

Recording of Transactions — Ledger & Subsidiary Books

Kerala · Class 11 · Accountancy — exam notes

The journal records transactions in date order; the ledger reorganises them by ACCOUNT, so you can see the balance of Cash, Sales or any debtor at a glance. Subsidiary books are the practical shortcut: a shop making 80 cash sales a day cannot journalise each one, so similar transactions are grouped and only the totals reach the ledger. The Cash Book is special — it is a subsidiary book and a ledger account at the same time.

Key terms & definitions

Ledger

The book of final entry containing a separate account for every item — Cash, Sales, Rent, each debtor and creditor — where journal entries are collected account-wise.

Posting

The act of transferring an amount from the journal or a subsidiary book to the correct side of the correct ledger account.

T-account

The standard two-sided shape of a ledger account: debit entries on the left, credit entries on the right.

Balancing

Totalling both sides of a ledger account and inserting the difference as 'Balance c/d' on the smaller side so the two totals agree.

Balance c/d / b/d

Balance carried down closes the account for the period; the same figure is brought down on the opposite side as the opening balance of the next period.

Subsidiary books

Special journals in which transactions of one repetitive type are grouped — cash book, purchases book, sales book, returns books, bills books and journal proper.

Cash Book

The book recording all cash and bank transactions. It is both a book of original entry and a ledger account, so no separate Cash A/c is opened in the ledger.

Contra entry

A transaction affecting both cash and bank columns of the same cash book — cash deposited into or withdrawn from the bank. Marked 'C' in the L.F. column and never posted to the ledger.

Petty Cash Book

A book kept by a petty cashier for small routine payments — postage, conveyance, stationery — usually run on the imprest system.

Imprest system

The petty cashier starts each period with a fixed float and is reimbursed at period-end with exactly the amount spent, restoring the float.

Purchases Book

Records CREDIT purchases of GOODS only. Cash purchases and purchases of assets are excluded.

Sales Book

Records CREDIT sales of GOODS only. Cash sales and sales of old assets are excluded.

What the ledger does that the journal cannot

- The journal lists transactions by DATE; you cannot see from it how much cash you hold.
- The ledger lists them by ACCOUNT — one 'card' for Cash, one for Sales, one for each debtor.
- Every ledger account has a debit side and a credit side; the difference between them is that account's balance.
- The ledger is called the book of FINAL entry, and it is the direct source of the trial balance.
- Both books contain the SAME transactions — a transaction is not routed to one or the other; it passes through both.

How posting works

- From a journal entry 'Cash A/c Dr. ₹1,000 / To Sales A/c ₹1,000':
- open the CASH account and write ₹1,000 on its DEBIT side as 'To Sales';
- open the SALES account and write ₹1,000 on its CREDIT side as 'By Cash'.
- The word 'To' is used on the debit side and 'By' on the credit side.
- Each posting carries the date, the name of the OTHER account, and the ledger folio linking it back to the journal.

Balancing a ledger account

- Total both sides. The larger total is written on both sides once the account is balanced.
- Insert the difference on the SMALLER side as 'Balance c/d'.
- Bring the same figure down on the OPPOSITE side as 'Balance b/d' for the next period.
- Assets and expenses normally leave a DEBIT balance; liabilities, capital and income normally leave a CREDIT balance.
- Nominal accounts (expenses and incomes) are not carried forward — they are transferred to the Trading or Profit & Loss Account at year end.

Worked ledger — Meera's shop, Kochi

- Opening: Cash ₹5,000, Bank ₹1,500, Debtors ₹2,000, Capital ₹8,500. (Check: $5,000 + 1,500 + 2,000 = 8,500$ ✓)
- 3 June bought notepads ₹3,000 on credit from ABC → Purchases Dr., Creditors Cr.
- 5 June cash sale ₹1,500 → Cash Dr., Sales Cr.
- 10 June rent ₹500 paid by cheque → Rent Dr., Bank Cr.
- Received ₹2,000 from the credit customer → Cash Dr., Debtors Cr.
- CASH A/C: debit side $5,000 + 1,500 + 2,000 = ₹8,500$; balance c/d ₹8,500.
- BANK A/C: debit 1,500; credit rent 500 and balance c/d ₹1,000; both totals ₹1,500 ✓
- Debtors close at NIL; Creditors close at ₹3,000 credit.

Why subsidiary books exist

- Anjali's stationery shop near a school in Thrissur makes about 80 cash sales and receives 20 cheques on an ordinary day.
- Writing a full journal entry for each and posting each separately would be impossibly slow and error-prone.
- Instead, similar transactions are grouped in one special book, TOTALLED at month end, and only the TOTAL is posted.
- One posting can replace eighty. This is the entire efficiency argument.
- It also allows DIVISION OF WORK — different clerks can maintain different books at the same time.

The seven subsidiary books

- CASH BOOK — all cash and bank receipts and payments.
- PURCHASES BOOK — credit purchases of goods only.
- SALES BOOK — credit sales of goods only.
- PURCHASES RETURN (Return Outward) BOOK — goods returned to suppliers.
- SALES RETURN (Return Inward) BOOK — goods returned by customers.
- BILLS RECEIVABLE BOOK and BILLS PAYABLE BOOK — bills of exchange accepted and drawn.
- JOURNAL PROPER — everything that fits none of the above: opening entries, closing entries, adjustments, purchase of assets on credit.

What goes in the Purchases and Sales Books — and what does not

- The Purchases Book records CREDIT purchases of GOODS only.
- It EXCLUDES cash purchases (they go to the cash book) and credit purchase of ASSETS such as furniture (they go to the journal proper).
- The Sales Book records CREDIT sales of GOODS only, excluding cash sales and sale of an old asset.
- Trade discount is deducted in the book itself; only the net amount is entered.
- The monthly total of the Purchases Book is debited to Purchases A/c; the total of the Sales Book is credited to Sales A/c.

The Cash Book — both journal and ledger

- A cash receipt entered in the cash book has effectively been posted to the Cash account already.
- Therefore NO separate Cash Account is opened in the ledger — opening one would double-count.
- SINGLE COLUMN: cash only. DOUBLE COLUMN: cash and bank. TRIPLE COLUMN: cash, bank and discount.
- The discount columns are NOT balanced — the debit column total is posted to Discount Allowed A/c and the credit column total to Discount Received A/c.
- The cash column can never show a credit balance; you cannot pay out more cash than you hold. The bank column can (an overdraft).

Contra entries

- A contra entry affects BOTH the cash and bank columns of the same cash book.
- Cash deposited into bank: Bank column debited, Cash column credited.
- Cash withdrawn from bank for office use: Cash column debited, Bank column credited.
- Marked with the letter 'C' in the L.F. column.
- It is NOT posted to the ledger, because both aspects are already inside the cash book.

Petty Cash Book and the imprest system

- Small repetitive payments — postage, auto fare, tea, stationery — would clutter the main cash book.
- A petty cashier is given a fixed float, say ₹2,000, at the start of the month.
- He records each small payment under an analytical column for its type.
- At month end he is reimbursed EXACTLY what he spent, restoring the float to ₹2,000. That is the IMPREST SYSTEM.
- Advantage: the main cashier is freed from small payments, and control is easy — cash in hand plus vouchers must always equal the float.

Common errors to avoid

- Do not think some transactions go to the journal and others to the ledger — every transaction passes through both.
- Using subsidiary books is not 'double work'. They REPLACE individual journal entries; the detail is written once and only totals are posted.
- A transaction recorded in a subsidiary book is not finished — personal accounts are still posted individually, and totals are posted to the nominal accounts.
- Never open a Cash Account in the ledger when a cash book is maintained.
- Never balance the discount columns of a triple-column cash book.

Formulas & formats

- Ledger account (T-form):

Dr.				CASH ACCOUNT				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹				
	To Balance b/d		5,000		By Rent		500				
	To Sales		1,500		By Balance c/d		6,000				
- Balancing rule:
 - Balance c/d is written on the SMALLER side
 - Balance b/d is brought down on the OPPOSITE side for the next period
- Normal balances:
 - Assets, Expenses, Drawings → DEBIT balance
 - Liabilities, Capital, Income → CREDIT balance
- Triple-column cash book:

Dr. side:	Date	Particulars	L.F.	Discount Allowed	Cash	Bank
Cr. side:	Date	Particulars	L.F.	Discount Received	Cash	Bank

(Discount columns are TOTALLED, never balanced)
- Imprest system:
 - Reimbursement at period end = Total petty expenses of the period
 - Restored float = Opening float

Important questions & model answers

2 marks What is a ledger? Why is it called the book of final entry?

- A ledger is the principal book of account containing a separate account for every asset, liability, capital, income and expense, to which journal entries are transferred.
- It is called the book of final entry because transactions reach their final, account-wise resting place here after being first recorded in the journal, and the trial balance is prepared directly from its balances.

4 marks Distinguish between a journal and a ledger on any four points.

- NATURE: The journal is the book of original entry; the ledger is the book of final entry.
- ORDER: The journal records transactions in chronological (date) order; the ledger records them account-wise.
- PROCESS: Recording in the journal is called journalising; transferring to the ledger is called posting.
- NARRATION: A narration is written in the journal; no narration is written in the ledger.
- BALANCE: Journal entries are not balanced; ledger accounts are balanced to find the closing balance.

3 marks Explain how a ledger account is balanced.

- Add up the debit side and the credit side of the account separately.
- Find the difference between the two totals and write it on the SMALLER side as 'Balance c/d', so that both sides now total the same amount.
- Rule off the account with the equal totals on both sides.
- Bring the same amount down on the OPPOSITE side as 'Balance b/d' — this becomes the opening balance of the next period.
- A debit balance means the account is an asset or expense; a credit balance means a liability, capital or income.

3 marks What are subsidiary books? State any two advantages.

- Subsidiary books are special journals in which transactions of a single repetitive type are recorded together instead of being journalised individually.
- ADVANTAGE 1 — SAVING OF TIME AND LABOUR: only the periodic total is posted to the ledger, so one posting replaces many. A shop with 80 daily cash sales posts one monthly total instead of 80 entries.
- ADVANTAGE 2 — DIVISION OF WORK: different clerks can maintain different books simultaneously, which speeds up work and makes errors easier to locate.
- Further advantages include easier reference to a particular class of transaction and better internal check.

3 marks Why is the Cash Book said to be both a journal and a ledger?

- It is a JOURNAL because every cash and bank transaction is recorded in it FIRST, in date order, as in a book of original entry.
- It is a LEDGER because the cash and bank columns are themselves the Cash Account and Bank Account, balanced at period end like any ledger account.
- Consequently no separate Cash Account is opened in the ledger — doing so would record the same amount twice.

3 marks What is a contra entry? Give two examples and state how it is marked.

- A contra entry is one that affects both the cash column and the bank column of the same cash book, so both aspects of the transaction are already recorded within the cash book.
- Example 1: cash deposited into the bank — Bank column debited, Cash column credited.
- Example 2: cash withdrawn from the bank for office use — Cash column debited, Bank column credited.
- It is marked with the letter 'C' in the L.F. column and is NOT posted to the ledger.

5 marks Meera's shop opened June with Cash ₹5,000, Bank ₹1,500, Debtors ₹2,000 and Capital ₹8,500. During June she bought goods ₹3,000 on credit, sold goods ₹1,500 for cash, paid rent ₹500 by cheque and received ₹2,000 from her debtor. Show the Cash and Bank accounts.

- CASH ACCOUNT — Debit side: To Balance b/d ₹5,000; To Sales ₹1,500; To Debtors ₹2,000. Total ₹8,500.
- Credit side: By Balance c/d ₹8,500. Both sides total ₹8,500 ✓
- BANK ACCOUNT — Debit side: To Balance b/d ₹1,500. Total ₹1,500.
- Credit side: By Rent ₹500; By Balance c/d ₹1,000. Total ₹1,500 ✓
- The credit purchase of ₹3,000 touches neither account — it affects Purchases and Creditors only.
- Closing balances carried into July: Cash ₹8,500 (Dr.), Bank ₹1,000 (Dr.), Debtors nil, Creditors ₹3,000 (Cr.).

3 marks Which transactions are recorded in the Purchases Book, and which are excluded?

- RECORDED: credit purchases of GOODS — that is, items bought for resale, on credit.
- EXCLUDED: cash purchases of goods, which are recorded in the cash book.
- EXCLUDED: purchase of assets such as furniture or machinery, whether for cash or credit — a credit purchase of an asset goes to the journal proper.
- Trade discount is deducted within the book, so only the net invoice amount is entered.
- The monthly total of the Purchases Book is debited to the Purchases Account, while individual suppliers are credited in their personal accounts.

3 marks Explain the imprest system of petty cash.

- Under the imprest system the petty cashier is given a fixed sum of money, called the imprest or float, at the beginning of a period.
- He meets small routine payments — postage, conveyance, stationery, refreshments — out of this float and records each in the petty cash book under an analytical column.
- At the end of the period he is reimbursed EXACTLY the amount he has spent, so the float is restored to its original figure for the next period.
- Advantage: control is simple, because cash in hand plus vouchers must always equal the imprest amount; and the chief cashier is relieved of small payments.

2 marks Why are the discount columns of a triple-column cash book not balanced?

- The discount columns are memorandum columns — they are not accounts in themselves, so there is nothing to balance.
- The total of the Discount Allowed column (debit side) is posted to the debit of the Discount Allowed Account, and the total of the Discount Received column (credit side) is posted to the credit of the Discount Received Account.
- Only the cash and bank columns represent real accounts and are therefore balanced.

Exam tips

- Use 'To' on the debit side and 'By' on the credit side of every ledger account — the examiner looks for this.
- Write 'Balance c/d' on the smaller side and bring it down on the OPPOSITE side as 'Balance b/d'. Reversing the sides is the most common ledger error.
- When a cash book is given, never open a separate Cash Account in the ledger.
- Mark every contra entry with 'C' and remember it is not posted to the ledger — questions often test exactly this.
- Read 'credit purchases of goods' carefully: furniture bought on credit does NOT belong in the purchases book.
- Total the discount columns but do not balance them; state in your answer where each total is posted.
- Show both totals equal when you rule off an account — an unbalanced account loses the presentation mark even if the figures are right.

Quick revision

- Journal = by date; Ledger = by account. Every transaction passes through both.
- Posting: 'To' on the debit side, 'By' on the credit side.
- Balance c/d on the smaller side → Balance b/d on the opposite side next period.
- Assets/expenses = debit balance; liabilities/capital/income = credit balance.
- Seven subsidiary books: cash book, purchases, sales, purchases return, sales return, bills receivable/payable, journal proper.
- Purchases and Sales books take CREDIT transactions in GOODS only.
- Cash Book = journal + ledger, so no separate Cash A/c in the ledger.
- Contra entry affects cash and bank columns, marked 'C', never posted.
- Imprest system: fixed float, reimbursed exactly what was spent.