Recording of Transactions – II

CBSE · Class 11 · Accountancy — exam notes

This chapter introduces special-purpose (subsidiary) books that let a business group similar transactions together instead of journalising each one. You learn the cash book (single, double and triple column), the petty cash book run on the imprest system, the purchases, sales and returns books, the journal proper, and how the period-end totals are posted to the ledger.

Key terms & definitions

Subsidiary (special-purpose) book
A separate book of original entry in which transactions of one particular type are recorded as they occur, so the journal proper is used only for the rare items left over.

Cash book
The book that records every cash receipt and cash payment. It is unique because it is both a book of original entry (journal) and a ledger account for cash/bank, so no separate Cash A/c is opened in the ledger.

Contra entry
An entry that affects both the cash and bank columns of a double/triple-column cash book at the same time (e.g. cash deposited into bank or cash withdrawn for office use). It is marked with the letter 'C' in the L.F. column and is not posted to the ledger.

Cash discount
A reduction in the amount due, allowed to encourage prompt or early payment. It is recorded in the books — discount allowed (an expense) and discount received (an income) — and appears in the discount columns of a triple-column cash book.

Trade discount
A deduction in the catalogue/list price given on the invoice, usually for buying in bulk. It is NEVER entered in the books; the transaction is recorded at the net amount (list price minus trade discount).

Memorandum (discount) column
The discount columns of a triple-column cash book. They record information about discounts but represent no movement of cash, so only their period-end totals are posted to the ledger — not each line.

Petty cash book
A book maintained by a petty cashier to record small, routine payments (postage, stationery, conveyance, refreshments) that would otherwise clutter the main cash book.

Imprest system
The method of running petty cash: the petty cashier starts each period with a fixed sum (the imprest/float); at period-end the head cashier reimburses exactly the amount spent, restoring the float to its original figure.

Purchases (bought) book
Records only credit purchases of goods in which the firm deals. Cash purchases, and credit purchases of assets (e.g. furniture, machinery), are excluded.

Sales book
Records only credit sales of goods in which the firm deals. Cash sales, and the sale of fixed assets, are excluded.

Debit note / Credit note
A debit note is the source document for goods returned to a supplier (purchases return); a credit note is the source document for goods returned by a customer (sales return).

Journal proper
The residual journal used for transactions that fit no special book — opening entries, closing entries, adjusting and rectification entries, credit purchase/sale of assets, and bad debts.

Posting
The act of transferring an amount from a book of original entry to the relevant ledger account. From subsidiary books, only the period-end total is posted, not each individual transaction.

Why subsidiary books are needed

- Recording every transaction through a full journal entry is slow, bulky and error-prone for a business with hundreds of daily dealings.
- Similar transactions are therefore grouped into special-purpose books so that work can be divided among several clerks and totals posted to the ledger in one step.
- Advantages: division of labour, specialisation, easier reference, quicker posting, internal check and fewer errors.
- Six common books of original entry: (1) Cash book, (2) Purchases book, (3) Sales book, (4) Purchases return book, (5) Sales return book, (6) Journal proper. (Some firms also keep bills receivable/payable books.)

The cash book and its types

- Records all cash and bank transactions; receipts on the debit (left) side, payments on the credit (right) side.
- It is a special book of original entry AND the ledger account for cash and bank, so a separate Cash A/c is never opened.
- Single-column cash book: one amount (cash) column on each side — used when there are no bank dealings.
- Double-column cash book: a cash column and a bank column on each side — records cheque receipts/payments and deposits alongside cash.
- Triple-column cash book: cash, bank and a discount column on each side — discount allowed on the debit side, discount received on the credit side.
- The cash column can never show a credit (negative) balance — you cannot pay out more cash than you hold; the bank column, however, can show a credit balance when the account is overdrawn (bank overdraft).

Discount columns and contra entries (triple-column cash book)

- Discount allowed (debit side) is an expense given to customers for early payment; discount received (credit side) is an income earned from suppliers.
- These discount columns are MEMORANDUM columns — they carry no real cash, so they are totalled and posted only once at period-end.
- Period-end postings: total Discount Allowed → Dr Discount Allowed A/c, Cr Debtors; total Discount Received → Dr Creditors, Cr Discount Received A/c.
- A contra entry affects both cash and bank columns together — e.g. cash paid into bank (Dr bank, Cr cash) or cash withdrawn from bank for office use (Dr cash, Cr bank).
- Contra entries are marked 'C' in the L.F. (ledger folio) column and are NOT posted again to the ledger, because both accounts are already inside the cash book.
- Trade discount is never shown anywhere in the cash book — only the net (after-trade-discount) amount is recorded; cash discount alone appears in the discount columns.

Petty cash book and the imprest system

- Maintained by a petty cashier for small, repetitive expenses so the main cash book is not cluttered with trivial entries.
- Under the imprest system the petty cashier receives a fixed float at the start of the period (e.g. ₹2,000).
- Each payment is recorded and then analysed into columns such as Postage, Stationery, Conveyance, Cartage and Sundries.
- At period-end the head cashier reimburses exactly the amount spent, so the float is restored to its original fixed figure for the next period.
- Posting: the analytical column totals are posted to the debit of the respective expense accounts; the total spent is credited to Petty Cash A/c (the reimbursement is the main cashier's payment to petty cash).
- Advantages: saves the chief cashier's time, reduces entries in the main cash book, gives effective control over small payments, and trains a junior in record-keeping.

Purchases book and sales book (credit transactions only)

- The purchases book records ONLY credit purchases of goods the firm trades in; cash purchases go to the cash book and credit purchase of an asset goes to the journal proper.
- The sales book records ONLY credit sales of those goods; cash sales go to the cash book and sale of a fixed asset goes to the journal proper.
- Source documents: an inward invoice supports a purchases-book entry; an outward invoice (copy of the bill) supports a sales-book entry.
- Each entry shows the date, name of party, invoice number, L.F. and the net amount (after deducting any trade discount).
- Period-end posting from purchases book: Dr Purchases A/c, Cr each supplier (and total to Creditors); from sales book: Dr each customer (and total to Debtors), Cr Sales A/c.
- Individual party accounts are posted on the appropriate side throughout the month; only the book total is posted to the Purchases/Sales A/c at month-end.

Returns books and the journal proper

- Purchases return (return outward) book records goods returned to suppliers, supported by a debit note; posted as Dr Creditors, Cr Purchases Return A/c.
- Sales return (return inward) book records goods returned by customers, supported by a credit note; posted as Dr Sales Return A/c, Cr Debtors.
- The journal proper records every transaction that does not belong in any special book.
- Typical journal-proper entries: opening entries, closing entries, adjustment entries, rectification (correction) entries, transfer entries, credit purchase/sale of fixed assets, goods withdrawn for personal use, and writing off bad debts.

GST and trade discount in recording (simple calculation)

- Trade discount is deducted on the invoice itself; record the transaction at list price minus trade discount, and never open a Trade Discount A/c.
- For an intra-state sale/purchase, GST splits into CGST (Central) and SGST (State) in equal halves; for an inter-state transaction a single IGST is charged.
- On a purchase, Input CGST/SGST (or Input IGST) is debited as the tax paid; on a sale, Output CGST/SGST (or Output IGST) is credited as the tax collected.
- GST is calculated on the value AFTER trade discount, not on the gross list price.
- Example: list price ₹10,000, trade discount 10% → taxable value ₹9,000; at 12% GST (intra-state) → CGST ₹540 + SGST ₹540, invoice total ₹10,080.

Balancing and posting overview

- Recording (writing a transaction into a subsidiary book) and posting (carrying its total to the ledger) are two separate steps.
- The cash book is balanced like any ledger account; the closing cash balance is always a debit balance, while the bank column may close with a credit balance if overdrawn.
- Subsidiary-book totals feed the ledger; the ledger then feeds the trial balance, which checks arithmetical accuracy before final accounts are prepared.
- Bank Reconciliation Statement, which compares the cash book's bank balance with the pass book, is studied as the next chapter and builds directly on the double/triple-column cash book.

Formulas & formats

- TRIPLE-COLUMN CASH BOOK (both sides): Dr (Receipts) side .... | Cr (Payments) side Date | Particulars | L.F. | Disc. Allowed | Cash | Bank || Date | Particulars | L.F. | Disc. Recd | Cash | Bank Closing: balance c/d on the side with the smaller total; Cash column closes as a debit balance; Bank may close as a credit balance (overdraft).
- PETTY CASH BOOK (analytical / columnar): Amount Received | Date | Particulars | Voucher No. | Total Paid | Postage | Stationery | Conveyance | Cartage | Sundries (Imprest float restored each period by reimbursing exactly the total paid.)
- PURCHASES BOOK: Date | Name of Supplier (account to be credited) | Invoice No. | L.F. | Amount (₹, net of trade discount) Month-end: Dr Purchases A/c, Cr Creditors with the book total.
- SALES BOOK: Date | Name of Customer (account to be debited) | Invoice No. | L.F. | Amount (₹, net of trade discount) Month-end: Dr Debtors, Cr Sales A/c with the book total.
- PURCHASES RETURN BOOK: Date | Name of Supplier | Debit Note No. | L.F. | Amount — posted Dr Creditors, Cr Purchases Return A/c.
- SALES RETURN BOOK: Date | Name of Customer | Credit Note No. | L.F. | Amount — posted Dr Sales Return A/c, Cr Debtors.
- Taxable value = List price − Trade discount; Cash discount = % × amount due; Intra-state GST: CGST = SGST = (GST rate ÷ 2) × taxable value; Inter-state: IGST = GST rate × taxable value.

Important questions & model answers

1 mark **State any one reason why a separate Cash Account is not opened in the ledger.**

- Because the cash book itself serves as the ledger account for cash (and bank); it is both a book of original entry and a principal book, so opening a separate Cash A/c would duplicate the record.

3 marks **Distinguish between trade discount and cash discount.**

- Purpose: trade discount is given for buying in bulk/on the list price; cash discount is given to encourage prompt or early payment.
- Recording: trade discount is never recorded in the books (transaction is entered net of it); cash discount is recorded as discount allowed (expense) or discount received (income).
- Timing/Place: trade discount is shown only on the invoice; cash discount appears in the discount columns of the triple-column cash book and is posted at period-end.

3 marks **What is a contra entry? Give two examples and explain how it is treated in the cash book.**

- A contra entry affects both the cash column and the bank column of the same cash book simultaneously.
- Example 1 — cash deposited into bank: Dr bank column, Cr cash column.
- Example 2 — cash withdrawn from bank for office use: Dr cash column, Cr bank column.
- It is denoted by the letter 'C' in the L.F. column and is NOT posted to the ledger, since both affected accounts already lie within the cash book.

4 marks **Explain the imprest system of petty cash. State its advantages.**

- The petty cashier is given a fixed sum (the imprest/float) at the start of a period to meet small expenses.
- Each payment is recorded and analysed under expense heads (postage, stationery, conveyance, etc.).
- At period-end the head cashier reimburses exactly the amount spent, restoring the float to its original figure for the next period.
- Advantages: saves the chief cashier's time, keeps the main cash book free of trivial entries, provides effective control over small payments, and reduces the chance of misuse because spending is limited to the float.

4 marks **Explain the meaning of posting from subsidiary books. Using a month with 35 credit purchases, show how recording differs from posting.**

- Recording is writing each transaction into the subsidiary book as it occurs; posting is transferring the figure to the ledger.
- With 35 credit purchases, the firm records 35 separate lines in the purchases book during the month.
- Each supplier's account is credited individually, but the Purchases Account is posted only once.
- At month-end one combined entry is made: Dr Purchases A/c with the total, Cr Creditors with the total — so 35 recordings produce a single posting to Purchases A/c, keeping the ledger uncluttered.

3 marks **Name the subsidiary book in which each of the following is recorded: (a) credit sale of goods, (b) goods returned to a supplier, (c) cash purchase of goods, (d) credit purchase of furniture, (e) goods returned by a customer, (f) opening entry.**

- (a) Sales book.
- (b) Purchases return (return outward) book — supported by a debit note.
- (c) Cash book (it is a cash, not a credit, transaction).
- (d) Journal proper (furniture is an asset, not goods the firm trades in).
- (e) Sales return (return inward) book — supported by a credit note.
- (f) Journal proper.

4 marks **From the following, prepare the purchases book of M/s Verma Traders for June 2026 and show the month-end posting: 5 June – bought goods from Anil & Co. for ₹40,000 less 10% trade discount (Invoice 112); 18 June – bought goods from Bose Bros. for ₹25,000 (Invoice 140); 26 June – bought a delivery van on credit from Tata Motors for ₹6,00,000.**

- Only credit purchases of goods enter the purchases book, so the van (a fixed asset) is excluded and recorded through the journal proper.
- 5 June – Anil & Co., Invoice 112: ₹40,000 – 10% trade discount (₹4,000) = ₹36,000 (net amount entered).
- 18 June – Bose Bros., Invoice 140: ₹25,000.
- Total of purchases book = ₹36,000 + ₹25,000 = ₹61,000.
- Month-end posting: Dr Purchases A/c ₹61,000; Cr Anil & Co. ₹36,000 and Cr Bose Bros. ₹25,000 (total ₹61,000 to creditors).

3 marks **On 1 June 2026 a firm sells goods to Mr. Khan for a list price of ₹50,000 at 12% GST (intra-state). Show the values to be recorded.**

- No trade discount is given here, so the taxable value is the full list price ₹50,000.
- As it is an intra-state sale, GST splits equally: CGST = 6% × ₹50,000 = ₹3,000 and SGST = 6% × ₹50,000 = ₹3,000.
- Invoice/total amount = ₹50,000 + ₹3,000 + ₹3,000 = ₹56,000, which is the amount debited to Mr. Khan; Output CGST and Output SGST are credited with ₹3,000 each and Sales A/c with ₹50,000.

3 marks **A triple-column cash book for March shows the following monthly totals: Discount Allowed ₹1,800 and Discount Received ₹950. State the ledger postings required for these columns.**

- The discount columns are memorandum columns, so only the totals are posted at month-end (not each line).
- Discount Allowed ₹1,800: Dr Discount Allowed A/c ₹1,800; Cr Debtors ₹1,800.
- Discount Received ₹950: Dr Creditors ₹950; Cr Discount Received A/c ₹950.

6 marks **Prepare a petty cash book on the imprest system: float ₹2,500 received on 1 June. Payments — 4 June postage ₹300; 12 June auto fare (conveyance) ₹450; 20 June stationery ₹600; 28 June refreshments (sundries) ₹250. Show the amount reimbursed on 30 June and the analysis.**

- Opening imprest/float on 1 June = ₹2,500 (debit, amount received).
- Analyse payments by head: Postage ₹300; Conveyance ₹450; Stationery ₹600; Sundries ₹250.
- Total paid during June = ₹300 + ₹450 + ₹600 + ₹250 = ₹1,600.
- Balance in hand on 30 June = ₹2,500 – ₹1,600 = ₹900.
- Reimbursement on 30 June = exactly ₹1,600 (the amount spent), restoring the float to ₹2,500 for July.
- Posting: Dr Postage ₹300, Dr Conveyance ₹450, Dr Stationery ₹600, Dr Sundry Expenses ₹250; Cr Petty Cash A/c ₹1,600 (with the main cash book recording a ₹1,600 payment to petty cash).

Exam tips

- Read 'cash' vs 'credit' carefully — cash/cheque dealings go to the cash book; 'on credit' dealings of goods go to the purchases/sales books.
- Never record trade discount; enter the net amount. Only cash discount is recorded, and only in the discount columns.
- Mark contra entries with 'C' in the L.F. column and do not post them again — examiners deduct marks if you post a contra to the ledger.
- In the petty cash book the reimbursement always equals the amount SPENT, not the closing balance; the float figure itself stays fixed.
- When asked to post discount columns, post only the period-end TOTAL: Discount Allowed is debited (expense), Discount Received is credited (income).
- Goods returns: debit note ↔ purchases return; credit note ↔ sales return. Mixing these up is a common, costly slip.
- For GST sums, calculate tax on the value AFTER trade discount, and split equally into CGST/SGST only for intra-state dealings (IGST for inter-state).
- Always carry an invoice/voucher number into the subsidiary book — full-marks formats expect the source-document reference.

Quick revision

- Six books of original entry: cash book, purchases book, sales book, purchases return book, sales return book, journal proper.
- Cash book = journal + ledger for cash/bank; no separate Cash A/c. Single (cash), double (cash+bank), triple (cash+bank+discount) columns.
- Discount columns are memorandum — post only the totals: Discount Allowed Dr, Discount Received Cr.
- Contra entry touches both cash and bank columns; mark 'C', do not post.
- Petty cash on the imprest system: fixed float, reimbursed by exactly the amount spent each period; analyse expenses column-wise.
- Purchases/sales books = CREDIT goods only; cash deals and asset deals are excluded; record net of trade discount.
- Debit note → purchases return; credit note → sales return.
- Trade discount is never recorded; cash discount is. GST = CGST+SGST (intra-state) or IGST (inter-state), charged on the post-trade-discount value.
- Recording (in the subsidiary book) and posting (to the ledger, as totals) are two separate steps; from there the ledger feeds the trial balance.