

Unit 4: SUBSIDIARY BOOKS

"If you translate every mistake of your life into a positive one, You will never be a prisoner of your past, but a designer of your future."

MEANING & ADVANTAGES

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" or "Books of Prime Entry".

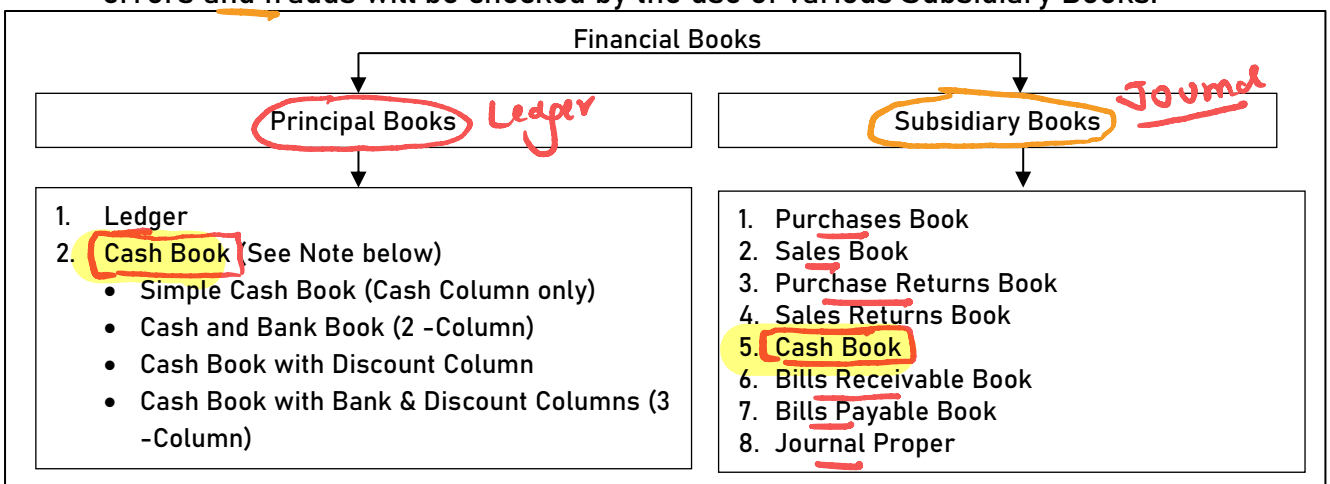
2. Need for Subsidiary Books:

- (a) When transactions are few in number, they are journalized 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 & voluminous, the Journal Book is sub-divided into Subsidiary Books.
- (c) Each Subsidiary Book records a specific type of transaction. Purpose for which separate books will be prepared are identified based on volume & importance of such purposes.

Patience
HYH

3. Advantages of Subsidiary Books (RTP May 2020) / (CA Foundation July 2021) (5 Marks)

- (a) **Information Management:** Since a separate register / book is kept for each class of transaction, information relating to each class will be available at one place.
- (b) **Division of Work:** The accounting work may be divided amongst a number of clerks since there will be separate books for recording various transactions.
- (c) **Specialization:** 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.
- (d) **Saving of time:** Various accounting processes can be undertaken simultaneously because of use of number of books. This will lead to the work being completed quickly.
- (e) **Control/Facility in Checking:** 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.



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

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

Journal	Purpose
(a) Purchases Book	To record transactions relating to Credit Purchases
(b) Sales 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 from Debtors / other parties)
(g) Bills Payable Book	To record transactions in respect of Bills Payable, (i.e. Promissory Notes, Bills of Exchange issued to Creditors / other parties)
(h) Journal Proper	To record other transactions for which no specific book is maintained. Note: The format of Journal & Journal Proper is same.

To mon
BOE

PURCHASES AND SALES BOOK - FEATURES

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. These are recorded in Cash Book (b) Credit Purchases of Capital Assets e.g. Machinery, Furniture, etc. are not recorded. They are recorded in Journal Proper.	(a) Cash Sales are not recorded here. These are recorded in Cash Book. (b) Credit Sales of Capital Assets, e.g. Machinery, Furniture etc, 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 & 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 & amount. Trade Discount if any, is reduced, & only net amount is recorded in the Sales Book.
4. Source	Purchase Invoice is base document	Sales Invoice is base document
5. Posting in Parties Ledger A/c	Suppliers' / Creditors' A/c will be credited for the amount of credit purchases as "By Purchases A/c". This posting is on individual basis.	Customers' / Debtors' A/c will be debited for the amount of credit sales as "To Sales A/c". This posting is on individual basis.
6. Posting in Purchase/Sale 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 - Recording of Sales Tax/GST: In both Purchases and Sales Book, separate amount columns may be used to record Sales Tax/GST on Purchases (Credit Available) and Sales Tax/GST on Sales (Tax Payable), so that they can be reconciled and settled at the end of every period (say, a month).

Format of Purchase Book

Date	Supplier Name	L.F.	Inv. No.	Qty	Gross Amount	Trade Discount	Net Value	Tax	Total Value
22.01.2023	Ravi (Note)	-	315	2,000 kgs	26,000	1,000	25,000	2,000	27,000
	TOTAL			xxx	XXXXX	XXXXX	XXXXX	xxx	XXXXX

(Note: It represents purchases of 2000 kgs on credit from Ravi on 22.01.2023 for ₹ 27,000 including Sales Tax.)

Format of Sales Book

Date	Customer Name	L.F.	Inv. No.	Qty	Gross Amount	Trade Discount	Net Value	Tax	Total Value
15.01.2023	Ramesh (Note)		251	500 kgs	61,500	1,500	60,000	3,200	63,200
	TOTAL			xxx	XXXXX	XXXXX	XXXXX	xxx	XXXXX

(Note: It represents sale of 500 kgs on credit to Ramesh on 15.01.2023 for 63,200 including Sales Tax)

PURCHASE RETURNS AND SALES RETURNS BOOKS - FEATURES

Same

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. Omissions / Exclusions	<ul style="list-style-type: none"> Goods returned to supplier & cash received Fixed Assets returned to supplier Goods earlier purchased for Cash 	<ul style="list-style-type: none"> Goods received from the buyer & cash paid Fixed Assets received back. Goods earlier sold for cash
3. 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.
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 Purchase 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 Return' A/c". This posting is on individual basis.
6. Posting in A/c	Total of Purchases Returns Book is posted in 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.

TRADE DISCOUNT VS CASH DISCOUNT

$$1 \rightarrow 100 \rightarrow (-2)$$

$$500 \rightarrow 98 \times 500$$

LP = 100

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 List Price. (Trade Discount = % of discount x List Price)
- (c) The price after deducting the trade discount is called Invoice Price → 98
- (d) Trade Discount is not recorded in Accounts Books. i.e. directly Invoice Price itself is recorded in Accounts Books.

Prompt Payment

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 in 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 x 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
Net Amount received, if payment made in 7 days	4,455	To Debtors 4,500	To Disc. Recd. 45 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 buyer, Purchases is recorded for 4,500 and "Discount received" recorded for ₹ 45

JOURNAL PROPER - FEATURES

- Significance:** "Journal Proper" is used to record those transactions which cannot be recorded in-any-of-the Specific Subsidiary Books.
- Features:**
 - Journal Proper is a Residuary Subsidiary Book to record the residuary transactions.
 - The format of Journal is exactly similar to the format of a normal Journal Book
- Transactions recorded in Journal Proper:**

(i) Opening Entries

- Opening balances of assets and liabilities are brought forward from the previous accounting period by passing opening entries. Journal Entry for recording-

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

- Closing Entries:** At the end of the year Trading Account and Profit & Loss Account are prepared to determine the profits / losses of the business. All 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

- 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

- Rectification entries:** Entries passed to rectify the errors occurred during the accounting process.

- Transfer Entries:** If some amount is to be transferred from one account to another account, the transfer will be made through a Journal Entry.

E.g: When goods purchased 80,000 are used for construction of building, then transfer entry has to be made for transferring 80,000 from Purchase A/c to Building A/c.

- 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". It includes Outstanding Expenses, Prepaid Expenses, Accrued Income & Income Received in Advance etc.

Final A/c

- Miscellaneous Entries:**

- Introduction of capital in kind i.e. motor car / goods introduced as capital.
- Credit Purchase of Fixed assets,
- Entries on dishonour of Bills Receivable,
- Entries for Discount received / allowed, if double column Cash Book is prepared without Discount columns.
- On an amount becoming irrecoverable, because of the customer becoming insolvent
- Effects of accidents like loss of property by fire

ASSIGNMENT QUESTIONS

Question 1 (ICAI Study Material)

Pg no. _____

Enter the following transactions in Purchase Book & post them into Ledger 2023

April 4 Purchased from Ajay Enterprises, Delhi
 100 Doz. Rexona Hawaii 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.

29/4 Purchase of 50 pair shoes @ 200/ pair from
 Mukesh on Cash

30/4 Purchase of Furniture / Making 20,000

PRACTICE QUESTIONS**MULTIPLE CHOICE QUESTIONS**

- 1) In Purchases Book the record is in respect of _____
 - (a) Cash purchase of goods.
 - (b) Credit purchase of goods dealt in.
 - (c) All purchases of goods.

- 2) The Sales Returns Book records _____
 - (a) The return of goods purchased.
 - (b) Return of anything purchased.
 - (c) 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)

ANSWERS MCQs

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

TRUE / FALSE

State with reasons whether the following statement is true or false:

- 1) Transactions recorded in the purchase book include only purchases of goods on credit transactions.
- 2) Transactions regarding the purchase of fixed asset are recorded in the purchase book
- 3) Cash Sales are recorded in Sales book
- 4) Subsidiary books are also known as the books of original entry
- 5) Bill receivable book is a subsidiary book
- 6) Return inward book is also known as purchase return book
- 7) Purchase of second hand machinery will be recorded in purchase book
- 8) Total of sales return book is posted to the debit side of sales return account
- 9) If the sales are on frequent basis, the transactions are recorded in the sales book.
- 10) Purchase Book records all purchases of goods.
- 11) The Purchase Day Book is a part of the Ledger.
- 12) The Sales Day Book is a part of the ledger.
- 13) Purchase Books records all the credit purchase of goods.
- ✓ 14) The sales-Book is kept to record both cash and credit sales. (Jan 2021)
- ✓ 15) The debit notes issued are used to prepare Sales Return Book.
- 16) Closing entries are recorded in journal proper.
- 17) Where subsidiary books are maintained journal is not required.
- ✓ 18) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment. (Nov 2019)
- 19) Gauri purchased goods worth ₹75,800 at 5% trade discount and she paid half of the amount in cash. The amount appearing in the purchase book is ₹36,005.

Solution

- 1) True: Since cash purchases are taken to the cash book, it is only credit transactions that are recorded in the purchases book.
- 2) False: Transactions regarding the purchase of fixed asset are not recorded in the purchase book, only the credit purchase of goods are recorded in it
- 3) False: Credit sales are recorded in sales book
- 4) True: They are maintained as an alternate to journal
- 5) True: Bill receivable book is one of the subsidiary book
- 6) False: Return inward book is also known as sales return book
- 7) False: Purchase of second hand machinery will not be recorded in purchase book
- 8) True: Total of sales return book is posted to the debit side of sales return account
- 9) True: When there are numerous transactions then there are subsidiary books like the sales book where there are recorded instead of regular journal entries.
- 10) False: - It records only credit purchases of goods.
- 11) False: - It is a book of original entry so it is a part of the journal.
- 12) False: - Sales Day Book is a book of original entry and hence it is part of journal.
- 13) True: - It records all the credit purchases of goods and materials to be used by the factory.
- 14) **False**: - Sales Book is a register specially kept for recording **credit sales** of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book.
- 15) **False**: - The source document for this book is credit note. When goods are received along with the debit note, the seller acknowledges the same by sending the credit note to the customer. The debit notes issued are used to prepare purchases return book.

- 16) True: - As these entries cover the items of the account which cannot be closed by any corresponding debit or credit.
- 17) False: - Journal is required even when subsidiary books are maintained. This is so because many entries such as opening and closing entry, rectification entry etc. are recorded in journal.
- 18) **False:** Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment. It refers to reduction in price offered by the seller for higher quantity of purchases.
- 19) True: Trade discount is to be deducted from total value of ₹75,800. Amount paid in cash includes cash purchases & only credit purchase will be shown in the purchases book 36,005 (72,010 x 50%)

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)*

Pg no. _____

The Rough Book of M/s. Narain & Co. contains the following:
Feb 2023

1. Purchased from Brown & Co. on credit:
5 gross pencils @ ₹100 per gross,
1 gross registers @ ₹ 240 per doz.
Less : Trade Discount @ 10%
1. Purchased for cash from the Stationery Mart;
10 gross exercise books @ ₹ 300 per doz.
2. Purchased computer for office use from M/s. office
Goods Co. on credit for ₹ 30,000.
3. 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%
4. Purchased one dozen gel pens @ ₹15 each from
M/s. Verma Bros. on credit.

Make out the Purchase Book of M/s. Narain & Co (1 Gross =12 Dozen)

Question 2 *(ICAI Study Material)*

Pg no. _____

The following are some of the transaction of M/s Kishore & Sons of the year 2023 as per their 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%

Question 3 *(ICAI Study Material)*

Pg no. _____

Post the following into the ledger

Returns Outward Book

Date 2023	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
Nov. 30	Modern Electric Company			100.00
				280.00

Question 4 *(ICAI Study Material) / (RTP May 2019)/(Nov 2020)/(Nov 2022) (Similar)*

Pg no. _____

From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer:

Date	Debit Note No	Particulars
04.01.2023	101	Returned to Goyal Mills, Surat - 5 polyester sarees @ ₹ 1,000.
09.01.2023		Garg Mills, Kota - accepted the return of goods (which were purchased for cash) from us - 5 Kota sarees @ ₹ 400.
16.01.2023	102	Returned to Mittal Mills, Bangalore - 5 silk sarees @ ₹2,600.
30.01.2023		Returned one computer (being defective) @ ₹35,000 to B & Co.

Question 5 (ICAI Study Material)

Pg no. _____

Enter the following transactions in Sales Book of M/s. Pranat Engineers Ltd., Delhi & post into ledger.

Jan 2023

2 Sold to M/s Ajanta Electricals, Delhi 5 pieces of Ovens @ ₹6000 each less Trade disc. @ 10%

8 Sold to M/s Electronics Plaza, 10 pieces of Tablets @ ₹ 8000 each less trade discount 5%.

15 Sold to M/s Haryana Traders, 5 pieces of Juicers @ ₹3500 each less trade discount @ 10%

Question 6 (CA Foundation Nov 2020) (4 Marks)

Pg no. _____

The following are some of the transactions of M/s. Kamal & Sons for the year ended 31st March, 2020. You are required to make out their Sales Book.

(a) Sold to M/s. Ashok & Mukesh on Credit:

40 Shirts @ ₹ 900 per shirt

30 trousers @ ₹ 1,000 per trouser

Less: Trade discount @ 10%

(b) Sold furniture to M/s. XYZ & Co. on credit ₹ 8,000

(c) Sold 15 shirts to Aman @ ₹ 750 each for cash.

Question 7 (CA Foundation July 2021) (5 Marks)

Pg no. _____

From the following information prepare the Purchase Book of Mis. Shyam & Company:

(a) Purchased from Red & Company on credit:

10 pairs of black shoes @ ₹ 800 per Pair.

5 pairs of brown shoes @ 900 per pair

Less: Trade Discount @ 10%

(b) Purchased Computer from M/s. Rahul. Enterprises on credit for ₹ 40,000.

(c) Purchased from Blue & Company in cash:

5 pairs of black shoes @ ₹ 700 per pair

15 pairs of brown shoes @ ₹ 100 per pair

Less: Trade Discount @ 15%

Question 8 (CA Foundation June 2023) (4 Marks)

Pg no. _____

Enter the following transactions in Sales Book of Gurgaon Engineers, Gurgaon for January 2022:

2022	
Jan 5	Sold to Praneet Electricals 10 pieces of microwaves @ ₹ 8,500/- each less trade discount 15%
Jan 10	Sold to Ajanta plaza 8 pieces of Mixer grinders @ ₹ 12,500/- each less trade discount 10%.
Jan 20	Sold to Naveen traders, 15 pieces of juicers @ ₹ 5,500/- each less trade discount 5%