

Subsidiary Books

Accounting can be a tiresome process. A company has thousands of financial transactions in a year and journalizing them all can get quite bothersome. So some companies choose to prepare subsidiary books, in which we record transactions of a similar nature in chronological order.

Business transactions, at the first stage, are normally recorded in the book of original entry i.e. Journal and then posted into the ledger under the double entry system of bookkeeping. This procedure is easy and practicable in small business houses where the number of business transactions is less and when a single person can handle the business transactions. But it is practically very difficult, rather impossible, to record all the business transactions of a day in the Journal of a large business house where the number of business transactions are varied and enormous because of the following reasons:

- The system of recording all transactions in a journal requires (i) writing down of the name of the account involved as many times as the transactions occur; and (ii) an individual posting of each account debited and credited and hence, involves the repetitive journalizing and posting labor.
- Such a system does not provide the information on a prompt basis.
- The journal becomes bulky and voluminous.

Therefore, to overcome the shortcomings of the use of the journal as the only book of original entry, the journal is subdivided into special journals. It is divided in such a way that a separate book is used for each category of business transactions, which are repetitive in nature, similar and are sufficiently large in number.

Subsidiary books are books of original entry. In the normal course of business, a majority of transactions are either related to sales, purchases or cash. So we record transactions of the same or similar nature in one place, i.e. the subsidiary book. And we record these transactions in chronological order.

This actually saves a lot of man-hours and tiresome clerical work. Instead of journalizing each entry, they are recorded into various subsidiary books. Subsidiary books are also called sub journals and there is no separate entry for

these transactions in the general ledger. One thing to remember is that such a system does not violate the rules of Double Entry System. We have still recorded the transactions according to this system. All transactions are still affecting two accounts. Only instead of a journal, we are using subsidiary books as the books of original entry.

Thus special journals refer to the journals meant for recording specific business transactions of similar nature. These special journals are also known as Subsidiary Books or Sub journals or Day Books. The main types of special journals are as follows:

- (i) Cash Book:** It records all those transactions, which are in cash or by cheque.
- (ii) Purchases Book:** It records all transactions relating to goods purchased on credit.
- (iii) Sales Book:** It records all transactions relating to goods sold on credit.
- (iv) Purchases Return Book:** It records return of goods to suppliers.
- (v) Sales Return Book:** It records return of goods by the customers.
- (vi) Bills Receivable Book:** It records entries regarding bills receivables. The details of bills are given in this book.
- (vi) Bills Payable Book:** All bills, which are accepted and payable by a business house are recorded in this book.
- (viii) Journal Proper:** Those transactions, which are not recorded in any of the above mentioned books are recorded in the Journal Proper.

Advantages of subsidiary books:

The advantages of using Special Journals are as under:

- Facilitates division of work: The accounting work can be divided among many persons.
- Time and labor saving in journalizing and posting: For instance, when a Sales Book is kept, the name of the Sales Account will not be required to be written down in the Journal as many times as the sales transactions occur and at the same time, Sales Account will not be required to be posted again and again since, only a periodic total of Sales Book is posted to the Sales Account.
- Permits the use of specialized skill: The accounting work requiring specialized skill may be assigned to a person possessing the required skill.

With the use of a specialized skill, prompt, economical and more accurate supply of accounting information may be obtained.

- Permits the installation of internal check system: The accounting work can be divided in such a manner that another person automatically checks the work of one person. With the use of internal check, the possibility of occurrence of error/fraud may be avoided.
- Easy for Reference: When transactions of all types are in the same subsidiary book it becomes easy to search for them. Whenever any information is needed we directly refer the subsidiary book to get said information.

CASH BOOK

A Cash Book is a special journal, which is used for recording all cash receipts and cash payments. If a cashbook is maintained, there is no need for preparing cash account in the ledger. However, the other aspects of the transactions will be recorded in the ledger. Cash Book serves dual role of journal as well as ledger. Cash Book is the book of original entry (Journal) since transactions are recorded for the first time from the source documents. It is a ledger in the sense that it is designed in the form of Cash Account and records cash receipts on the debit side and cash payments on the credit side. Thus cash book is referred to as the journalized ledger.

Features

- Only cash transactions are recorded in the Cash Book.
- It performs the functions of both journal and the ledger at the same time.
- All cash receipts are recorded on the debit side and all cash payments are recorded on the credit side.
- The Cash Book, recording only cash transactions can never show a credit balance.

Kinds of Cash Book

Cash Book can be of several kinds:

- (a) Single Column Cash Book- For recording cash transactions only. Thus it involves 1 cash column on each side.

Illustration I. Enter the following transactions in the Cash Book of Mr. Nikhil.

2006		Rs.
March 1	Mr. Nikhil commenced business with Cash	6,500
March 3	Bought goods for cash	685
March 4	Paid to Mohan	95
March 6	Deposited in the bank	4,000
March 6	Purchased office furniture on cash	465
March 9	Sold goods for cash	3,000
March 12	Paid wages in cash	120
March 13	Paid for stationary	40
March 15	Sold goods for cash	2,500
March 17	Paid for miscellaneous expenses	45
March 19	Received cash from Tarlok	485
March 21	Withdrew for domestic use	250
March 22	Paid salary	400
March 25	Paid rent	90
March 28	Paid electricity bill	35
March 29	Paid for advertising	40
March 31	Paid into bank	2,500

Solution

CASH BOOK

Dr.				Cr.			
Date	Particulars (Receipts)	LF	Amount (Rs.)	Date	Particular (payments)	LF	Amount (Rs.)
2006				2006			
March 1	To Capital A/c		6,500	March 3	By Purchases A/c		685
March 9	To Sales A/c		3,000	March 4	By Mohan's A/c		95
March 15	To Sales A/c		2,500	March 6	By Bank A/c		4,000
March 19	To Tarlok's A/c		485	March 6	By Furniture A/c		465
				March 12	By Wages A/c		120
				March 13	By Stationery A/c		40
				March 17	By Misc. Expenses A/c		45
				March 21	By Drawings A/c		250
				March 22	By Salaries A/c		400
				March 25	By Rent A/c		90
				March 28	By Electricity A/c		35
				March 29	By Advertisement A/c		40
				March 31	By Bank A/c		2,500
				March 31	By Balance c/d		3,720
			12,485				12,485

Illustration: From the following transactions prepare 2 column cashbook with cash and discount column:

		Rs
2006		
Aug 1	Cash in hand	25,500
Aug 2	Received from Rakesh and Discount allowed to him	2,900 100
Aug 5	Cash sales	6,000
Aug 6	Purchased goods for cash	7,800
Aug 8	Received from Neelam and Allowed her discount	1,350 50
Aug 12	Paid to Ravinder and Received discount	3,400 200
Aug 20	Paid rent	1,000
Aug 25	Interest received in cash	500
Aug 26	Paid to Kamal and Received discount	1,760 40
Aug 28	Machinery purchased	5,200
Aug 30	Salaries paid	3,000

Solution

CASH BOOK

Dr.					Cr.				
Date	Particulars	L.F.	Discount (Rs.)	Cash (Rs.)	Date	Particulars	L.F.	Discount (Rs.)	Cash (Rs.)
2006					2006				
Aug. 1	To Bal. b/d			25,500	Aug. 6	By Purchases A/c			7,800
Aug. 2	To Rakesh's A/c		100	2,900	Aug. 12	By Ravinder's A/c		200	3,400
Aug. 5	To Sales A/c			6,000	Aug. 20	By Rent A/c			1,000
Aug. 8	To Neelam's A/c		50	1,350	Aug. 26	By Kamal's A/c		40	1,760
Aug. 25	To Interest A/c			500	Aug. 28	By Machinery A/c			5,200
					Aug. 30	By Salaries A/c			3,000
					Aug. 31	By Bal. c/d			14,090
			150	36,250				240	36,250
Sep 1	To Bal b/d			14,090					

Note: The discount columns are not balanced but these are totalled in respective column and posted in the ledger.

Triple Column Cash Book

This type of Cash Book is an improvement over the Double Column Cash Book. In modern times, it is virtually impossible to imagine any business without having dealings with a bank. Most of the transactions relating to receipts and payments of money are made through cheque. So transactions through bank are also recorded in the cashbook by adding one more column i.e. bank column on both sides of the cashbook. Therefore there are three columns on both sides of the cash book i.e. cash, bank and discount columns. That is why this type of cashbook is known as Triple Column Cash Book.

Receipt side (Dr side) of the Triple Column Cash Book is used to record all receipts both in cash and by cheques as also to record the discount allowed to our debtors while receiving the payment. Cash receipts are entered in the cash column whereas amounts received by cheques are entered in the bank column and discount allowed in the discount column. Posting from the debit side of the cash book is made to the credit side of each account in the ledger in case of personal accounts credit is to be given for cash or cheque received plus discount allowed.

Payment side (Cr. side) of the Cash Book is used to record all payments both in cash and through cheque as also to record the discount received or availed by us from over creditors while making payment to them. Cash payments are recorded in the cash column, payments through cheque are entered in the bank column and discount received in the discount column. Posting from the credit side of the cash book is made on the debit side of respective accounts in case of personal accounts debit is to be given for the total of the payments made and discount received.

After recording all the relevant transactions in the Cash Book, all the columns of the Cash Book are totalled. The difference in the cash columns is put on the credit side of Cash Book in the column by writing By Balance c/d. The bank balance may have a debit balance or a credit balance. If the total of the debit side of the bank column is more than the total of the credit side of the bank column, it has a debit balance and if the total of the credit side is more than that of the debit side, then it has a credit balance (overdraft). However, the difference is put on

the lesser side. There is no need to balance the discount columns. The discount columns of both the sides are totalled.

In the Triple Column Cash Book there will be some cross or contra entries i.e., transfer of money from cash to bank (amount deposited) and vice-versa (amount withdrawn from bank for office use). In all such cases both entries occur in the cash book and no ledger entry is required. This is indicated by a contra sign (C) in the folio column indicating thereby that the double entry aspect of this transaction is complete and it requires no posting to the ledger.

Points to remember for 3-column cashbook:

Transaction	Debit/ credit	The column in which amt is entered
a) Received a cheque	Dr side	Cash column
b) Received a cheque and sent the same to bank for collection	Dr side	Bank column
c) Paid by cheque	Cr side	Bank column
d) Cheque has been drawn for personal use	Cr side	Bank column
e) Draw a cheque for office use	Cr side Dr side	Bank column Cash column
f) Paid into the bank	Cr side Dr side	Cash column Bank column
g) Amount directly paid into bank	Dr side	Bank column

Cash Book with two bank columns

ILLUSTRATION 2.13

Mr. Lal operates two bank accounts both of which are maintained in the columnar cash book itself. You are required to prepare a proforma of the Cash Book, record the following transactions therein and draw the closing balances as on 30th June.

20th June	Opening Balance – Cash	Rs 1,180
	Progressive Bank	Rs 19,040 (Dr.)
	Goodwill Bank	Rs 6,460 (Cr.)
20th June	Received cheque for Rs 1,800 from X and deposited in Goodwill Bank. The Bank credited the amount on 23rd June and debited Rs 4 to the account as its collection charges.	
21st June	Purchased goods for Rs 18,210 and a cheque issued on Progressive Bank.	
22nd June	Paid Office expenses Rs 410 and Rs 80 for stationery in cash.	
23rd June	Deposited a cheque for Rs 21,090, being sale proceeds of goods, in Progressive Bank. The Bank credited the amount on the same day and debited Rs 21 as discounting charges.	
23rd June	A cheque for Rs 8,000 drawn by Mr. Lal himself on Progressive Bank was deposited in his account with Goodwill Bank.	
25th June	Cash drawn from the account with Progressive Bank Rs 600 for office expenses.	
25th June	A cheque for Rs 1,100 received from Mr. Arun and earlier deposited in the account with Goodwill Bank on 14th June was returned unpaid and the Bank debited Rs 10 towards its charges. Mr. Lal received the amount of returned cheque and bank charges in cash from Arun.	
28th June	Deposited cash Rs 1,500 in the account with Goodwill Bank.	
29th June	Purchased postal stamps for Rs 200 and paid in cash.	

(CAIIB)

SOLUTION

Cash Book with Discount, Cash and Two Bank Columns

Date	Receipts	R. No.	L.F.	Discount	Cash Rs	Progressive Bank Rs	Goodwill Bank Rs	Date	Payments	V. No.	L.F.	Discount	Cash Rs	Progressive Bank Rs	Goodwill Bank Rs
June 20	To Balance b/d				1,180	19,040	—	June 20	By Balance b/d				—	—	6,460
20	To X's Account				—	—	1,800	21	By Purchase A/c				—	18,210	—
23	To Sales A/c				—	21,090	—	22	By Office Expenses A/c				410	—	—
	To Progressive Bank A/c		C		—	—	8,000	22	By Stationery A/c				80	—	—
25	To Bank A/c		C		600	—	—	23	By Bank Charges				—	21	—
	To A's A/c				1,110	—	—	"	By Bank Charges				—	—	4
28	To Cash A/c		C		—	—	1,500	"	By Goodwill Bank A/c		C		—	8,000	—
								25	By Cash A/c		C		—	600	—
									By Arun A/c (Rs 1,100 + Rs 10)				—	—	1,110
								28	By Goodwill Bank A/c		C		1,500	—	—
								29	By Postage A/c				200	—	—
								30	By Balance c/d				700	13,299	3,726
					2,890	40,130	11,300						2,890	40,130	11,300
July 1	To Balance b/d				700	13,299	3,726								

Petty Cash Book

In every business organization, there are a number of payments which involve small amounts e.g. payments for postage, telegrams, carriage, cartage etc. If all these transactions are recorded in the Cash Book, it will increase the head cashier's work manifold and it will make the Cash Book unnecessarily bulky and uneasy. Normally, one person is handed over a small amount to meet the petty expenses of a given period (say, week, fortnight or month) and is authorized to make such payments and to record them in a separate Cash Book. Such person, amount and Cash Books are called as Petty Cashier, Imprest and Petty Cash Book respectively. The Petty Cash Book is usually maintained on Imprest System.

All the heads of expenses are totalled periodically and such periodic totals are individually posted to the debit side of the concerned ledger accounts in the ledger by writing To Petty Cash A/c in the particulars column. The Petty Cash Account in the ledger is credited with the total expenditure incurred during the period by writing By Sundries as per Petty Cash Book in the particulars column. The ledger folio number is written under every total amount of expense to indicate that the entry has been posted in the ledger. In the folio column of the ledger account, the page number of the petty cash book is written.

ILLUSTRATION 2.14

Mr. Mohan maintains a Columnar Petty Cash Book on the Imprest system. The imprest amount is Rs 700. From the following information show how his petty cash book would appear for the week ended on 18th December.

December	13	Balance in hand	Rs 78.00
	13	Received cash to make up the imprest.	
	14	Postage	120.00
	14	Stationery	75.00
	14	Entertainment	35.00
	15	Travelling expenses	41.00
	15	Miscellaneous expenses	26.00
	15	Entertainment	19.00
	16	Repairs	31.00
	16	Postage stamps	18.00
	16	Entertainment	10.00
	17	Entertainment	8.00
	18	Stationery	51.00
	18	Postage stamps	12.00
	18	Repairs	10.00

(B.Com. MS)

SOLUTION

Dr.

Columnar Petty Cash Book

Cr.

Amount Received Rs	Date	V.No.	Particulars	ANALYSIS OF PAYMENTS													
				Total Payments Rs	Postage & Telegrams Rs	Printing & Stationery Rs	Travelling & Conveyance Rs	Repairs Rs	Entertainment Rs	Mis. Expenses							
78.00	Dec. 13		To Balance b/d														
622.00	13		To Cash A/c														
	14	1	By Postage A/c ✓	120.00	120.00												
	14	2	By Stationery A/c ✓	75.00		75.00											
	14	3	By Entertainment A/c ✓	35.00						35.00							
	15	4	By Travelling and Conveyance A/c ✓	41.00			41.00										
	15	5	By Miscellaneous A/c ✓	26.00												26.00	
	15	6	By Entertainment A/c ✓	19.00											19.00		
	16	7	By Repairs A/c ✓	31.00									31.00				
	16	8	By Postage A/c ✓	18.00						18.00							
	16	9	By Entertainment A/c ✓	10.00											10.00		
	17	10	By Entertainment A/c ✓	8.00											8.00		
	18	11	By Stationery A/c ✓	51.00				51.00									
	18	12	By Postage A/c ✓	12.00						12.00							
	18	13	By Repairs A/c ✓	10.00									10.00				
	18		By Balance c/d	456.00	150.00	126.00	41.00	41.00	41.00	72.00	26.00						
700.00				244.00													
244.00			To Balance b/d														
456.00			To Cash A/c														

For the concept of cashbook:

<https://www.youtube.com/watch?v=1LXrblt1iqw>

For single column cashbook:

<https://www.youtube.com/watch?v=8MSj102t-C4>

For double column cashbook:

<https://www.youtube.com/watch?v=PsFfitxzLY>

and

<https://www.youtube.com/watch?v=1Y7HGnJQmZs>

For triple column cashbook:

<https://www.youtube.com/watch?v=Bv8aFPpuPuI>

and

<https://www.youtube.com/watch?v=rodiyF2QN00>

For the concept of petty cashbook:

<https://www.youtube.com/watch?v=PClOM8--FOI>

(Kindly note that in video for double column cashbook, instead of cash and discount column, the video shows cash and bank column which is an alternate way of making the double column cashbook. However the link for the video has been kept to make the students understand the concept and treatment of contra entries, which generally are common in triple column cashbook. In addition to this you are requested to note that the rule of recording in cashbook is same as that of journal, so what holds true for journal, holds true for cashbook.)