Purchase Returns Books to record the returns of goods and materials previously purchased.
- (iv) Sales Book to record the sales of the goods dealt in by the firm.
- (v) Sale Returns Book to record the returns made by the customers.
- (vi) Bills Receivable Books to record the receipts of promissory notes or hundies from various parties.
- (vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.
- (viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

It may be noted that in all the above cases the word "Journal" may be used for the word "book"

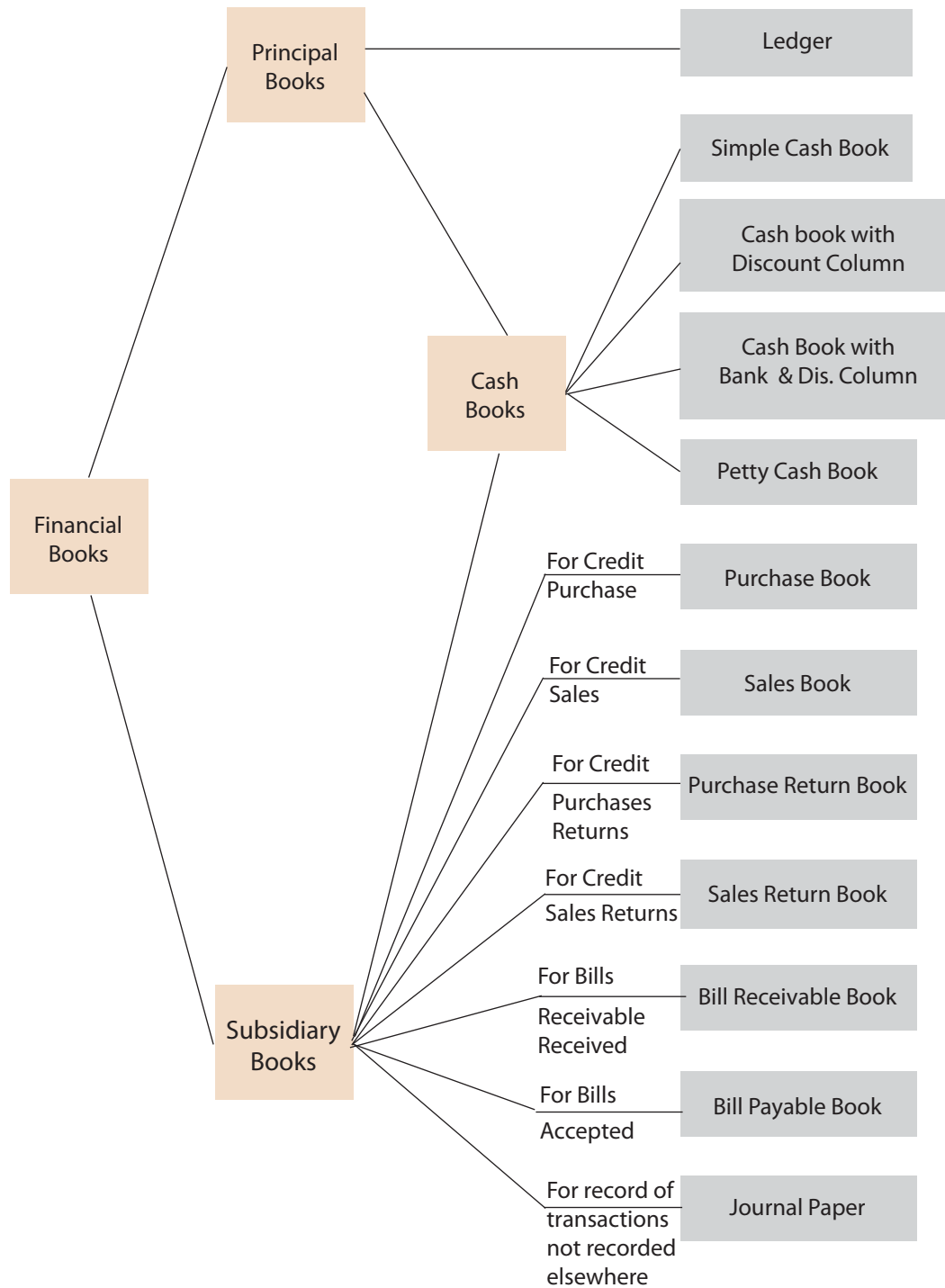
Advantages of Subsidiary Books

The use of subsidiary books affords the undermentioned advantages:

- (i) **Division of work:** Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.
- (ii) **Specialization and efficiency:** 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.
- (iii) **Saving of the 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.
- (iv) **Availability of information:** Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place.
- (v) **Facility in checking:** When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

4.2 DISTINCTION BETWEEN SUBSIDIARY BOOKS AND PRINCIPAL BOOKS

The books in which transactions are first recorded to enable processing are called subsidiary books. The ledger and the cash book are the principle books since they furnish information for preparation of the trial balance and financial statements. The following table will help you in understanding the difference between Subsidiary Books and Principal Books.



4.3 PURCHASES BOOK

To record the credit purchases of goods dealt in or materials and stores used in the factory, a separate register called the Purchases Book or the Purchases Journal, is usually maintained by firms. The ruling is given below:

Date	Particulars	L.F.	Details ₹	Amount ₹

It should be remembered that :

- (i) Cash purchases are not entered in this book since these will be entered in the cash book; and
- (ii) Credit purchases of things other than goods or materials, such as office furniture or typewriters are journalised - they also are not entered in the Purchases Book.

The particulars column is meant to record the name of the supplier and name of the articles purchased and the respective quantities. The amount in respect of each article is entered in the details column. After totaling the various amounts included in a single purchase, the amount for packing, or other charges is added and the amount for trade discount is deducted. The net amount is entered in the extreme right-hand column. The total in this column shows the total purchase made in a period.

ILLUSTRATION 1

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

2016

- Feb.**
1. Purchased from Brown & Co. on credit :
5 gross pencils @ ₹100 per gross,
1 gross registers @ ₹ 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.*

 SOLUTION

Purchases Book

Date 2016	Particulars	₹	L.F.	Amount ₹
Feb. 1	M/s. Brown & Co. 5 gross pencils @ ₹100 per gross 1 gross registers @ ₹240 per doz.	500.00 2880.00		
		3380.00		
	Less : 10% trade discount	(338)		3,042
"4	The Paper Co. 5 reams white paper @ ₹100 per ream 10 reams ruled paper @ ₹150 per ream	500.00 1500.00		
		2,000.00		
	Less : 10% trade discount	(200.00)		1,800
5	M/s. Verma Bros. 1 doz. gel pens @ ₹15 each	180		180
		Total		5022

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

 ILLUSTRATION 2

Enter the following transactions in Purchase Book and post them into ledger.

2017

April 4 Purchased from Ajay Enterprises, Delhi

100 Doz. Rexona Hawai Chappal

@ ₹120 per doz.

200 Doz. Palki Leather Chappal

@ ₹300 per Doz.

Less : Trade discount @ 10%

Freight charged ₹150.

April 15 Purchased from Balaji Traders, Delhi

50 doz. Max Shoes

@ ₹400 per doz.

100 pair Sports Shoes.

@ ₹140 per pair.

Less : Trade discount @ 10%.

Freight charged ₹200.

April 28 Purchased from Tripti Industries, Bahadurgarh
 40 pair leather shoes
 @ ₹400 per pair
 100 doz. Rosy Hawaii Chappal
 @ ₹180 per doz.
 Less : Trade discount @ 10%.
 Freight charged ₹100.

**SOLUTION****Purchase Book**

Date 2017	Particulars	Gross Amount	Trade Discount	Net Price	Freight	Total Amount
April 4	Ajay Enterprises 100 doz chappal @ ₹120 per doz - ₹12,000 200 doz Palki Leather Chappal @ ₹300 per doz - ₹ 60,000 Less: trade discount @ 10%	72,000	7,200	64,800	150	64,950
April 15	Balaji Traders, Delhi 50 doz max Shoes @ ₹400 per doz - ₹20,000 100 pair Sports shoes @ ₹140 per pair - ₹14,000 Less: Trade discount @ 10%	34,000	3,400	30,600	200	30,800
April 28	Tripti Industries, Bahadurgarh 40 pair Leather shoes @ ₹400 per pair - ₹16,000 100 doz Rosy Hawaii Chappal : @ ₹180 per doz - ₹ 18,000 Less: Trade discount @ 10%	34,000	3,400	30,600	100	30,700
		1,40,000	14,000	1,26,000	450	1,26,457

LedgersDr. **Purchases A/c** Cr.

2017		₹	2017	₹
April 30	To amount as per purchase book	1,26,000		

Dr. **Freight A/c** Cr.

2017		₹	2017	₹
April 30	To amount as per purchase book	450		

Dr. **Ajay Enterprises** Cr.

2017		₹	2017	₹	
			April 30	By Purchase A/c	64,800
				By Freight A/c	150

Dr. **Balaji Traders** Cr.

2017		₹	2017	₹	
			April 15	By Purchase A/c	30,600
				By Freight A/c	200

Dr. **Tripti Industries** Cr.

2017		₹	2017	₹	
			April 28	By Purchase A/c	30,600
				By Freight A/c	100

POSTING THE PURCHASES BOOK

The Purchases Book shows the names of the parties from whom goods have been purchased on credit. These parties are now trade payables. Their accounts have to be credited for the respective amounts shown in the purchase book. The total of the amounts column shows the total purchases made in a period. The amount is debited to the Purchase Account to indicate receipt of goods. In Illustration 1, the Purchases Account is debited by ₹ 5,022, M/s. Brown & Co. is credited by ₹ 3,042, The Paper Company by ₹1,800 and M/s. Verma Bros. by ₹180. The total of the amounts put on the credit side equals the debit. Thus the double entry is completed.

4.4 SALES BOOK

The Sales Book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book. Credit sales of things, other than the goods dealt in by the firm are not entered in the Sales Book; they are journalised. The ruling is the same as for the Purchases Book.

Entries in the Sales Book are also made in the same manner as in the Purchase Book. The particulars column will record the name of the customers concerned together with particulars and quantities of the goods sold. For each item, the amount is entered in the details column; after totalling the amounts for one sale, charges for packing etc; are added and the trade discount, if any is deducted: the net amount is put in the outer column. The total of this column will show the total credit sales for a period.

ILLUSTRATION 3

The following are some of the transaction of M/s Kishore & Sons of the year 2017 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%

SOLUTION

Sales Book

Date	Particulars	Details ₹	L.F.	Amount ₹
2017	M/s. Gupta & Verma			
	30 shirts @ ₹800	24,000		
	20 Trousers @ ₹1,000	20,000		
		44,000		
	Less : 10% Trade discount	(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 10 overcoats @ ₹5,000	75,000 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.

POSTING THE SALES BOOK

The names appearing in the Sales Book are of those parties which have received the goods. The accounts of the parties have to be debited with the respective amounts. The total of the Sales Book shows the credit sales made during the period concerned; the amount is credited to the Sales Account. In the Illustration 3, ₹ 1,92,100 is credited to the Sales Account; ₹39,600 is debited to M/s. Gupta and Verma ₹40,000 to M/s Jain and Sons and ₹1,12,500 to M/s Mathur & Jain. The amount put on the credit side is equal to the total of the amount put on the debit side. Thus, the double entry principle is followed correctly.

4.5 SALES RETURNS BOOK OR RETURNS INWARD BOOK

If customers frequently return the goods sold to them, it would be convenient to record the returns in a separate book, which is named as the Sales Returns Book or the Returns Inward Book. The ruling of the book is similar to the Purchases or the Sales Book and entries are also made in the same manner. The following, assumed figures, will illustrate this:

Returns Inward Book

Date	Particulars	Details	L.F.	Amount ₹
2017 June 7	Sunil Bank & Co. 6 Copies-Double Entry Bookkeeping by T.S. Grewal @ ₹ 7 Less : Trade Discount 10% (returns as per debit note no.....)	42.00 (4.20)		37.80
	Kailash & Co. 1 Copy-Business Methods by R.K. Gupta (returns as per debit note no.....)			3.50
		Total		41.30

4.6 PURCHASE RETURNS OR RETURNS OUTWARD BOOK

Such a book conveniently records return of goods or material purchased to the suppliers if however, the returns are not frequent, it may be sufficient to record the transaction in the journal. The ruling of the Purchase Returns or Returns Outward Book is similar to that of the Purchase Book; entries are also similarly

made, as the illustration given below shows:

Returns Outward Book

Date 2017	Particulars	₹	Amount ₹
June 2	Premier Electric Co. One 36" Usha Ceiling Fan		175.00
" 28	Mohan Electric Co. Ten Iron Heaters Less : Discount	150.00 (15.00)	135.00
	Total		310.00

POSTING OF THE RETURN BOOKS

The Sales Return Book will show the total of the returns made by customers. Really, the total of the returns is in reduction of the sales. Properly, therefore, the amount may be debited to the Sales Account but, usually, a separate account called Returns Inward Account is opened and the total of the sales returns is debited to this accounts. The customers who have returned the goods are credited with the respective amounts.

It should be noted that on goods being received and accepted back from the customers, a credit note is issued to the customers concerned. This shows the amount to be credited to the customer's account.

Similarly, when goods are returned to suppliers they will issue the necessary credit note; also the firm returning the goods will issue a debit note to the supplier, indicating the amount for which the supplier is liable on account of the return.

The total of Returns Outwards Book shows the total returns made. The amount can be credited to the Purchase Account, but in practice, is credited to a separate account called Purchase Returns or Returns Outward Account. The suppliers whose names appear in the Book have received the goods, so their accounts have to be debited. This is shown in the illustration given below :

ILLUSTRATION 5

Post the following into the ledger

Returns Outward Book

Date 2017	Particulars	L.F.	Details ₹	Amount ₹
Nov. 20	Rajindra Prakash & Sons One 36" Usha Ceiling Fan Less : Trade Discount @ 10%		200.00 (20.00)	180.00
" 30	Modern Electric Company			100.00
	Total			280.00

 **SOLUTION**
LedgerDr. **Rajindra Parkash & Sons** Cr.

Date 2017	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Nov. 20	To Returns Outward A/c		180.00				

Dr. **Modern Electric Co.** Cr.

Date 2017	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Nov. 30	To Returns Outward A/c		100.00				

Dr. **Returns Outward Account** Cr.

Date 2017	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
				Nov. 30	By Sundries as per Returns Outward A/c		280.00

BILLS RECEIVABLE BOOKS AND BILLS PAYABLE BOOKS

If the firm usually receives a number of promissory notes or hundies, it would be convenient to record the transaction in a separate book called the Bills Receivable Book. Similarly, if promissory notes or hundies are frequently issued, the Bills Payable Book will be convenient. This will be discussed later.

 **4.7 IMPORTANCE OF JOURNAL**

Students are now familiar with the journal. They also know that :

- (i) Cash transactions are recorded in the cash book;
- (ii) Credit purchases of goods or materials are recorded in the purchases book;
- (iii) Credit sales of goods are recorded in the sales book;
- (iv) Returns from customers are recorded in the sale returns book; and
- (v) Returns to suppliers are entered in the purchase returns book.

Bill transactions are entered in the bills receivable books or the bills payable books, if these are maintained. Apart from the transactions mentioned above, there are some entries also which have to be recorded. For them the proper place is the journal. In fact, if there is no special book meant to record a transaction, it is recorded in the journal (proper). The role of the journal is thus restricted to the following types of entries :

- (i) **Opening entries** : When books are started for the new year, the opening balance of assets and liabilities are journalised.
- (ii) **Closing entries** : At the end of the year the profit and loss account has to be prepared. For this purpose, the nominal accounts are transferred to this account. This is done through journal entries called closing entries.
- (iii) **Rectification entries** : If an error has been committed, it is rectified through a journal entry.
- (iv) **Transfer entries** : If some amount is to be transferred from one account to another, the transfer will be made through a journal entry.
- (v) **Adjusting entries** : At the end of the year the amount of expenses or income may have to be adjusted for amounts received in advance or for amounts not yet settled in cash. Such an adjustment is also made through journal entries. Usually, the entries pertain to the following:
- Outstanding expenses, i.e., expenses incurred but not yet paid;*
 - Prepared expenses, i.e., expenses paid in advance for some period in the future;*
 - Interest on capital, i.e., the interest on proprietor's investment in the business entity investment; and*
 - Depreciation, i.e., fall in the value of the assets used on account of wear and tear.*

For all these, journal entries are necessary.

- (vi) **Entries on dishonour of Bills** : If someone who accepted a promissory note (or bill) is not able to pay in on the due date, a journal entry will be necessary to record the non-payment or dishonour.
- (vii) **Miscellaneous entries** : The following entries will also require journalising:
- Credit purchase of things other than goods dealt in or materials required for production of goods e.g. credit purchase of furniture or machinery will be journalised.
 - An allowance to be given to the customers or a charge to be made to them after the issue of the invoice.
 - Receipt of promissory notes or issue to them if separate bill books have not been maintained.
 - On an amount becoming irrecoverable, say, because, of the customer becoming insolvent.
 - Effects of accidents such as loss of property by fire.
 - Transfer of net profit to capital account.



ILLUSTRATION 6

From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer and post them to ledger :

Date	Debit Note No.	Particulars
04.01.2016	101	Returned to Goyal Mills, Surat - 5 polyester sarees @ ₹ 1,000.
09.01.2016		Garg Mills, Kota - accepted the return of goods (which were purchased for cash) from us - 5 Kota sarees @ ₹ 400.

16.01.2016	102	Returned to Mittal Mills, Bangalore - 5 silk sarees @ ₹2,600.
30.01.2016		Returned one computer (being defective) @ ₹35,000 to B & Co.

 **SOLUTION**

Purchase Returns Book

Date	Debit Note No.	Name of supplier	L.F.	Amount
2016				
Jan. 4	101	Goyal Mills, Surat		5,000
Jan. 16	102	Mittal Mills, Bangalore		<u>13,000</u>
Jan. 31		Purchases Returns Account (Cr.)		18,000

 **SUMMARY**

- ◆ Instead of recording all journal entries in one register, it is better to categorize the entries on the basis of type of transactions.
- ◆ Various subsidiary books are maintained so as to record transactions of one type in each register. These are also called books of original entry or prime entry.
- ◆ Example of subsidiary books are purchases book, sales book, purchase returns books, sales returns book, bills receivable book etc. On the basis of these subsidiary books, the ledger accounts are prepared.

 **TEST YOUR KNOWLEDGE**

Multiple Choice Questions

- In Purchases Book the record is in respect of _____
 - Cash purchase of goods.
 - Credit purchase of goods dealt in.
 - All purchases of goods.
- The Sales Returns Book records _____
 - The return of goods purchased.
 - Return of anything purchased.
 - Return of goods sold.

3. The Sales Book _____
- (a) Is a part of journal.
 - (b) Is a part of the ledger.
 - (c) Is a part of the balance sheet.
4. The weekly or monthly total of the Purchase Book is _____
- (a) Posted to the debit of the Purchases Account.
 - (b) Posted to the debit of the Sales Account.
 - (c) Posted to the credit of the Purchases Account.
5. The total of the Sales Book is posted to _____
- (a) Credit of the Sales Account.
 - (b) Credit of the Purchases Account.
 - (c) Credit of the Capital Account.
6. In which book of original entry, will you record an allowance of ₹50 was offered for an early payment of cash of ₹1,050 _____.
- (a) Sales Book
 - (b) Cash Book
 - (c) Journal Proper (General Journal)
7. A second hand motor car was purchased on credit from B Brothers for ₹10,000 will be recorded in _____.
- (a) Journal Proper (General Journal)
 - (b) Sales Book
 - (c) Cash Book
 - (d) Purchase Book
8. In which book of original entry, will you record a bills receivable of ₹1,000, which was received from a debtor in full settlement for a claim of ₹1,100, is dishonoured _____.
- (a) Purchases Return Book
 - (b) Bills Receivable Book
 - (c) Journal Proper (General Journal)

Theory Questions

- 1 Which subsidiary books are normally used in a business?
- 2 What are the advantages of subsidiary books?

Practical Questions

1. Enter the following transactions in Sales Book of M/s. Pranat Engineers Ltd., Delhi.

2016

Jan. 2. Sold to M/s. Ajanta Electricals, Delhi 5 pieces of Ovens @ ₹6,000/- each less Trade discount @ 10%.

8 Sold to M/s. Ajanta Electricals Plaza, 10 pieces of Tablets @ ₹ 8,000/- each less trade discount 5%.

15 Sold to M/s. Haryana Traders, 5 pieces of Juicers @ ₹3,500/- each less trade discount @ 10%.

2. Post into the ledger the entries of Sales Book prepared in Question 1.

ANSWERS/HINTS**MCQs**

1.	(b)	2.	(c)	3.	(a)	4.	(a)	5.	(a)	6.	(b)	7.	(a)	8.	(c)
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Theoretical Questions

1. Normally, the following subsidiary books are used in a business:

- (i) Cash Book to record receipts and payments of cash, including receipts into and payments out of the bank.
- (ii) Purchases Book to record credit purchases of goods dealt in or of the materials and stores required in the factory.
- (iii) Purchase Returns Books to record the returns of goods and materials previously purchased.
- (iv) Sales Book to record the sales of the goods dealt in by the firm.
- (v) Sale Returns Book to record the returns made by the customers.
- (vi) Bills Receivable Books to record the receipts of promissory notes or hundies from various parties.
- (vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.
- (viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

2. For advantages of Subsidiary Books, refer para 4.1.

PRACTICAL PROBLEMS**ANSWERS 1****Sales Book**

Date	Particulars	Gross Amount	Trade Discount	Net Price
2016				
Jan. 2	Ajanta Electricals 5 pieces of			

	Ovens @ ₹ 6,000 each					
	Less: 10% discount		30,000		3,000	27,000
8	Electronics Plaza 10 pieces of					
	Tablets @ ₹ 8,000 each,					
	Less: 5% trade discount		80,000		4,000	76,000
15	Haryana Traders 5 pieces of					
	Juicers @ ₹ 3,500 each,					
	less 10% trade discount		17,500		1,750	15,750
			1,27,500		8,750	1,18,750

ANSWERS 2

Ledger

Ajanta Electricals

Date 2016	Particulars	L.F.	Amount	Date 2016	Particulars	L.F.	Amount (₹)
Jan. 2	To Sales A/c		27,000				

Electronics Plaza

Date 2016	Particulars	L.F.	Amount	Date 2016	Particulars	L.F.	Amount (₹)
Jan. 8	To Sales A/c		76,000				

Haryana Traders

Date 2016	Particulars	L.F.	Amount	Date 2016	Particulars	L.F.	Amount (₹)
Jan. 15	To Sales A/c		15,750				

Sales Account

Date 2016	Particulars	L.F.	Amount	Date 2016	Particulars	L.F.	Amount (₹)
				Jan. 31	By Sundries (As per Sales Book)		1,18,750