3. SUBSIDIARY BOOKS

This chapter covers the following:

- Cash Book
- Simple cash book or single column cash book
- Double column cash book (with discount column)
- Three column cash book (with discount & Bank column)
- Petty Cash Book
- Purchase Book
- Sale Book
- Purchase Return Book
- Sale Return Book
- Bills receivable book
- Bills payable book
- Bank reconciliation
- Trial balance
- Financial statements
- Depreciation and its roles

Let us go through each one of them in detail.

Cash Book

Cash book is a record of all the transactions related to cash. Examples include: expenses paid in cash, revenue collected in cash, payments made to creditors, payments received from debtors, cash deposited in bank, withdrawn of cash for office use, etc.

In double column cash book, a discount column is included on both debit and credit sides to record the discount allowed to customers and the discount received from creditors respectively.

In triple column cash book, one more column of bank is included to record all the transactions relating to bank.

Note: In modern accounting, simple cash book is the most popular way to record cash transactions. The double column cash book or three column cash book is practically for academic purpose. A separate bank book is used to record all the banking transactions as they are more than cash transactions. These days, cash is used just to meet petty and routine expenditures of an organization. In most of the organizations, the salaries of employees are paid by bank transfer.

Note: Cash book always shows debit balance, cash in hand, and a part of current assets.

Single Column Cash Book

Cash book is just like a ledger account. There is no need to open a separate cash account in the ledger. The balance of cash book is directly posted to the trial balance. Since cash account is a real account, ruling is followed, i.e. what comes in – debit, and what goes out – credit. All the received cash is posted in the debit side and all payments and expenses are posted in the credit side of the cash book.

Format:

CASH BOOK(Single Column)							
Dr.							**Cr.**
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount

Double Column Cash Book

Here, we have an additional Discount column on each side of the cash book. The debit side column of discount represents the discount to debtors of the company and the credit side of discount column means the discount received from our suppliers or creditors while making payments.

The total of discount column of debit side of cash book is posted in the ledger account of '**Discount Allowed to Customers'** account as **'To Total As Per Cash Book'**. Similarly, credit column of cash book is posted in ledger account of **'Discount Received'** as **'By total of cash book'**.

Format:

CASH BOOK(Single Column)									
Dr.									**Cr.**
Date	Particulars	L.F.	Discount	Amt.	Date	Particulars	L.F.	Discount	Amt.

Triple Column Cash Book

When one more column of Bank is added in both sides of the double column cash book to post all banking transactions, it is called triple column cash book. All banking transactions are routed through this cash book and there is no need to open a separate bank account in ledger.

Petty Cash Book

In any organization, there may be many petty transactions incurring for which payments have to be done. Therefore, cash is kept with an employee, who deals with it and makes regular payments out of it. To make it simple and secure, mostly a constant balance is kept with that employee.

Suppose cashier pays Rs 5,000 to Mr A, who will pay day-to-day organization expenses out of it. Suppose Mr A spend Rs 4,200 out of it in a day, the main cashier pays Rs 4,200, so his balance of petty cash book will be again Rs 5,000. It is very useful system of accounting, as it saves the time of the main cashier and provides better control.

We will soon discuss about **'Analytical or Columnar Petty Cash Book'** which is most commonly used in most of the organizations.

Format:

PETTY CASH BOOK									
Amt Recd	C.B.F	Date	Particulars	Amt Paid	Stationery & Printing	Cartage	Loading	Postage	L.F

Purchase Book

Purchase book is prepared to record all the credit purchases of an organization. Purchase book is not a purchase ledger.

Format:

PURCHASE BOOK				
Date	**Particulars**	**Inward Invoice No.**	**L.F.**	**Amount**

Sale Book

The features of a sale book are same as a purchase book, except for the fact that it records all the credit sales.

Format:

SALE BOOK				
Date	**Particulars**	**Outward Invoice No.**	**L.F.**	**Amount**

Purchase Return Book

Sometimes goods are to be retuned back to the supplier, for various reasons. The most common reason being defective goods or poor quality goods. In this case, a debit note is issued.

Format:

PURCHASE RETURN BOOK				
Date	**Particulars**	**Credit Note No.**	**L.F.**	**Amount**

Sale Return Book

The reason of Sale return is same as for purchase return. Sometimes customers return the goods if they don't meet the quality standards promised. In such cases, a credit note is issued to the customer.

Format:

SALE RETURN BOOK

Date	Particulars	Debit Note No.	L.F.	Amount

Bills Receivables Book

Bills are raised by creditors to debtors. The debtors accept them and subsequently return them to the creditors. Bills accepted by debtors are called as **'Bills Receivables'** in the books of creditors, and **'Bills Payable'** in the books of debtors. We keep them in our record called **'Bills Receivable Books'** and **'Bills Payable Book'.**

Format:

BILLS RECEIVABLE BOOK					
Date	**Received From**	**Term**	**Due Date**	**L.F.**	**Amount**

Bills Payable Book

Bills payable issues to the supplier of goods or services for payment, and the record is maintained in this book.

Format:

BILLS PAYABLE BOOK					
Date	**To Whom Given**	**Term**	**Due Date**	**L.F.**	**Amount**

Key Features of Subsidiary Books

There is a difference between a purchase book and a purchase ledger. A purchase book records only credit purchases and a purchase ledger records all the cash purchases in chronical order. The daily balance of purchase book is transferred to purchase ledger. Therefore, purchase ledger is a comprehensive account of all purchases.

The same rule applies to sale book and sale ledgers.

1. It is quite clear that maintaining a subsidiary book is facilitation to journal entries, practically it is not possible to post each and every transaction through journal entries, especially in big organizations because it makes the records bulky and unpractical.

2. Maintenance of subsidiary books gives us more scientific, practical, specialized, controlled, and easy approach to work.

3. It provides us facility to divide the work among different departments like sale department, purchase department, cash department, bank department, etc. It makes each department more accountable and provides an easy way to audit and detect errors.

4. In modern days, the latest computer technology has set its base all over the world. More and more competent accounts professionals are offering their services. Accuracy, quick results, and compliance of law are the key factors of any organization. No one can ignore these factors in a competitive market.

Bank Reconciliation

On a particular date, reconciliation of our bank balance with the balance of bank passbook is called bank reconciliation. The bank reconciliation is a statement that consists of:

- Balance as per our cash book/bank book
- Balance as per pass book
- Reason for difference in both of above

This statement may be prepared at any time as per suitability and requirement of the firm, which depends upon the volume and number of transaction of the bank. ri

In these days, where most of the banking transactions are done electronically, the customer gets alerts for every transaction. Time to reconcile the bank is reduced more.

Format:

BANK RECONCILIATION STATEMENT		
PARTICULARS	(1) Debit Bank	(2) Credit Bank Balance as per Bank

	Balance as per Bank Book	Book (Overdraft)
Balance as per Bank Book	50,000	-50,000
1. Add: Cheque issued to parties but not presented in bank	3,25,000	3,25,000
2. Less: Cheque deposited in bank but not cleared yet	-50,000	-50,000
3. Less: Bank Charges debited by bank but not entered in our books of accounts	-1,200	-1,200
4. Less: Bank interest charged by bank but not entered in our books of accounts	-10,000	-10,000
5. Add: Payment direct deposited by party without intimation to us	1,75,000	1,75,000
Balance as per Bank Pass Book/ Statement	4,88,800	3,88,800

Trial Balance

Trial balance is a summary of all the debit and credit balances of ledger accounts. The total of debit side and credit side of trial balance should be matched. Trial balance is prepared on the last day of the accounting cycle.

Trial balance provides us a comprehensive list of balances. With the help of that, we can draw financial reports of an organization. For example, the trading account can be analyzed to ascertain the gross profit, the profit and loss account is analyzed to ascertain the profit or Loss of that particular accounting year, and finally, the balance sheet of the concern is prepared to conclude the financial position of the firm.

Format:

TRIAL BALANCE				
S.NO.	**Ledger Accounts**	**L.F.**	**DEBIT (Rs)**	**Credit (Rs.)**
1	ADVANCE FROM CUSTOMERS			XX
2	ADVANCE TO STFF		XX	
3	AUDIT FEES		XX	
4	BALANCE AT BANK		XX	
5	BANK BORROWINGS			XX
6	BANK INTEREST PAID			XX
7	CAPITAL			XX
8	CASH IN HAND		XX	
9	COMMISSION ON SALE		XX	
10	ELECTRICITY EXPENSES		XX	
11	FIXED ASSETS		XX	
12	FREIGHT OUTWARD		XX	

13	INTEREST RECEIVED			XX
14	INWARD FREIGHT CHARGES		XX	
15	OFFICE EXPENSES		XX	
16	OUTSTANDING RENT			XX
17	PREPAID INSURANCE		XX	
18	PURCHASES		XX	
19	RENT		XX	
20	REPAIR AND RENUWALS		XX	
21	SALARY		XX	
22	SALARY PAYABLE			XX
23	SALE			XX
24	STAFF WELFARE EXPENSES		XX	
25	STOCK		XX	
26	SUNDRY CREDITORS			XX
27	SUNDRY DEBTORS		XX	
	TOTAL		XXXXX	XXXXX

Financial Statements

Financial statements are prepared to ascertain the profit or loss of the business, and to know the financial position of the company.

Trading, profit & Loss accounts ascertain the net profit for an accounting period and balance sheet reflects the position of the business.

All the above has almost a fixed format, just put all the balances of ledger accounts into the format given below with the help of the trial balance. With that, we may derive desired results in the shape of financial equations.

Trading & Profit & Loss Account of M/s ABC Limited (For the period ending 31-03-2014)			
Particulars	**Amount**	**Particulars**	**Amount**
To Opening Stock	XX	By Sales	XX
To Purchases	XX	By Closing Stock	XX
To Freight charges	XX	By Gross Loss c/d	XXX
To Direct Expenses	XX		
To Gross Profit c/d	XXX		
Total	XXXX	**Total**	XXXX
To Salaries	XX	By Gross Profit b/d	XXX
To Rent	XX		
To Office Expenses	XX	By Bank Interest received	XX
To Bank charges	XX	By Discount	XX
To Bank Interest	XX	By Commission Income	XX
To Electricity Expenses	XX	By Net Loss transfer to Balance sheet	XX
To Staff Welfare Expenses	XX		

To Audit Fees	XX		
To Repair & Renewal	XX		
To Commission	XX		
To Sundry Expenses	XX		
To Depreciation	XX		
To Net Profit transfer to Balance sheet	XX		
Total	XXXX	**Total**	XXXX

Balance sheet of M/s ABC Limited as on 31-03-2014			
Liabilities	**Amount**	**Assets**	**Amount**
Capital XX Add: Net Profit XX	XX	Fixed Assets XXXX Less: Depreciation XX	XX
Bank Borrowings	XX	Current Assets	XX
Long Term Borrowing	XX	Stock	XX
Current Liabilities:	XX	Debtors	XX
Advance From Customers	XX	Cash In hand	XX
Sundry Creditors	XXX	Cash at Bank	XX
Bills payable		Bills receivables	XX
Expenses Payable			
Total	**XXXX**	**Total**	**XXXX**

Owner's Equity

The equation of equity is as follows:

Owner Equity = Assets – liability

The owner or the sole proprietor of a business makes investments, earns some profit on it, and withdraws some money out of it for his personal use called drawings. We may write this transaction as follows:

Investment (capital) +- Profit or Loss – drawings = Owner's Equity

Current Assets

Assets that are convertible into cash within the next accounting year are called current assets.

Cash in hand, cash in bank, fixed deposit receipts (FDRs), inventory, debtors, receivable bills, short-term investments, staff loan and advances; all these come under current assets. In addition, prepaid expenses are also a part of current assets.

Note: Prepaid expenses are not convertible into cash, but they save cash for the next financial or accounting year.

Current Liabilities

Like current assets, current liabilities are immediate liabilities of the firm that are to be paid within one year from the date of balance sheet.

Current liabilities primarily include sundry creditors, expenses payable, bills payable, short-term loans, advance from customers, etc.

Depreciation

Depreciation reduces the value of assets on a residual basis. It also reduces the profits of the current year.

Depreciation indicates reduction in value of any fixed assets. Reduction in value of assets depends on the life of assets. Life of assets depends upon the usage of assets.

There are many deciding factors that ascertain the life of assets. For example, in case of a building, the deciding factor is time. In case of leased assets, the deciding factor is the lease period. For plant and machinery, the deciding factor should be production as well as time. There can be many factors, but the life of assets should be ascertained on some reasonable basis.

Why Do We Need to Account for Depreciation?

Here is why we need to provide depreciation:

- To ascertain the true profit during a year, it is desirable to charge depreciation.
- To ascertain the true value of assets, depreciation should be charged. Without calculating the correct value of assets, we cannot ascertain the true financial position of a company.
- Instead of withdrawal of overstated profit, it is desirable to make provisions to buy new assets to replace old asset. The accumulated value of depreciation provides additional working capital.
- Depreciation helps in ascertaining uniform profit in each accounting year.
- Depreciation allows to take the advantage of tax benefit.

Accounting Entries Related to Assets and Depreciation

Let us see the accounting entries related to assets and depreciation:

S. No.	Journal Entries
1	**Purchase of Fixed Assets** Asset A/c Dr. To Bank A/c
2	**Expenses on purchase of Fixed Assets** Related Asset A/c Dr. To Cash/Bank A/c
3	**For Providing depreciation** Depreciation A/c Dr. To Assets A/c
4	**Transfer of Depreciation to Profit and Loss A/c** Profit & Loss A/c Dr. To Depreciation A/c
5	**Sale of Assets** Bank A/c Dr. To Assets A/c

$$\text{Depreciation} = \frac{\text{Cost of Assets} - \text{Scrap Value of Assetts}}{\text{Estimated Life of Assets}}$$

Method of Depreciation

Depreciation can be calculated using any of the following methods, however the most popular methods remain (a) Straight Line Method and (b) Written Down Value Method.

- Straight Line Method
- Written Down Value Method
- Annuity Method
- Insurance Policy Method
- Machine Hour Rate Method
- Depletion Method
- Revaluation Method
- Depreciation Fund Method

Format:

DEPRECIATION CHART							
Desc.	**Opening Value**	**Addition during the year**	**Sale**	**Balance**	**Rate of Depreciation**	**Value of Depreciation**	**Closing value**
1	2	3	4	5 (2+3-4)	6	7	8 (5-7)

Format of ledger accounts:

ASSET ACCOUNT							
Date	**Particulars**	**L.F.**	**Amt**	**Date**	**Particulars**	**L.F.**	**Amt**
25-06-13	To Bank		xxx	31-03-	By Depreciation		xx
					By Balance c/d		xx
	Total		xxx		Total		xxx
01-04-14	To Balance b/d		xx		By Depreciation		Xx