

## UNIT - 3

### RECORDING OF TRANSACTIONS

#### LEARNING OBJECTIVES

After studying this chapter, you will be able to :

- explain how to Prepare accounting vouchers;
- apply accounting equation to explain the effect of transactions;
- record transactions using rules of debit and credit;
- record transactions in journal and other subsidiary books;

**Suggested Methods :** Discussion method, Illustration method, Problem solving method etc.

#### Source Document

A document which provides evidence of the transactions is called the Source Document such as Cash memo, Invoice etc. At times, there may be no documentary proof for certain items in such case voucher may be prepared showing the necessary details and it must be approved by appropriate authority. All recording in books of account is done on the basis of Voucher.

#### Classification of Accounting Vouchers

Vouchers	Further classification	Purpose
Cash Vouchers	Debit Vouchers	To show Cash Payments
	Credit Vouchers	To show Cash Receipts
Non Cash Vouchers	Transfer Vouchers	To show Transactions not involving cash

#### Debit Voucher

This voucher is prepared for all the cash payments made by the business e.g. Payment of Salary, Purchses of Goods and services, Payment made to any Creditor etc.

#### Format of Debit Voucher

M/s Pratibha Furnitures 180, Nai Sarak, Delhi	
Voucher No. ....	Date .....
DEBIT .....	Amount (₹)
.....	.....
.....	.....
Total	.....
Signature Manager	Signature Accountant

**Credit Voucher**

This voucher is prepared by the business in case of cash receipt from any source such as Sale of goods for Cash, Payment received from any of Debtors, Income received etc.

**Format of Credit Voucher**

M/s Pratibha Furnitures 180, Nai Sarak, Delhi	
Voucher No. ....	Date .....
CREDIT .....	Amount (₹)
.....	
..... Total	
Signature Manager	Signature Accountant

**Transfer Voucher / Non-Cash Voucher**

This type of vouchers are prepared in those transactions which do not involve Cash. Such as Credit Sales, Credit Purchases, Bad Debts, Depreciation charged etc.

**Format of Transfer Voucher**

M/s Pratibha Furnitures 180, Nai Sarak, Delhi	
Voucher No. ....	Date .....
DEBIT .....	AMOUNT
.....	
Total	
CREDIT .....	AMOUNT
.....	
Total	
Signature Manager	Signature Accountant

## ACCOUNTING EQUATION

An accounting equation is based on the dual concept of accounting. According to this concept every transaction has two aspects - Debit and Credit.

$$\text{Assets} = \text{Capital} + \text{Liabilities}$$

A transaction may affect either both sides of the equation by the same amount or one side of the equation only, by both increasing or decreasing it by equal amount. It can be said "Accounting equation holds good under all circumstances."

### Analysis of Business Transactions :

#### 1. Transactions affecting both sides of the equation

A. Commenced business with Cash ₹ 2,00,000.

This transactions will affect the assets as the firm is receiving asset in the form of Cash and the owner of the business has invested amount, this will affect the Capital of the business.

	<i>ASSETS</i>		<i>= CAPITAL + LIABILITIES</i>
	Cash		
Transaction	2,00,000		= 2,00,000 + 0

B. Bought goods from Ram ₹ 25,000.

This transaction will affect both assets as well as liabilities of the business. The goods and Creditors are increasing.

	<i>ASSETS</i>			<i>= CAPITAL + LIABILITIES</i>
	<b>Cash</b>	<b>Goods</b>		<b>Creditors</b>
Old Equation	2,00,000		=	2,00,000 + 0
Transactions	0 + 25,000			0 + 25,000
<b>New Eq.</b>	<b>2,00,000 + 25,000</b>		<b>=</b>	<b>2,00,000 + 25,000</b>

#### 2. Transactions affecting only assets side of the equation :

A. Bought goods for Cash ₹ 35,000

This transaction will affect the Cash and Goods by ₹ 35,000, the firm is paying the money resulting in decrease of Cash. Goods are increasing.

	<i>ASSETS</i>			<i>= CAPITAL + LIABILITIES</i>
	<b>Cash</b>	<b>Goods</b>		<b>Creditors</b>
Old Equation	2,00,000 + 25,000		=	2,00,000 + 25,000
Transaction	-35,000 + 35,000			0 + 0
<b>New Eq.</b>	<b>1,65,000 + 60,000</b>		<b>=</b>	<b>2,00,000 + 25,000</b>

B. Bought Furniture for cash Rs. 50,000

This transactions has brought about two changes in the assets side only. One asset i.e. Cash is decreasing and other asset i.e. Furniture is increasing.

	<i>ASSETS</i>			=	<i>CAPITAL + LIABILITIES</i>	
	Cash	Goods	Furniture	=	Creditors	
Old Equation	1,65,000	+ 60,000		=	2,00,000	+25,000
Transaction	-50,000	+ 0	+ 50,000	=	0	+ 0
<b>New Eq.</b>	<b>1,15,000</b>	<b>+ 60,000</b>	<b>+ 50,000</b>	<b>=</b>	<b>2,00,000</b>	<b>+ 25,000</b>

### 3. Transactions affecting only liabilities side of the equation

A. Accepted a bill drawn by Ram for Rs. 25,000 for 3 months.

This transaction will affect Creditors and Bills Payable. As one liability i.e. Creditor is decreasing and other liability i.e. Bills payable is increasing.

	<i>ASSETS</i>			=	<i>CAPITAL + LIABILITIES</i>	
	Cash	Goods	Furniture	=	Creditors + B/P	
Old Equation	1,15,000	+ 60,000	+ 50,000	=	2,00,000	+ 25,000
Transaction	0	+ 0	+ 0	=	-25,000	+ 25,000
<b>New Eq.</b>	<b>1,15,000</b>	<b>+ 60,000</b>	<b>+ 50,000</b>	<b>=</b>	<b>2,00,000</b>	<b>+ 0 + 25,000</b>

### 4. Transaction affecting the Capital only

A. Interest on Capital provided Rs. 2000

	<i>ASSETS</i>			=	<i>CAPITAL + LIABILITIES</i>	
	Cash	Goods	Furniture	=	Creditors + B/P	
Old Equation	1,15,000	+ 60,000	+ 50,000	=	2,00,000	+ 0 + 25,000
Transaction	0	+ 0	+ 0	=	-2000	+ 2000
<b>New Eq.</b>	<b>1,15,000</b>	<b>+ 60,000</b>	<b>+ 50,000</b>	<b>=</b>	<b>2,00,000</b>	<b>+ 0 + 25,000</b>

B. Interest on Drawings charged Rs. 1000

	<i>ASSETS</i>			=	<i>CAPITAL + LIABILITIES</i>	
	Cash	Goods	Furniture	=	Creditors + B/P	
Old Equation	1,15,000	+ 60,000	+ 50,000	=	2,00,000	+ 0 + 25,000
Transaction	0	+ 0	+ 0	=	-1000	+ 1000
<b>New Eq.</b>	<b>1,15,000</b>	<b>+ 60,000</b>	<b>+ 50,000</b>	<b>=</b>	<b>2,00,000</b>	<b>+ 0 + 25,000</b>

In the above transactions, Capital is increasing and decreasing at the same time. It is owner's duty to pay all the expenses and it is the owner who takes all the profits arising out of business.

## 5. Transactions related to Expenses

A. Salary Paid ₹ 5000

$$ASSETS = CAPITAL + LIABILITIES$$

	Cash	Goods	Furniture	=	Creditors + B/P
Old Equation	1,15,000	+ 60,000	+ 50,000	=	2,00,000 + 0 + 25,000
Transaction	- 5000			=	- 5000
<b>New Eq.</b>	<b>1,10,000</b>	<b>+ 60,000</b>	<b>+ 50,000</b>	<b>=</b>	<b>1,95,000 + 0 + 25,000</b>

This transaction affects cash and capital because Cash is decreasing and Capital (Owner) is responsible to pay all the expenses.

## 6. Transactions related to Income

A. Commission Received ₹ 2000

$$ASSETS = CAPITAL + LIABILITIES$$

	Cash	Goods	Furniture	=	Creditors + B/P
Old Equation	110000	+ 60000	+ 50,000	=	1,95,000 + 0 + 25000
Transactions	+ 2000			=	+ 2000
<b>New Eq.</b>	<b>112000</b>	<b>+ 60000</b>	<b>+ 50,000</b>	<b>=</b>	<b>197,000 + 0 + 25000</b>

This transaction affects cash and capital both, because Cash is increasing and Capital (Owner) is also increasing.

### RULES OF DEBIT AND CREDIT

#### TRADITIONAL APPROACH

Under this approach, all ledger accounts are mainly classified into two categories:

**A. Personal accounts :** It includes all those accounts which are related to any person i.e. individuals, firms, companies, Banks etc. This can further be classified into three categories :

1. **Natural persons :** All accounts of human beings/persons are included such as Ram's A/c, Shyam's A/c etc.

2. **Artificial persons :** This includes all accounts related to organizations which are treated as persons in the eyes of law and having all the legal rights as a natural person have such as buying/selling assets in its name, suing and be sued etc. Some of the examples are Reliance industries Ltd., Punjab National Bank etc.

3. **Representative persons :** In this category, accounts which represents some persons are included e.g. Capital a/c (representing Owner),

Outstanding salary (representing the employee to whom salary is due) etc.

**B. Impersonal accounts :** All ledger accounts which are not related to persons are included in this category. This can be classified as :

1. **Real accounts :** Under this category, mainly assets (excluding debtors) are included. These assets can be **tangible** (which can be touched, seen and measured such as furniture, cash, stock etc.) and **intangible** (which can't be seen, touched or measured but still have monetary value such as patents, trademark etc.)

2. **Nominal accounts :** In this category all accounts which are related to income/gain and expenses/losses are included e.g. Salary paid, Commission received etc.

**RULES OF DEBIT/CREDIT UNDER TRADITIONAL APPROACH**

CLASSIFICATION OF ACCOUNTS		RULES OF DR/CR	
<b>PERSONAL</b>	1. NATURAL PERSONS	DR	THE RECEIVER
	2. ARTIFICIAL PERSONS		
	3. REPRESENTATIVE PERSONS		
<b>IMPERSONAL</b>		CR	THE GIVER
	<b>REAL</b>		
<b>NOMINAL</b>	1. TANGIBLE	DR	WHAT COMES IN
	2. INTANGIBLE	CR	WHAT GOES OUT
	1. EXPENSES/LOSSES	DR	EXP/LOSSES
	3. INCOME/GAINS	CR	INCOME/GAINS

Illustrations 1: Analyse the following transactions by using the “**TRADITIONAL APPROACH**”

2011		Amount (in ₹)
Jan 1	Prateek started business with cash	1,00,000
Jan 5	Bought goods for Cash	20,000
Jan 7	Bought goods from Pravesh	10,000
Jan 10	Sold goods for cash	5,000
Jan 12	Sold goods to Vikas	12,000
Jan 15	Paid Salary	5,000
Jan 20	Received Commission	2,000

**Solution :** **Analysis of Transactions**

S. no	Transaction	Accounts Affected	Nature of Accounts	Changes	Debit (₹)	Credit (₹)
1.	Commenced business	Cash Capital	Real Personal	Comes in Giver	1,00,000	1,00,000
2.	Purchased goods	Purchases Cash	Nominal Real	Expenses Goes out	20,000	20,000
3.	Bought goods on credit	Purchases Pravesh	Nominal Personal	Expenses Giver	10,000	10,000

4.	Sold goods for cash	Cash	Real	Comes in	5,000	
		Sales	Nominal	Income		5,000
5.	Sold goods on Credit	Vikas	Personal	Receiver	12,000	
		Sales	Nominal	Income		12,000
6.	Paid Salary	Salary	Nominal	Expenses	5,000	
		Cash	Real	Goes Out		5,000
7.	Received Commission	Cash	Real	Comes in	2,000	
		Comm- ission	Nominal	Income		2,000

**RULES OF DEBIT/CREDIT UNDER MODERN APPROACH**

Assets/Expenss		Capital/ILiabilities/Revenue	
Increase	Decrease	Increase	Decrease
Debit	Credit	Credit	Debit

**Illustration 2:** Analyse the transactions given in Illustration 1 by using the

**“MODERN APPROACH”**

**Solution :**

S. no	Transaction	Accounts Affected	Nature of Accounts	Changes	Debit (₹)	Credit (₹)
1.	Commenced Business	Cash	Asset	Increase	1,00,000	
		Capital	Capital	Increase		1,00,000
2.	Purchased goods	Purchases	Expenses	Increase	20,000	
		Cash	Asset	Decrease		20,000
3.	Bought goods on credit	Purchases	Expenses	Increase	10,000	
		Pravesh	Liabilities	Increase		10,000
4.	Sold goods for cash	Cash	Assets	Increase	5,000	
		Sales	Income	Increase		5,000
5.	Sold goods on Credit	Vikas	Assets	Increase	12,000	
		Sales	Income	Increase		12,000
6.	Paid Salary	Salary	Expenses	Increase	5,000	
		Cash	Assets	Decrease		5,000
7.	Received Commission	Cash	Assets	Increase	2,000	
		Comm- ission	Income	Increase		2,000

## JOURNAL

Journal is a book in which transactions are originally recorded in chronological order (as per the occurrence) after analyzing the transaction and applying the rules of debit and credit.

### PROCESS OF RECORDING

1. Identification of financial transactions
2. Analysis of transactions
3. Application of rules of debit and credit
4. Recording in Journal

**Illustration 3 :** By using illustration 1, record the transactions in Journal.

### JOURNAL

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2011				
Jan 1	Cash A/c           Dr. To Capital A/c (Being business commenced)		1,00,000	1,00,000
Jan 5	Purchases A/c   Dr. To Cash A/c (Being goods bought for cash)		20,000	20,000
Jan 7	Purchases A/c   Dr. To Pravesh's A/c (Being goods bought on credit)		10,000	10,000
Jan 10	Cash A/c           Dr. To Sales A/c (Being goods sold for cash)		5,000	5,000
Jan 12	Vikas's A/c       Dr. To Sales A/c (Being goods sold on credit)		12,000	12,000
Jan 15	Salary A/c           Dr. To Cash A/c (Being salary paid)		5,000	5,000
Jan 20	Cash A/c           Dr. To Commission A/c (Being Commission received)		2,000	2,000

## CLASSIFICATION OF JOURNAL ENTRIES



**Simple Entries :** The entries in which only two accounts are affected, one Account is debited and other one is credited. All entries in the above illustration 3 are this nature.

**Compound Entries :** The entries in which there are at least two accounts are debited and at least one account is credited or vice versa.

**Example 1** Received ₹ 3,900 from Ram in full settlement of a claim of ₹4,000.

Cash A/c	Dr.	3,900	
Discount allowed A/c	Dr.	100	
To Ram			4,000

(Being cash received in full settlement)

**Example 2** Paid ₹ 4,900 to Shyam in full settlement who owes us ₹ 5,000.

Shyam's A/c	Dr.	5,000	
To Cash A/c			4,900
To Discount Received A/c			100

(Being Cash paid in full settlement)

### SPECIAL TRANSACTIONS RELATED TO GOODS

1. Withdrawal of goods by owner for personal use.  

Drawings A/c	Dr.	
To Purchases A/c		
2. Goods given as charity.  

Charity A/c	Dr.	
To Purchases A/c		
3. Goods distributed as free samples  

Advertisement A/c	Dr.	
To Purchases A/c		
4. Goods lost by fire/ flood/theft etc.  

Loss by fire/theft A/c	Dr.	
To Purchases A/c		

**Note :** Purchases a/c is credited in the above entries because the goods are going out of our business on cost and it is not a sale hence, deducted from the purchases a/c.

### TRANSACTIONS RELATED BANKS

1. Cash deposited into the bank  

Bank A/c	Dr.	
To Cash A/c		
2. Cash withdrawn for office use.  

Cash A/c	Dr.	
To Bank A/c		



7. Depreciation provided on fixed assets.  
     Depreciation A/c                      Dr.  
         To Related asset's A/c
8. Interest on Capital provided.  
     Interest on capital A/c              Dr.  
         To Capital A/c
9. Interest on Drawings charged.  
     Drawings A/c                          Dr.  
         To Interest on Drawings A/c

### **BOOKS OF ORIGINAL ENTRY/SPECIAL PURPOSE BOOKS**

As size of the business grows and number of transactions increases, it becomes necessary for the business to divide the recording work. The books maintained are illustrated below :

<b>Transactions</b>	<b>Further classification</b>	<b>subsidiary Books Maintained</b>
Cash & Bank Related Transactions	Only Cash Transactions Cash & Bank Transactions Cash payment of small amount	Simple Cash Book Double Column Cash book Petty Cash Book
Transactions Other than Cash & Bank	Credit Sale Credit Purchases Sales Returns Purchases Returns Transactions of Bill Receivable Transactions of Bill Payable Any other transaction	Sales Book Purchases Book Sales Returns Book Purchases Returns Book Bill Receivable Book Bill Payable Book Journal Proper

### **ADVANTAGES OF MAINTAINING SUBSIDIARY BOOKS**

- Division of work
- Leads to Specialization
- Easy to maintain Ledger
- Check on frauds
- Easy to fix responsibility
- Quick availability of Required information.

### **CASH BOOK**

Cash book shows all the transactions related to cash receipts and payments. Cash book serves two purposes. First, all the cash transactions are recorded first time in cash book it becomes BOOK OF ORIGINAL ENTRY. Second, there is no need to prepare Cash A/c in ledger therefore it also play the role of Principal Book.

### Simple Cash Book

All the cash receipts are shown in left hand side i.e. Debit side and all the cash payments are shown in right hand side i.e. Credit side.

#### Points to Remember

- Cash in hand/opening balance of cash is shown in Dr. side of the Cash book as "To Balance b/d"
- Only transactions of cash receipts and payments are recorded in this book.
- This book never shows a credit balance because one can't pay more than the cash one have.
- Illustrations 4

Enter the following transactions in a Simple Cash Book :

2011		₹	2011		₹
Jan. 1	Cash in Hand	12,000	Jan. 5	Received from Ram	3,000
Jan. 7	Paid rent	300	Jan. 8	Sold goods	3,000
Jan.10	Paid to Shyam	7,000	Jan. 15	Purchased goods from Mohan	5,000
Jan. 27	Purchased furniture	2,000	Jan. 31	Paid Salaries	1,000

#### Solution :

#### In the Books of...

#### CASH BOOK

Dr. Receipts				Payments				Cr.			
Date	Particulars	L.F	₹	Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
2011				2011							
Jan. 1	To Balance b/d		12,000	Jan. 7	By Rent A/c		300				
Jan. 5	To Ram		3,000	Jan.10	By Shyam		7,000				
Jan. 8	To Sales A/c		3,000	Jan. 27	By Furniture A/c		2,000				
				Jan. 31	By Salaries A/c		1,000				
				Jan. 31	By Balance c/d		7,700				
			18,000				18,000				
Feb. 1	To Balance b/d		7,700								

**Notes :** One can draw the following conclusions :

1. In a Simple Cash Book only cash receipts and cash payments are recorded. Credit transactions are not recorded. Purchase from Mohan of ₹ 5,000 on 15th Jan is a credit purchase hence, is not recorded in the Cash Book.
2. The debit side is always bigger than the credit side since the payments can never exceed the available cash. This is true even for daily balances.
3. It is like an ordinary account.



2. When received cheque is deposited into bank later.

July 1 Received a cheque from Anu ₹ 2500

July 3 Anu's cheque deposited into bank.

**Cash Book (Extract)**

Dr.						Cr.					
Date	Particulars	V.N.	L.F.	Cash	Bank	Date	Particular	V.N.	L.F.	Cash	Bank
July 1	To Anu			2,500		July 3	By Bank		C	2,500	
July 3	To Cash		C		2,500						

When cheque is not deposited into Bank on same day, it is considered as Cash. When the received cheque is deposited at later date, it will be considered as cash being deposited into bank hence contra entry has been passed.

3. If cheque is endorsed in favour of creditor of business.

July 1 Received a cheque from Anu ₹ 2,500

July 3 Anu's cheque endorsed in favour of Ram

**Cash Book (Extract)**

Dr.						Cr.					
Date	Particulars	V.N.	L.F.	Cash	Bank	Date	Particular	V.N.	L.F.	Cash	Bank
July 1	To Anu			2,500		July 3	By Ram			2,500	

Anu's cheque is being treated as Cash, hence it is considered that Cash Paid to Ram.

4. When cheque is dishonoured due to any reason.

July 1 Received a cheque from Anu ₹ 2,500

July 3 Anu's cheque dishonoured

**Cash Book (Extract)**

Dr.						Cr.					
Date	Particulars	V.N.	L.F.	Cash	Bank	Date	Particular	V.N.	L.F.	Cash	Bank
July 1	To Anu			2,500		July 3	By Anu			2,500	

The effect of dishonour : Anu is again considered as Debtor and bank balance decreases, hence bank balance is credited.

**Illustration 4 :** Prepare a Cash book with Bank column from the following information :

2011

Jan. 1	Cash in hand	12,000
Jan. 1	Bank Overdraft	3,000
Jan. 5	Deposited into Bank	2,000
Jan. 7	Received a cheque from Pujan	10,000

Jan. 10	Goods sold for cash	6,000
Jan. 12	Sold goods to Naveen	7,000
Jan. 15	Received a Cheque from Naveen	7,000
Jan. 20	Salary paid by cheque	5,000
Jan. 21	Naveen's cheque deposited into bank	
Jan. 25	Payment made to Shyam by cheque	2,000
Jan. 30	Bank charged interest on overdraft	100

#### Double Column Cash Book

Dr.					Cr.						
Date	Particulars	V.N.	L.F.	Cash	Bank	Date	Particular	V.N.	L.F.	Cash	Bank
2011						2011					
Jan. 1	To Bal b/d			12,000		Jan. 1	By Bal b/d				3,000
Jan. 5	To Cash		C		2,000	Jan. 3	By Bank		C	2,000	
Jan. 7	To Pujan				10,000	Jan. 20	By Salary				5,000
Jan. 10	To Sales			6,000		Jan. 21	By Bank		C	7,000	
Jan. 15	To Naveen			7,000		Jan. 25	By Shyam				2,000
Jan. 21	To Cash		C		7,000	Jan. 30	By Interest				100
						Jan. 31	By Bal c/d			16,000	8,900
				25,000	19,000					25,000	19,000
2011											
Feb. 1	To Bal b/d			16,000	8,900						

**Note :**

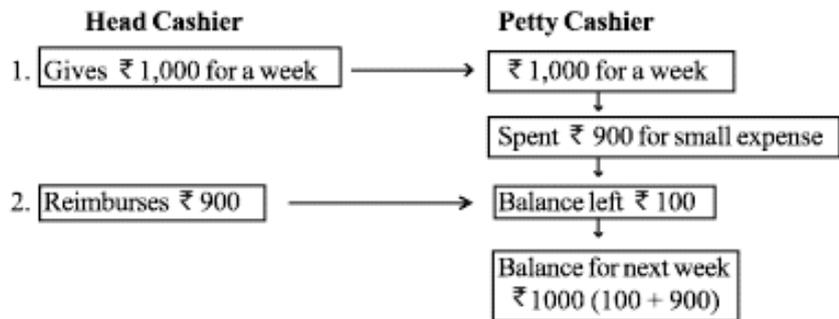
- Bank column debited as there is no information about Pujan's cheque.
- Transaction of Jan. 12 is related to credit sales hence not recorded in cash book.
- Cash column debited in transaction of Jan. 15 because cheque has been deposited into bank at a later date.

#### PETTY CASH BOOK

Business has to incur many small expenses also which are repetitive in nature. To save the time and efforts of head cashier, business appoints a petty cashier. He is entrusted with the duty of paying these small expenses.

#### IMPREST SYSTEM OF PETTY CASH BOOK

Under this system, Head cashier gives an advance amount to petty cashier for a definite period. At the end of given period, Head cashier reimburses the amount actually spent by the petty cashier resulting the same amount with petty cashier which he had in the beginning of the period. This can be illustrated as under.



**Advantages of Petty Cash book**

- Saving of time and efforts of Head cashier
- Control on Petty expenses.
- Less chances of fraud.

**Illustrations 5:** Prepare a Petty Cash book on the imprest system from the following transactions

		Amt (₹)
2010		
Jan. 1	Received from Head cashier	500
Jan. 2	Bought stationery	50
Jan. 3	Paid for registered post	30
Jan. 4	Bought Pen/Pencils for office use	80
Jan. 4	Paid for Telegram	60
Jan. 5	Paid for refreshment	50
Jan. 6	Bought postal stamps	30

**Solution :**

**Petty Cash Book**

Dr		Cr					
		Analysis of Payments					
Rec eipts	Date	Particulars	V.N.	Total Payments	Stationery	Postage	Sundries
500	2010 Jan. 1	To Cash					
	Jan. 2	By Stationery		50	50		
	Jan. 3	By Postage		30		30	
	Jan. 4	By Satationery		80	80		
	Jan. 4	By Telegram		60		60	
	Jan. 5	By Refreshment		50			50
	Jan. 6	By Postage		30		30	
500	Jan. 7	Total		300	130	120	50
	Jan. 7	By Bal c/d		200			
				500			
200	Jan. 8	To Bal b/d					
300	Jan. 8	To Cash					

**Note :**

- V.N. stands for Voucher number,
- The petty cashier can prepare different columns in "Analysis of Payments" as per his requirement depending upon the number of transactions.

**SPECIAL PURPOSE SUBSIDIARY BOOKS****PURCHASES BOOK**

In this book, only those transactions are recorded which are related to credit purchases of goods in which the business deals in. Recording is made on the basis of Bills/Invoice issued by the Suppliers.

**Transactions not in purchases Book**

- Purchases of goods for cash.
- Purchases of Assets meant for long term, not for resale purpose.

**Illustration 5:** Enter the following transactions in the Purchases Book of M/s Ramesh Stationers :

2011

- Aug 1 Bought from Agarwal Book House (Invoice No. 205)  
25 Dozen Pencils @ ₹ 30 per dozen  
20 Dozen Ball pens @ ₹ 10 per pen  
Trade discount @ 10%
- Aug 5 Bought furniture of ₹ 20,000 on credit from M/s Interior Decor (Invoice No. 109)
- Aug 8 Shivani Bros. sold to us (Invoice No. 626)  
30 Registers @ 50 each  
50 Note Books @ ₹ 20 each
- Aug 17 Bought from Tushar stationers for (Cash memo No. 101)  
300 Refills @ ₹ 5 each  
10 Ink pads @ ₹ 50 each

**Solution :****In the books of M/s Ramesh Stationers****PURCHASES BOOK**

DATE	PARTICULARS	INV. NO.	L.F.	DETAIL	AMOUNT ₹
2011					
Aug 1	Agarwal Book House 25 Dozen Pencils @ ₹ 30 per dozen 20 Dozen Ball Pens @ ₹ 10 per pen	205		750 2400	
	Less : Trade Discount @ 10%			3150 315	2835
Aug 8	Shivani Bros. 30 Resisters @ ₹ 50 each 50 Note Books @ ₹ 20 each	626		1500 1000	2500
Aug 31	Purchases A/c Dr.				5335

1. Transaction of Aug. 5 is related to credit purchases of furniture i.e. an Asset.
2. On Aug. 17, goods bought for cash,  
Hence both the transactions are not recorded in Purchases Book.

#### SALES BOOK/SALES JOURNAL

In this book, transactions of credit sales of goods are recorded. The source document for this book is duplicate copy of invoice/bills issued to the customers.

#### Transactions not recorded in Sales Book

- Sales of goods for cash,
- Sales of Assets.

**Illustration 6:** From the following transactions, Prepare a SALES BOOK of Alvin Furnitures:

- July 7 Sold to Anil Furniture House (Invoice No. 107)  
200 Tables @ ₹ 150 each  
100 Chairs @ ₹ 100 each  
Trade discount @ 10%
- July 15 Sold Air Conditioner to Ram ₹ 12,000
- July 20 Sold to Rama Furnitures (Cash Memo No. 3001)  
10 Beds @ ₹ 2,500 each
- July 29 Sold to Jitesh Woods (Invoice No.-506)  
10 Dressing Tables @ ₹ 1,700 each  
5 tables @ ₹ 500 each  
Trade Discount @ 10%

**Solution :**

#### In the books of M/s Alvin furnitures

#### SALES BOOK

DATE	Particulars	INV. NO.	L.F.	DETAIL	AMOUNT ₹
2011					
July 7	ANIL FURNITURE HOUSE 200 tables @ ₹ 150 each 100 Chairs @ ₹ 100 each	107		30,000 10,000 40,000	36,000
	Less : Trade Discount @ 10%			4,000	
July 29	Jitesh Woods 10 Dressing tables @ ₹ 1700 each 5 Tables @ ₹ 500 each	506		17,000 2,500 19,500	17,550
	Trade Discount @ 10%			1,950	
July 31	Sales A/c	Cr.			53,500

**Note :**

- Transaction of July 15 is related to sale of asset,
- Sale to Rama Furnitures is made for cash, hence not recorded in Sales Book.

**PURCHASES RETURNS/ RETURNS OUTWARD BOOK**

This book includes only those transactions which are related to returns of goods bought on credit. The goods may be returned due to various reasons such as goods bought being defective, supply of inferior quality goods etc.

Entries in this book are made on the basis of Debit Note. A debit note contains the name of the supplier to whom goods are being returned, details of goods returned.

**Illustration 7:** Enter the following transactions in the Purchases Returns Book of Ramesh Stationery Hhouse :

2011

- Aug. 5      Returned to Agarwal Book House (Debit Note No. -105)  
                   5 Dozen Pencils @ ₹ 30 per Dozen  
                   Trade Discount @ 10%
- Aug. 10     Returned to Shivani Bros. (Debit Note No. 106)  
                   5 Resisters @ ₹ 50 each

**Solution :****In the books of M/s Ramesh Stationers****PURCHASES RETURN BOOK**

DATE	NAME OF THE SUPPLIER	DEBIT NOTE.	L.F.	DETAIL	AMOUNT (₹)
2011					
Aug 5	AGARWAL BOOK HOUSE	105			
	5 Dozen @ ₹ 30 each			150	
	Less : Trade Discount @ 10%			15	135
Aug 10	Shivani Bros.	106			
	5 Resisters @ ₹ 50 each				250
Aug 31	Purchases Returns A/c Cr.				385

**NOTE :** Trade discount will be deducted if it was allowed at the time of purchase of goods.

**SALES RETURNS BOOK**

This book includes all the returns by customers of credit sales of goods. The Credit Note is used for recording entries in this book. The credit note contains the details of customers and goods returned.

**Illustration 8:** From the following transactions, Prepare a SALES RETURN BOOK of furnitures :-

- 2012 Alvin Furnitures :
- July 9 Returned by Anil Furniture House (Credit Note No. 209)  
 5 Tables @ ₹ 150 each  
 10 Chairs @ ₹. 100 each  
 Trade Discount @ 10%
- July 30 Returned by Jitesh Woods (Credit Note No. 210)  
 1 Dressing Tables @ ₹ 1,700 each  
 Trade Discount @ 10%

**Solution :**

**In the books of M/s Alvin furnitures  
 SALES RETURN BOOK**

Date 2011	Particulars	Cr. Note No.	L. F.	Details	₹
July 9	ANIL FURNITURE HOUSE 5 Tables @ ₹ 150 each 10 Chairs @ ₹ 100 each	209		750 1,000	
	Less : Trade Discount @ 10% 175			1,750	
July 29	Jitesh Woods 1 Dressing Tables @ ₹ 1,700 each Less : Trade Discount @ 10%	210		1,700 170	1,530
July 31	Sales Returns A/c Dr.				3,105

**BILLS RECEIVABLE BOOK**

This book is prepared when bills receivable is a routine matter of business. A bill receivable is drawn by the seller of goods to the buyer and is returned by the buyer after accepting it. This book keeps the records of all the bills receivable and how it is being disposed by the firm.

#### **FORMAT OF BILLS RECEIVABLE BOOK**

Date of Receipt	From Whom Received	Period of the bill	Due date	L.F.	Amount (In Rs.)	How disposed
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#### **BILLS PAYABLE BOOK**

This book keeps the records of all the Bills Payable that are accepted by the firm.

#### **FORMAT OF BILLS PAYABLE BOOK**

Date of Acceptance	To Whom Given	Period of The bill	Due date	L.F.	Amount (In Rs.)	How disposed
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#### **JOURNAL PROPER**

All those transactions, which can not be recorded in any of the subsidiary books mentioned above, are recorded in the journal proper or General journal.

The following types of transactions are recorded in this :-

1. Opening entries
2. Closing entries
3. Transfer entries
4. Adjustment entries
5. Rectifying entries
6. Other entries