

Programme outcome

- This course imparts the practical knowledge about filling of various applications such as opening of bank accounts, insurance forms DEMAT account .

Programme learning outcome

- To enhance the students practical exposure on documents relating to taxation, insurance, banking and share trading
- To develop the practical knowledge on electronic transaction

Exercises

1. Preparation of purchase book, sales book, purchase return book, sales return book bills receivable book and bills payable book
2. Preparation of entry pass, Gate pass
3. Preparation of Inward mail and outward mail register
4. Preparation of cost sheet and bin card
5. Application of share & allotment, letter of shares and transfer of shares
6. Opening of savings Account, Current Account and FDR's
7. Filling up application forms for admissions to co-operative societies
8. Filling up loan application forms and deposit challen
9. Filling jewel application for, releasing of jewellery in jewel loans and repayment
10. Preparation agenda and meeting minutes
11. Computation of tax liability, PAN, Filling form -16, Preparation of Saral form
12. Drawing, Endorsing and crossing of cheques, Bills of Exchange and Promissory note
13. Preparation of an Advertisement copy, collection of Advertisement in dailies and journal
14. life insurance and mutual funds – account opening
15. Post office Money order form

Karpagam Academy of Higher Education

(Established Under section 3 of the UGC Act, 1956)

Coimbatore – 641 021

DEPARTMENT OF COMMERCE

III B.COM CA

COMMERCE PRACTICAL

Subject Code : 15CCU512

Academic Year: 2017 -2018

Class : III B.Com (CA)

Semester : V

LECTURE PLAN -UNIT-1

S. No.	LECTURE DURATION (Periods)	TOPICS TO BE COVERED	SUPPORT MATERIALS
1.	4	Preparation of purchase book, sales book, purchase return book, sales return book bills receivable book and bills payable book	Data collect from various field
2.	4	Preparation of entry pass, Gate pass	Data collect from various field
3.	4	Preparation of Inward mail and outward mail register	Data collect from various field
4.	4	Preparation of cost sheet and bin card	Data collect from various field
5.	4	Application of share & allotment, letter of shares and transfer of shares	Data collect from various field
6.	4	Opening of savings Account, Current Account and FDR's	Data collect from various field
7.	4	Filling up application forms for admissions to co-operative societies	Data collect from various field
8.	4	Filling up loan application forms and deposit challen	Data collect from various field
9	4	Filling jewel application for, releasing of jewellery in jewel loans and repayment	Data collect from various field
10	4	Preparation agenda and meeting minutes	Data collect from various field
11	4	Computation of tax liability, PAN, Filling form - 16, Preparation of Saral form	Data collect from various field
12	4	Drawing, Endorsing and crossing of cheques, Bills of Exchange and Promissory note	Data collect from various field
13	4	Preparation of an Advertisement copy, collection of Advertisement in dailies and journal	Data collect from various field
14	4	life insurance and mutual funds – account opening	Data collect from various field
15	4	Post office Money order form	Data collect from various field
		Total no. of hours planned	60 Hours

CHAPTER - 6
SUBSIDIARY BOOKS I -
SPECIAL PURPOSE BOOKS

Learning Objectives

After studying this Chapter, you will be able to:

- *understand the Meaning, Kinds and Advantages of Subsidiary Books*
 - *know the Purpose, Format, Posting and Balancing of Purchases, Sales, Purchases Return and Sales Return Books.*
 - *understand Bill of exchange and the Different Terms involved in Bill transactions.*
 - *know the Meaning, Purpose and Posting of entries in Journal Proper.*
-

For a business having a large number of transactions it is practically impossible to write all transactions in one journal, because of the following limitations.

- i. Periodical details of some important business transactions cannot be known, from the journal easily, e.g., monthly sales, monthly purchases.

- ii. Such a system does not facilitate the installation of an internal check system since the journal can be handled by only one person.
- iii. The journal becomes bulky and voluminous.

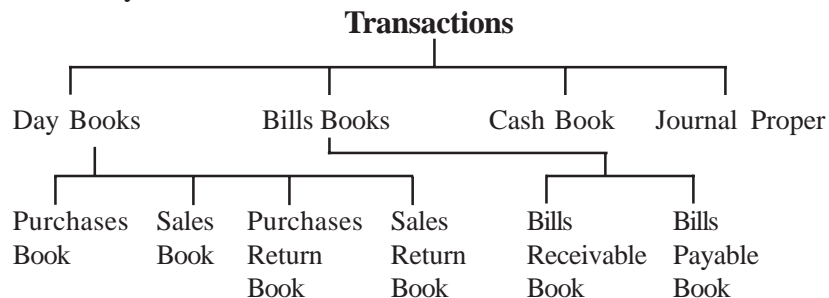
6.1 Need

Moreover, transactions can be classified and grouped conveniently according to their nature, as some transactions are usually of repetitive in nature. Generally, **transactions are of two types: Cash and Credit**. Cash transactions can be grouped in one category whereas credit transactions can be grouped in another category. Thus, in practice, the main journal is sub-divided in such a way that a separate book is used for each category or group of transactions which are repetitive and sufficiently large in number.

Each one of the subsidiary books is a special journal and a book of original or prime entry. Though the usual type of journal entries are not passed in these sub-divided journals, the double entry principles of accounting are strictly followed.

6.1.1 Kinds of Subsidiary Books

The number of subsidiary books may vary according to the requirements of each business. The following are the special purpose subsidiary books.



6.1.2 Purpose

- i. **Purchases Book** records only credit purchases of goods by the trader.
- ii. **Sales Book** is meant for entering only credit sales of goods by the trader.
- iii. **Purchases Return Book** records the goods returned by the trader to suppliers.
- iv. **Sales Return Book** deals with goods returned (out of previous sales) by the customers.
- v. **Bills Receivable Book** records the receipts of bills (Bills Receivable).
- vi. **Bills Payable Book** records the issue of bills (Bills Payable).
- vii. **Cash Book** is used for recording only cash transactions i.e., receipts and payments of cash.
- viii. **Journal Proper** is the journal which records the entries which cannot be entered in any of the above listed subsidiary books.

6.1.3 Advantages

The advantages of maintaining subsidiary books can be summarised as under :

- i. **Division of Labour** : The division of journal, resulting in division of work, ensures more clerks working independently in recording original entries in the subsidiary books.
- ii. **Efficiency** : The division of labour also helps the reduction in work load, saving in time and stationery. It also gives advantages of specialisation leading to efficiency.
- iii. **Prevents Errors and Frauds** : The accounting work can be divided in such a manner that the work of one person is automatically checked by another person. With the use of internal check, the possibility of occurrence of errors and frauds may be avoided.

iv. **Easy Reference** : It facilitates easy references to any particular item. For instance total credit sales for a month can be easily obtained from the Sales Book.

v. **Easy Postings** : Posting from the subsidiary books are made at convenient intervals depending upon the nature of the business.

6.2 Purchases Book

Purchases book also known as **Bought Day Book** is used to record all credit purchases of goods which are meant for resale in the business. **Cash purchases of goods, cash and credit purchases of assets are not entered in this book.**

Before discussing the Purchase Day Book, in detail we are to explain the most significant terms, Trade Discount and Cash Discount.

6.2.1 Trade Discount

Trade discount is an allowance or concession granted by the seller to the buyer, if the customer purchases goods above a certain quantity or above a certain amount. The amount of the purchase made, is always arrived at after deducting the trade discount, ie., only the net amount is considered. For example, if the list price (price prescribed by the manufacturers or wholesalers) of a commodity is Rs.100, and trade discount granted by manufacturer to the wholesaler is 20% then cost price of the commodity to the wholesaler is Rs.80. Trade discount is not recorded in the books. They are used for determining the net price.

6.2.2 Cash Discount

Sale of goods on credit is a common phenomenon in any business. When goods are sold on credit the customers enjoy a facility of making payment on some date in the future. In order to encourage them to make the payment before the expiry of the credit period a deduction is offered. The deduction so made is known as

cash discount. For example, If Ram purchases goods worth Rs.5,000 on 30 days credit then, as per the terms of contract, he is authorised to make payment 30 days after the date of purchase. If he is offered a cash discount of 2% on payment within 10 days and if he does so, he is entitled to deduct Rs.100 from the invoice price and pay Rs.4,900. In this case Rs.100 is cash discount. But if he does not choose to make payment within 10 days then he will not get any cash discount. In this case he will pay Rs.5,000 after 30 days.

6.2.3 Distinction between cash discount and trade discount

Trade discount differs from cash discount in the following respects.

S.No	Basis of Distinction	Trade Discount	Cash Discount
1.	Parties	It is a reduction granted by a manufacturer/supplier	It is a reduction granted by a wholesaler (creditor) to the buyer (debtor).
2.	Purpose	To help the retailer to earn some profit.	To encourage prompt payment within a stipulated period.
3.	Time when allowed	It is allowed on the purchase of goods.	It is allowed when payment is made within the specified period.
4.	Variation	It is usually given at the same rate which is applicable to all customers and will vary with the quantity purchased.	It varies from customer to customer depending on the time and period of payment.
5.	Disclosure	It is shown by way of deduction in the invoice itself.	It is not shown in the invoice.
6.	Ledger Account	A separate Account is not opened in the Ledger.	A separate Account is opened in the Ledger for discount received and discount allowed.

6.2.4 Format

Purchases Book

Date	Particulars	Inward Invoice No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

- i. Date Column – Represents the date on which the transaction took place.
- ii. Particulars Column – This column includes the name of the seller and the particulars of goods purchased.
- iii. Inward Invoice No. Column – Reveals the serial number of the inward invoice.
- iv. LF. Column – This column shows the page number of the suppliers account in the ledger accounts.
- v. Details Column – Reveals the amount of goods purchased and the amount of trade discount.
- vi. Total Column – This column represents the net price of the goods, i.e, the amount which is payable to the creditors after adjusting discount and expenses if any.
- vii. Remarks Column – Contains any extra information.

At the end of each month, the purchase book is totalled. The total shows the total amount of goods or materials purchased on credit.

6.2.5 Posting and Balancing

Once transactions are properly recorded in purchases journal, they are posted into the ledger. The procedure for posting is stated as under.

Step 1 → Entries will be posted to the credit side of the respective creditors (supplier) account in the ledger by writing “By Purchases A/c” in the particulars column.

Step 2 → Periodic total is posted to the debit of purchases account by writing “To sundries as per purchases book” in the particulars column.

Illustration 1: From the following transactions of Ram for July, 2003 prepare the Purchases Book and ledger accounts connected with this book.

2003

- July 5 Purchased on credit from Kannan & Co.
50 Iron boxes @ Rs. 500
10 Grinders @ Rs. 3,000
- 6 Purchased for cash from Siva & Bros.
25 Fans @ Rs. 1,250
- 10 Purchased from Balan & Sons on credit
20 Grinders @ Rs. 2,500
10 Mixie @ Rs. 3,000
- 20 Purchased, on credit, one Computer from Kumar for Rs. 35,000.

Solution :

**In the books of Ram
Purchases Book**

Purchases Book							
Date	Particulars	Inward Invoice No.	L.F.	Amount			
				Details Rs.	Total Rs.		
2003 July 5	Kannan & Co. 50 Iron boxes @ Rs. 500 10 Grinders @ Rs. 3,000 Goods purchased vide their bill No..... Dated.....			25,000 30,000	55,000		
10	Balan & Co. 20 Grinders @ Rs.2,500 10 Mixie @ Rs. 3,000 Goods purchased vide their bill No..... Dated.....			50,000 30,000			
	Total				1,35,000		

Ledger Accounts							
Dr.				Cr.			
Purchases Account							
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 July 31	To Sundries as per Purchases Book		1,35,000				

Kannan & Co. Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 July 5	By Purchases A/c		55,000

Balan & Co. Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 July 10	By Purchases A/c		80,000

Note : July 6th transaction is a cash transaction and July 20th transaction is purchase of an asset, so both will not be recorded in the purchases book.

6.3 Sales Book

The sales book is used to record all credit sales of goods dealt with by the trader in his business. **Cash sales, cash and credit sales of assets are not entered in this book.** The entries in the sales book are on the basis of the invoices issued to the customers with the net amount of sale. The format of sales book is shown below:-

6.3.1 Format

Sales Book						
Date	Particulars	Outward Invoice No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

- Date Column** – Represents the date on which the transaction took place.
- Particulars Column** – This column includes the name of purchasers and the particulars of goods sold.
- Outward Invoice No. Column** – Reveals the serial number of the outward invoice.
- L.F. Column** – The page number of the customers accounts in the Ledger is recorded.
- Details Column** – Contains the amount of goods sold and the amount of trade discount if any.

- vi. Total Column – This column shows the net amount which is receivable from the customers.
- vii. Remarks Column – Any other extra information will be recorded.

6.3.2 Posting and Balancing

At the end of the month the individual entries and the total of the sales book column are posted into the ledgers as under.

Step 1 → Individual amounts are daily posted to the debit of Customers' Accounts by writing "To Sales A/c" in the particulars column.

Step 2 → Grand total of the sales book is posted to the credit of sales account by writing "By Sundries as per Sales Book" in the particulars column.

Illustration 2 From the transactions given below prepare the Sales Book of Ram for July 2003.

2003				
July 5	Sold on credit to S.S. Traders			
	10 Chairs @ Rs. 250			
	10 Tables @ Rs. 850			
			Less 10%	
			Discount	
8	Sold to Raja for cash			
	15 Chairs @ Rs. 250			
20	Sold to Mohan & Co.			
	5 Almirah @ Rs. 2,200			
	10 Tables @ Rs. 850			
23	Sold on credit to Narayanan old computer for Rs. 5,000			
28	Sold to Kumaran for cash			
	15 Chairs @ Rs. 250			

Solution : In the books of Ram Sales Book

Date	Particulars	Outward Invoice No.	L.F.	Amount	
				Details Rs.	Total Rs.
2003 July 5	S.S. Traders & Co. 10 Chairs @ Rs. 250 10 Tables @ Rs. 850			2,500 8,500	
				11,000	
	Less : 10% Discount Sold to S.S. Traders, Invoice No..... dated			1,100	
					9,900
20	Mohan & Co. 5 Almirah @ Rs. 2,200 10 Tables @ Rs. 850 Sales as per Invoice No..... dated			11,000 8,500	
					19,500
Total					29,400

Ledger Accounts							
Dr. Sales Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 July 31	By Sundries as per sales book		29,400
Dr. S.S. Trader's Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 July 5	To Sales A/c		9,900				
Dr. Mohan & Co.'s Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 July 20	To Sales A/c		19,500				

6.4 Returns Books

Returns Books are those books in which the goods returned to the suppliers and goods returned by the customers are recorded. The reasons for the return of goods are

- not according to the order placed.
- not upto the samples which were already shown.
- due to damage condition.
- due to difference in the prices charged.
- undue delay in the delivery of the goods.

6.4.1 Kinds of Returns Books

The following are the kinds of Returns Books;

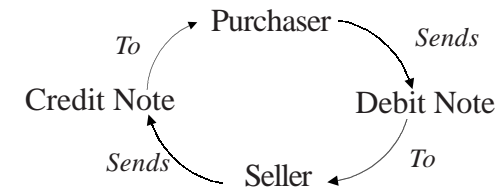
- Purchases Return** or **Returns outward book**
- Sales Return** or **Returns inward book**

When the business concern returns a part of the goods purchased on credit, the returns fall under the category **Purchases Return** or **Returns Outward**.

When the business concern receives a part of the goods sold on credit, the returns fall under the category of **Sales Return** or **Returns Inward**.

6.4.2 Purchases Return Book

This book is used to record all returns of goods by the business to the suppliers. The entries in the Purchases Returns Book are usually made on the basis of debit note issued to the suppliers or credit note received from the suppliers. We call it a debit note because the party's (supplier) account is debited with the amount written in this note. The same note is termed as credit note from the receiving party's point of view because he will credit the account of the party from whom he has received the note together with goods. The flow of notes is as follows.



6.4.2.1 Format

Purchases Return Book						
Date	Particulars	Debit Note No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

Note : The reason for goods returned is recorded in Remarks column.

Posting and Balancing

The individual entries and the periodic total of the Purchase Return Book are posted into the Ledger as under:

Step 1 → Individual amounts are daily posted to the debit of supplier accounts by writing “To Purchases Return A/c” in the particulars column.

Step 2 → Periodic total is posted to the credit of purchases return account by writing “By Sundries as per Purchases Return Book” in the particulars column.

Illustration 3

Enter the following transactions in the purchases return book of Hari and post them into the ledger.

- 2003 Jan 5 Returned goods to Anand 5 chairs @ Rs.200 each, not in accordance with order.
- 14 Returned goods to Chandran 4 chairs @ Rs.200 each and 10 tables @ Rs.350 each, due to inferior quality.

Solution :

**In the books of Hari
Purchases Return Book**

Date	Particulars	Debit Note No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	
2003 Jan 5	Anand 5 Chairs @ Rs.200				1,000	Not in accordance with order
14	Chandran 4 Chairs @ Rs.200 10 Tables @ Rs.350			800 3,500	4,300	Due to inferior quality
	Total				5,300	

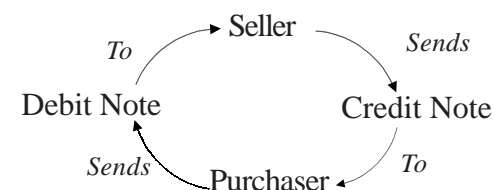
Ledger Accounts							
Dr. Purchases Return Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 Jan 31	By Sundries as per Purchases return book		5,300

Dr. Anand Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 Jan 5	To Purchases Return A/c		1,000				

Dr. Chandran Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 Jan 14	To Purchases Return A/c.		4,300				

6.4.3 Sales Return Book

This book is used to record all returns of goods to the business by the customers. The entries in the sales return book are usually on the basis of credit notes issued to the customers or debit notes issued by the customers.



6.4.3.1 Format

Sales Returns Book						
Date	Particulars	Credit Note No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

Note : Remarks column is meant to record the reason for return of goods.

Posting and Balancing

The individual entries and the periodic total of sales return book are posted into the ledger as under.

Step 1 → Individual amounts are daily posted to the credit of customers account by writing “By Sales return A/c” in the particulars column.

Step 2 → Periodic total is posted to the debit of sales return account by writing “To Sundries as per sales return book “ in the particulars column.

Illustration 4

Enter the following transactions in Returns Inward Book:

2003

April 6 Returned by Shankar 30 shirts each costing Rs.150, due to inferior quality.

8 Amar Tailors returned 10 Baba suits, each costing Rs.100, on account of being not in accordance with their order.

21 T.N. Stores returned 12 Salwar sets each costing Rs.200, being not in accordance with order.

Solution:

Sales Return Book

Date	Particulars	Credit Note No.	L.F.	Details Rs.	Amount Rs.	Remarks
2003 April 6	Shankar 30 shirts @ Rs.150			4,500		Due to inferior quality
8	Amar Tailors 10 Baba suits @ Rs. 100			1,000		Not in accordance with the order
21	T.N Stores 12 Salwar sets @ Rs.200			2,400		Not in accordance with the order
					7,900	
	Total				7,900	

Ledger Accounts

Dr. Sales Return Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 April 30	To Sundries as per Sales return book		7,900				

Dr. Shankar Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 April 6	By Sales Return A/c.		4,500

Dr. Amar Tailors Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 April 8	By Sales Return A/c.		1,000

Dr. T.N. Stores Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 April 21	By Sales Return A/c.		2,400

6.5 Bill of exchange

When one wants to increase the business transactions, credits may be allowed and the amounts are received after some time. If the amount involved in the credit transaction is large, the seller needs security and evidence over the dealings. Here the Bill of Exchange solves the problems of the seller.

6.5.1 Definition

According to the Negotiable Instruments Act, 1881, '**Bill of Exchange**' is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument'.

An analysis of the definition given above highlights the following important features of a bill of exchange.

- i. It is a written document.
- ii. It is an unconditional order.
- iii. It is an order to pay a certain sum of money.
- iv. It is signed by the drawer.
- v. It bears stamp or it is drafted on a stamp paper.
- vi. It is accepted by the acceptor.
- vii. The amount is paid to drawer or endorsee.

6.5.2 Format

Bill of Exchange

<div style="border: 1px solid black; width: 50px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">Stamp</div> <p>Rs. 10,000/-</p> <p>Three months after date pay to me or to my order the sum of Rupees Ten Thousand only for value received.</p> <p>To Thiru.Sundaram, 430, Mint Street, Chennai - 1.</p>	<p>Accepted Sundaram 4/6/2003</p>	<p>328, Bazaar Street, Trichy - 4, 01.06.2003</p> <p>Damodaran</p>
--	---	--

6.5.3 Important terms

Explanation of some terms connected with bill of exchange is given below.

1. Drawing of a Bill

The seller (creditor) prepares the bill in the form presented above. The act of preparing the bill in its complete form with the signature is known as '**drawing**' a bill.

2. Parties

There are three parties to a bill of exchange as under.

- i. **Drawer:** The person who prepares the bill is called the drawer i.e., a creditor.
- ii. **Drawee:** The person who has to make the payment or who accepts to make the payment is called the drawee i.e., a debtor.
- iii. **Payee:** The person who receives the payment is payee. He may be a third party or the drawer himself.

In the above format drawer and payee is Damodaran. Sundaram is the drawee.

3. Acceptance

In a bill drawee gives his acceptance by writing the word '**accepted**' and also puts his signature and the date. Now the bill becomes a legal document enforceable in the court of law.

4. Due date and Days of grace

When a bill is drawn payable after a specified period the date on which the payment should be made is called '**Due Date**'. In the calculation of the due date three extra days are added to the specified period of the bill are known as '**Days of Grace**'. If the date of maturity falls on a holiday, the bill will be due for payment on the preceeding day.

Example :

Date of Bill	Period of Bill	Days of Grace	Due date
1st March	2 month	3	4th May
12th July	1 month	3	14th Aug. since 15th Aug. (being independence day) is a public holiday.
1st Oct.	30 days	3	3rd November

5. Endorsement

Endorsement means writing of one's signature on the face or back of a bill for the purpose of transferring the title of the bill to another person. The person who endorses is called the "**Endorser**". The person to whom a bill is endorsed is called the "**Endorsee**". The endorsee is entitled to collect the money.

6. Discounting

When the holder of a bill is in need of money before the due date of a bill he can convert it into cash by discounting the bill with his banker. This process is referred to as **discounting of bill**. The banker deducts a small amount of the bill which is called discount and pay the balance in cash immediately to the holder of the bill.

7. Retiring of Bill

An acceptor may make the payment of a bill before its due date and discharge his liability, it is called as **retirement of a bill**. Usually the holder of the bill allows a concession called rebate to the drawee for the unexpired period of the bill.

8. Renewal

When the acceptor of a bill knows in advance that he will not be able to meet the bill on its due date, he may approach the drawer

with a request for extension of time for payment. The drawer of the bill may agree to cancel the original bill and draw a new bill for the amount due with interest thereon. This is referred to as **renewal**.

9. Dishonour

Dishonour of the bill means the non-payment of bill, when it is presented for payment.

10. Noting and Protesting

If a bill is dishonoured, the drawer may approach the court, and file a suit against the drawee. In order to collect documentary evidence, the drawer may approach a lawyer and explain the fact of the dishonour of the bill. The lawyer will take the bill to the drawee and ask for the payment. If the drawee does not make the payment, the lawyer will note the statement of the drawee and get the statement signed by him. The lawyer will then put his signature. The statement noted by the lawyer will be the documentary evidence for the dishonour of the bill. Writing this statement by the lawyer is known as **noting** of the bill. The lawyer performing this work of noting the bill is called as the '**Notary Public**'. A notary public is an official appointed by the Government.

After recording a note of dishonour on the dishonoured bill, the Notary Public issues a certificate to this effect which is called **protest**. A protest is a certificate issued by the Notary Public attesting that the bill has been dishonoured.

6.6 Bills Books

When the number of bills received or issued is large journalising of all bill transactions will result in enormous waste of time. Hence, suitable registers like bills receivable book and bills payable book are maintained to record the receipt of bills receivable and issue of bills payable respectively. These books are also called Bills Journals / Books.

6.6.1 Bills Receivable Book

Bills receivable (B/R) book is used for the purpose of recording the details of bills receivable. The individual accounts of parties from whom bills are received will be credited with the amount in the bills receivable book. The periodic total is posted to the debit of bills receivable account in the ledger by writing “To sundries as per Bills Receivable Book”.

6.6.2 Bills Payable Book

Bills payable (B/P) book is used for the purpose of recording the details of bills payable. The individual accounts of the parties to whom the bills are issued will be debited with the corresponding amount in the bills payable book. The periodic total is posted to the credit of bills payable account in the ledger by writing “By Sundries as per Bills Payable Book”.

6.7 Journal Proper

Journal proper is used for making the original record of such transactions for which no special journal has been kept in the business. The usual entries that are put through this journal is explained below.

1. Opening Entries

Opening entries are used at the beginning of the financial year to open the books by recording the assets, liabilities and capital appearing in the balance sheet of the previous year.

Example:

Mr. Ramnath commenced business with the following items, make the opening entries in journal proper as on 1st January 2003.

Cash	Rs. 30,000
Stock	Rs. 15,000
Furniture	Rs. 3,000
Sundry creditors	Rs. 10,000

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Jan. 1	Cash A/c Dr. Stock A/c Dr. Furniture A/c Dr. To Sundry creditors A/c To Capital A/c (Commencement of business with assets & liabilities)		30,000 15,000 3,000	10,000 38,000

2. Closing Entries

Closing entries are recorded at the end of the accounting year for closing accounts relating to expenses and revenues. These accounts are closed by transferring the balances to the Trading, Profit and Loss Account.

Example : Salaries paid Rs.15,000. Give the closing entry as on Dec. 31, 2003.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Profit & Loss A/c Dr. To Salaries A/c (Closing entry for salaries paid)		15,000	15,000

3. Adjusting Entries

To arrive at a correct figure of profits and loss, certain accounts require some adjustments. Entries for making such adjustments are called as adjusting entries. These are needed at the time of preparing the final accounts.

Example : Provide depreciation on furniture Rs.1,00,000 @ 10% per annum. Give adjustment entry as on Dec. 31, 2003.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Depreciation A/c Dr. To Furniture A/c (Depreciation written off)		10,000	10,000

4. Transfer Entries

Transfer entries are passed in the journal proper for transferring an item entered in one account to another account.

Example : When the proprietor takes goods Rs.5,000 for personal use. Give transfer entry on Dec. 31, 2003.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Drawings A/c Dr. To Purchases A/c (Goods withdrawn for personal use)		5,000	5,000

5. Rectifying Entries

Rectifying entries are passed for rectifying errors which might have committed in the book of accounts.

Example : Purchase of furniture for Rs.10,000 was debited to Purchases Account. Pass rectifying entry on Dec. 31, 2003.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Furniture A/c Dr. To Purchases A/c (Wrong debit to purchases account rectified)		10,000	10,000

6. Miscellaneous Entries or Entries of Casual Nature

These are entries of casual nature which do not occur so frequently. Such transactions include the following:

- Credit purchases and credit sale of assets which cannot be recorded through purchases or sales book
- Endorsement, renewal and dishonour of bill of exchange which cannot be recorded through bills book.
- Other adjustments like interest on capital and loan, bad debts, reserves etc.

QUESTIONS

I. Objective Type:

a) Fill in the blanks:

1. Sub division of the journals into various books for recording transactions of similar nature are called _____.
2. The total of the _____ book is posted to the debit of purchases account.
3. The person who prepares a bill is called the _____.
4. Days of grace are _____ in number.

[Answers : 1. subsidiary books, 2. purchases, 3. drawer, 4. three]

b) Choose the correct answer :

1. Purchase of machinery is recorded in
 - a) sales book
 - b) journal proper
 - c) purchases book
2. Purchases book is kept to record
 - a) all purchases
 - b) only cash purchases
 - c) only credit purchases
3. Credit sales are recorded in
 - a) sales book
 - b) cash book
 - c) journal proper
4. Goods returned by customers are recorded in
 - a) sales book
 - b) sales return book
 - c) purchases return book

5. On 1st January 2003, Chandran draws a bill on Sundar for 3 months, its due date is _____

- a) 31st March 2003
- b) 1st April 2003
- c) 4th April 2003

[Answers : 1. (b), 2. (c), 3. (a), 4. (b), 5. (c)]

II. Other Questions:

1. What are the various types of subsidiary books?
2. What are the advantages of subsidiary books?
3. What is cash discount?
4. What are the differences between Trade Discount and Cash Discount?
5. What is Purchases Book?
6. What is Sales Returns Book?
7. Define a bill of exchange. What are its features?
8. Write notes on parties involved in a bill of exchange.
9. What is Days of grace?
10. What is endorsement?
11. Write notes on retiring of a bill.
12. Write notes on renewal of a bill of exchange.
13. What is Journal Proper? For what purpose it is used?
14. Write notes on closing entries.
15. Write notes on rectifying entries.

III. Problems:

1. Enter the following transactions in the Purchase Book of M/s.Subhashree.

2003

- March 1 Purchased 100 Kg. of coffee seeds from Suresh @ Rs.40 per Kg.
- 5 Purchased 80 Kg. of tea dust from Hari @ Rs.20 per Kg.
- 12 Bought from Rekha Sugars, Trichy 1,200 Kg.of Sugar @ Rs.8 per Kg.
- 18 Bought from Perumal Sweets, Chennai, 40 tins of Sweets @ Rs.200 per tin.
20. Purchased from Govinda Biscuit Company, Chennai 20 tins of biscuits @ Rs.400 per tin.

[Answer : Purchases book total Rs.31,200]

2. From the following particulars prepare the sales book of Modern Furniture Mart

2003

- June 5 Sold on credit to Arvind & Co.
20 tables @ Rs.600 per table
20 chairs @ Rs.300 per chair
- 7 Cash sales to Anand & Co.,
10 tables @ Rs.300 per table
20 chairs @ Rs.150 per chair
- 10 Sold to Baskar & Co., on credit
10 almirahs @ Rs.3,000 per almirah
10 tables @ Rs.200 per table

- 15 Sold old typewriter for Rs.1,000 to Madan on credit
20. Sold to Gopinath on credit.
10 tables @ Rs.1,000 per table
2 revolving chairs @ Rs.1,200 per chair

[Answer : Sales book Rs.62,400]

3. Enter the following transactions in proper subsidiary books.

2003

- March 1 Purchased goods from Balaraman Rs.2000
- 2 Sold goods to Senthil Rs.1,000
- 3 Goods purchased from Durai Rs.1,000
- 5 Sold goods to Saravanan Rs.700
- 8 Sold goods to Senthil Rs.500
- 10 Purchased goods from Elangovan Rs.600
- 14 Purchased goods from Parthiban Rs.300
- 20 Sold goods to Sukumar Rs.600

[Answer : Purchase book Rs.3,900; Sales book Rs.2,800]

4. Record the following transactions in the proper subsidiary books of M/s.Ram & Co., and post them to the ledger.

2003

- April 1 Goods sold to Ramesh Rs.1,000
- 5 Sold goods to Kumar Rs.2,200
- 8 Sold goods to Shankar Rs.300
- 10 Goods returned by Kumar Rs.600
- 15 Credit Note sent to Shankar for Rs.200 being the invoice overcharged.

[Answer : Sales book Rs.3,500; Sales return book Rs.800]

5. Write the following transactions in proper subsidiary books of Mr.Rajasekaran.

2003

- May 10 Purchased goods from Raman Rs.15,000
 14 Returned goods to Raman Rs.500
 18 Purchased goods from Sekaran Rs.10,000
 20 Pradeep sold goods to us Rs.20,000
 24 Sent a debit note to Sekaran for goods damaged in transit Rs.1,000.

[Answer : Purchases book Rs.45,000;
 Purchases return book Rs.1,500]

6. Enter the following transactions in the proper subsidiary books of Mr.Somu

2003

- Nov. 1 Bought from Gopal 300 bags of wheat Rs.1,000 per bag less trade discount 10%
 3 Purchased from Madhavan 150 bags of rice Rs.900 per bag less trade discount 10%
 5 Returned to Gopal 10 bags of wheat which were purchased on 1.11.03.
 7 Sold to Shiva 50 bags of rice Rs.1,200 per bag less Trade Discount 5%.
 12 Sold to Sharma 25 bags of Wheat Rs.1,300 per bag less Trade Discount 10%.
 14 Returned 15 bags of rice to Madhavan.
 15 Shiva returned 5 bags of rice.

- 17 Bought from Rajan 200 bags of wheat Rs.950 per bag

- 24 50 bags of wheat returned to Rajan

[Answer: Purchases book Rs.5,81,500; Sales book Rs.86,250;
 Purchases return book Rs.68,650; Sales return book Rs.5,700]

7. Enter the following transactions in the appropriate Special Journal of M/s. Sita & Co.

2002

- Oct 2 Bought goods from Satish Rs.2,400 as per invoice No.63.
 4 Sold to Sivagami goods Rs.1,600 as per invoice No.71.
 7 Returned to Satish goods of Rs.250 as per debit note No.4
 8 Sivagami returned goods Rs.150 as per credit note No.8
 12 Sold to Vijaya goods of Rs.950 as per invoice No.72
 14 Purchased from Velan goods worth Rs.1,100
 18 Returned to Sampath goods of Rs.150 as per debit note No.5
 22 Vijaya returned goods of Rs.240 Credit Note No.9

[Answer: Purchases book Rs.3,500; Sales book Rs.2,550;
 Purchases return book Rs.400; Sales return book Rs.390]

CHAPTER - 7

SUBSIDIARY BOOKS II - CASH BOOK

Learning Objectives

After learning this chapter you will be able to:

- *understand the Need and Meaning of the various Kinds of Cash Book.*
- *prepare the various Kinds of Cash Books.*

In every business house there are cash transactions as well as credit transactions. All credit transactions will become cash transactions when payments are made to creditors or cash received from debtors. Since, cash transactions will be numerous, it is better to keep a separate book to record only the cash transactions.

7.1 Features

A **cash book** is a special journal which is used to record all cash receipts and cash payments. The cash book is a book of original entry or prime entry since transactions are recorded for the first time from the source documents. The cash book is a ledger in the sense that it is designed in the form of a cash account and records cash receipts on the debit side and cash payments on the credit side. **Thus, the cash book is both a journal and a ledger. Cash Book will always show debit**

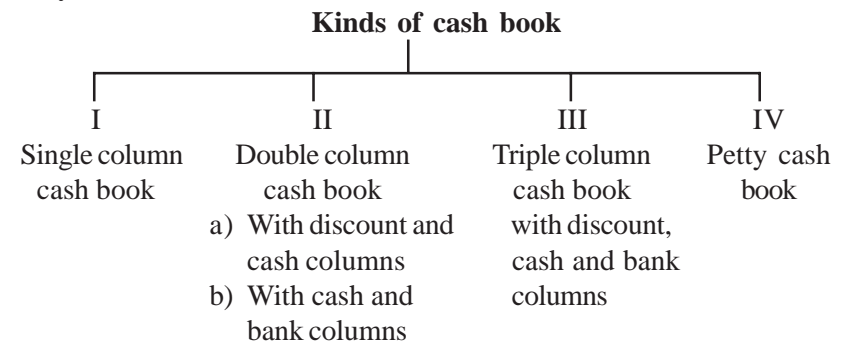
balance, as cash payments can never exceed cash available. In short, cash book is a special journal which is used for recording all cash receipts and cash payments.

7.2 Advantages

1. **Saves time and labour:** When cash transactions are recorded in the journal a lot of time and labour will be involved. To avoid this all cash transactions are straight away recorded in the cash book which is in the form of a ledger.
2. **To know cash and bank balance:** It helps the proprietor to know the cash and bank balance at any point of time.
3. **Mistakes and frauds can be prevented:** Regular balancing of cash book reveals the balance of cash in hand. In case the cash book is maintained by business concern, it can avoid frauds. Discrepancies if any, can be identified and rectified.
4. **Effective cash management:** Cash book provides all information regarding total receipts and payments of the business concern at a particular period. So that, effective policy of cash management can be formulated.

7.3 Kinds of Cash Book

The various kinds of cash book from the point of view of uses may be as follow:



7.3.1 Single Column Cash Book

Single column cash book (simple cash book) has one amount column in each side. All cash receipts are recorded on the debit side and all cash payments on the credit side. In fact, this book is nothing but a Cash Account. Hence, there is no need to open cash account in the ledger. The format of a single column cash book is given below.

Format

Debit Side					Single Column Cash Book of		Credit Side		
Date	Particulars	R. N.	L. F.	Amount Rs.	Date	Particulars	V. N.	L. F.	Amount Rs.

Explanation :

- Date :** This column appears in both the debit and credit side. It records the date of receiving cash at debit side and paying cash at credit side.
- Particulars :** This column is used at both debit and credit side. It records the names of parties (personal account), heads (nominal account) and items (real account) from whom payment has been received and to whom payment has been made.
- Receipt Number (R.N):** This refers to the serial number of the cash receipt.

- Voucher Number (V.N) :** This refers to the serial number of the voucher for which payment is made.
- Ledger Folio (L.F):** This column is used in both the debit and credit side of cash book. The ledger page (folio) of every account in the cash book is recorded against it.
- Amount :** This column appears in both sides of the cash book. The actual amount of cash receipt is recorded on the debit side. The actual payments are entered on the credit side.

Balancing :

The cash book is balanced like any other account. The total of the receipt (debit side) column will always be greater than the total of the payment column (credit side). The difference will be written on the credit side as “By Balance c/d”. In the beginning of the next period, to show the cash balance in hand, the balance amount is recorded in the debit side as “To balance b/d”.

Illustration 1

Enter the following transactions in a single column cash book of Mr.Kumaran.

2004 Jan	1	Started business with cash	...	Rs.	1,000
	3	Purchased goods for cash	...	Rs.	500
	4	Sold goods	...	Rs.	1,700
	5	Cash received from Siva	...	Rs.	200
	12	Paid Balan	...	Rs.	150
	14	Bought furniture	...	Rs.	200
	15	Purchased goods from Kala on credit	...	Rs.	2,000
	20	Paid electric charges	...	Rs.	225
	24	Paid salaries	...	Rs.	250
	28	Received commission	...	Rs.	75

Solution:**Cash Book
of Mr. Kumaran**

Dr.					Cr.				
Date	Particulars	R. N.	L. F.	Amount Rs.	Date	Particulars	V. N.	L. F.	Amount Rs.
2004					2004				
Jan 1	To Capital A/c			1,000	Jan 3	By Purchases			
4	To Sales A/c			1,700		A/c			500
5	To Siva A/c			200	12	„ Balan A/c			150
28	To Commission A/c			75	14	„ Furniture A/c			200
					20	„ Electric charges A/c			225
					24	„ Salaries A/c			250
					31	„ Balance c/d			1,650
				2,975					2,975
2004									
Feb 1	To Balance b/d			1,650					

Note : The transaction dated January 15th will not be recorded in the cash book as it is a credit transaction.

7.3.2 Double Column Cash Book

The most common double column cash books are

- Cash book with discount and cash columns
- Cash book with cash and bank columns.

i. Cash Book with discount and cash columns

On either side of the single column cash book, another column is added to record discount allowed and discount received. The format is given below.

Format**Double Column Cash Book**
(Cash book with Discount and Cash Column)

Debit						Credit					
Date	Parti- culars	R. N.	L. F.	Dis- count Allowed Rs.	Amount Rs.	Date	Parti- -culars	V. N.	L. F.	Dis- count Received Rs.	Amount Rs.

It should be noted that in the double column cash book, cash column is balanced like any other ledger account. But the discount column on each side is merely totalled. The total of the discount column on the debit side shows the total discount allowed to customers and is debited to Discount Allowed Account. The total of the discount column on the credit side shows total discount received and is credited to Discount Received Account.

Illustration 2: Prepare a Double Column Cash Book from the following transactions of Mr.Gopalan:

	Rs.
2004	
Jan. 1 Cash in hand	4,000
6 Cash Purchases	2,000
10 Wages paid	40
11 Cash Sales	6,000
12 Cash received from Suresh and allowed him discount	1,980
19 Cash paid to Meena and discount received	2,470
27 Cash paid to Radha	400
28 Purchased goods for cash	2,070

Solution : **Double Column Cash Book of Mr. Gopalan**
(Cash book with Discount Column)

Dr.						Cr.					
Date	Particulars	R.N	L.F	Discount Allowed	Amount Rs.	Date	Particulars	VN	L.F	Discount Received	Amount Rs.
2004											
Jan 1	To Balance b/d				4,000	2004	By Purchases A/c				2,000
11	To Sales A/c				6,000	Jan 6	By Wages A/c				40
12	To Suresh A/c			20	1,980	10	By Meena A/c			30	2,470
						19	By Radha A/c				400
						27	By Purchases A/c				2,070
						28	By Balance c/d				5,000
						31					
				20	11,980					30	11,980
Feb 1	To Balance b/d				5,000						

ii. Cash Book with Cash and Bank Columns

When bank transactions are more in number, it is advisable to open a cash book by providing a separate column on either side of the cash book to record the bank transactions therein.

In such case, it is not necessary to open a separate Bank Account in the Ledger because the two columns in the cash book serve the purpose of Cash Account and Bank Account respectively. It is a combination of Cash Account and Bank Account. The format of this cash book is given below.

Double Column Cash Book (Cash book with Cash and Bank Columns)											
Debit Side						Credit Side					
Date	Parti- culars	R. N.	L. F.	Cash Rs.	Bank Rs.	Date	Parti- culars	V. N.	L. F.	Cash Rs.	Bank Rs.

There are two amount columns on debit side one for cash receipts and the other for bank deposits (i.e., payment made into Bank Account). Similarly there are two amount columns on the credit side, one for payments in cash and the other for payments by cheques respectively.

Contra Entry

When an entry affect both cash and bank accounts it is called a **contra entry**. Contra in Latin means *opposite*. In contra entries both the debit and credit aspects of a transaction are recorded in the cash book itself.

Example 1: Cash paid into bank

Bank A/c	Dr.	x x x	
To Cash A/c			x x x
(Cash paid into bank)			

This is a contra entry. As the cash book with cash and bank columns is a combined cash and bank account, both the aspects of the transaction will be entered in the same book. In the debit side 'To Cash A/c' will be entered in the particulars column and the amount will be entered in the bank column. In the credit side 'By Bank A/c' will be entered in the particulars column and the amount will be entered in the cash column.

Such contra entries are denoted by writing the letter 'C' in the L.F. column, on both sides of the cash book. They indicate that no posting in respect thereof is necessary in the ledger.

Example 2: Cash withdrawn from bank for office use.

Cash A/c	Dr.	x x x	
To Bank A/c			x x x
(Cash withdrawn for office use)			

This is also a contra entry. In the debit side 'To Bank A/c' will be entered in the particulars column and the amount will be entered in the cash column. In the credit side 'By Cash A/c' will be entered in the particulars column and the amount will be entered in the bank column.

Such contra entries are denoted by writing the letter 'C' in the L.F. column, on both sides of the cash book. They indicate that no posting in respect thereof is necessary in the ledger.

Illustration 3

Enter the following transactions in the double column cash book of Mr.Rajesh and balance it.

2003

- Aug. 1 Opening Balance : Cash in Hand Rs.4,250
Cash at Bank Rs.13,750
- 2 Paid to petty cashier Rs.2,500
- 2 Cash sales Rs.1,750
- 3 Paid to Arun by cheque Rs.3,750
- 3 Received a cheque from Mr.Ram Babu Rs.4,500 paid into bank.
- 5 Received cheque from Mr.Jayaraman Rs.6,000 paid into bank
- 8 Cash purchases Rs.2,500
- 8 Paid rent by cheque Rs. 2,500
- 9 Cash withdrawn from bank for office use Rs.2,500
- 10 Cash sales Rs.3,750
- 14 Stationery purchased Rs.1,000
- 20 Cash sales Rs.6750
- 21 Paid into bank Rs.10,000
- 23 Withdrew cash for personal use Rs.1,000
- 25 Salaries paid by cheque Rs.9000.

Solution: **Double Column Cash Book of Mr.Rajesh**
(Cash book with Cash and Bank Column)

Dr.		Cr.									
Date	Particulars	R. N.	L.F.	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Cash Rs.	Bank Rs.
2003						2003					
Aug 1	To Balance b/d			4,250	13,750	Aug 2	By Petty Cash A/c			2,500	
2	„ Sales A/c			1,750		3	„ Arun's A/c				3,750
3	„ Ram Babu's A/c				4500	8	„ Purchases A/c			2,500	
5	„ Jayaramans A/c				6,000	8	„ Rent A/c				2,500
9	„ Bank A/c		C	2,500		9	„ Cash A/c		C		2,500
10	„ Sales A/c			3,750		14	„ Stationery A/c			1,000	
20	„ Sales A/c			6,750		21	„ Bank A/c		C	10,000	
21	„ Cash A/c		C		10,000	23	„ Drawings A/c				1,000
						25	„ Salary A/c				9,000
						31	„ Balance c/d			3,000	15,500
Sep 1	To Balance b/d			19,000	34,250					19,000	34,250
				3,000	15,500						

Points to be remembered while preparing cash book:

S. No.	Transaction	Debit/Credit side of cash book	The column in which the amount to be entered
1.	Cash/ M.O./P.O. - received	Debit	Cash
2.	Cash paid	Credit	Cash
3.	Discount allowed	Debit	Discount allowed
4.	Discount received	Credit	Discount received
5.	Cash deposited in the bank	Debit (C) Credit (C)	Bank Cash
6.	Cash withdrawn for office use	Debit (C) Credit (C)	Cash Bank
7.	Cheque received	Debit	Cash
8.	Cheque deposited into bank	Debit (C) Credit (C)	Bank Cash
9.	Cheque received and deposited into bank for collection immediately	Debit	Bank
10.	Cheque issued	Credit	Bank
11.	Customer directly paid into bank	Debit	Bank
12.	Cheque deposited and dishonoured	Credit	Bank
13.	Cheque issued and dishonoured	Debit	Bank

Illustration 4

Compile three column cash book of Mr.Sundar from the following transactions:

2002

- Aug 1 Sundar started business with cash Rs.2,00,000
- 2 Deposited into Bank Rs.50,000.
- 4 Cash purchases Rs.5,000.
- 5 Purchases by cheque Rs.6,000.
- 6 Goods sold to Nathan on credit Rs. 5,000.
- 8 Received cheque from Mano Rs.490, Discount allowed Rs.10.
- 10 Paid carriage Rs.1,000.
- 12 Withdrew from Bank for office use Rs.10,000.
- 15 Paid to Sundari Rs.4,960, Discount allowed by her Rs.40.
- 20 Received a cheque for Rs.4950 from Nathan in full settlement of his account, which is deposited into Bank.

Solution:

Triple Column Cash Book of Mr.Sundar

Dr.						Cr.							
Date	Particulars	R. N.	L.F.	Dis. Allocated	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Dis. Received	Cash Rs.	Bank Rs.
2002							2002						
Aug 1	To Capital A/c				2,00,000		Aug 2	By Bank A/c		C		50,000	
2	„ Cash A/c					50,000	4	„ Purchases A/c				5,000	6,000
8	„ Mano's A/c			10	490		5	„ Purchases A/c					
12	„ Bank A/c		C		10,000		10	„ Carriage A/c				1,000	
20	„ Nathan's A/c			50		4,950	12	„ Cash A/c		C		4,960	10,000
							15	„ Sundari's A/c			40		
							31	„ Balance c/d				1,49,530	38,950
Sen 1	To Balance b/d			60	2,10,490	54,950						40,2,10,490	54,950
					1,49,530	38,950							

Note : Transaction dated 6th August will not appear in the cash book as it is a credit transaction.

Enter the following transactions in three column cash book of Mr.Muthu and balance the same.

Aug 1	Cash in hand Rs.75,000 Cash at bank Rs.40,000
4	Paid into bank Rs.20,000.
6	Purchased machinery by cheque Rs.10,000.
8	Received from Mohan Rs.2,560 Discount allowed Rs. 40.
10	Paid to Somu by cheque Rs.3,970 in full settlement of his account Rs.4,000.
11	Withdrew cash from Bank for personal use Rs.5,000.
15	Received cheque from Balan Rs.4,900. Allowed him discount Rs.100.
19	Balan's cheque deposited into Bank
24	Anandan our customer has paid directly into our bank account Rs.10,000.
27	Rent paid by cheque Rs.3,000.

Triple Column Cash Book of Mr.Muthu

Dr.				Cr.							
Date	Particulars	R. L.F. N.	Dis. Allo-wed Rs.	Cash Rs.	Bank Rs.	Date	Particulars	V. L.F. N.	Dis. Recei-ved Rs.	Cash Rs.	Bank Rs.
2003						2003					
Aug 1	To Balance b/d			75,000	40,000	Aug 4	By Bank A/c	C		20,000	
4	„ Cash A/c	C			20,000	6	„ Machinery A/c				10,000
8	„ Mohan's A/c		40	2,560		10	„ Somu's A/c		30		3,970
15	„ Balan's A/c		100	4,900		11	„ Drawings A/c				5,000
19	„ Cash A/c	C			4,900	19	„ Bank A/c	C		4,900	
24	„ Anandan's A/c				10,000	27	„ Rent A/c				3,000
						31	„ Balance c/d			57,560	52,930
Sep 1	To Balance b/d		140	82,460	74,900				30	82,460	74,900
				57,560	52,930						

Illustration 6

Prepare three column cash book of Mrs.Eswari from the following transactions and balance the cash book on 30th June 2003.

2003

- June 1 Cash in hand Rs.50,000
Bank overdraft Rs.15,000
- 3 Paid into bank Rs.25,000
- 5 Parthiban settled his account for Rs.3,750 by giving a cheque for Rs.3,690.
- 8 Parthiban's cheque sent to bank for collection.
- 10 Cash withdrawn from bank Rs.8,000.
- 14 Parthiban's cheque returned dishonoured
- 15 Received from Ramesh a currency note for Rs.5,000 and gave him a change for it.
- 18 Paid rent Rs.500.
- 20 Bank charges as per pass book Rs.150.
- 30 Deposited into Bank all cash in excess of Rs.5,000.

Solution:

Triple Column Cash Book of Mrs.Eswari

Dr.													Cr.		
Date	Particulars	R. N.	L.F.	Dis. Allo -wed	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Dis. Recei -ved	Cash Rs.	Bank Rs.		
2003							2003								
June 1	To Balance b/d				50,000		June 1	By Balance b/d					15,000		
3	„ Cash A/c		C			25,000	3	„ Bank A/c		C		25,000			
5	„ Parthiban's A/c			60	3,690		8	„ Bank A/c		C		3,690			
8	„ Cash A/c		C			3,690	10	„ Cash A/c		C			8,000		
10	„ Bank A/c		C				14	„ Parthiban's A/c					3,690		
30	„ Cash A/c		C				18	„ Rent A/c				500			
							20	„ Bank Charges					150		
							30	„ Bank A/c		C		27,500			
							30	„ Balance c/d				5,000	29,350		
July 1	To Balance b/d											61,690	56,190		

Note: Transaction dated 15th June will not be recorded in the cash book.

Illustration 7

Enter the following transactions in three column cash book of Mrs.Anu Radha.

2002

- Sep 1 Cash in hand Rs.50,000
Bank balance Rs.15,000
- 2 Sold goods to Udayakumar for Rs.15,000, cash discount allowed 1% and received cash for the balance.
- 3 Tax paid Rs.1,000.
- 7 Bought goods from Munuswamy for Rs.2,400, cash discount received 2% and paid cheque for the balance.
- 9 Received repayment of loan from Elangovan Rs.10,000.
- 12 Paid into Bank Rs.5,000.
- 14 Paid Rs.1,400 to Aravind & Co., half by cash and half by cheque.
- 16 Dividend collected by the Bank as per pass book Rs.2,000.
- 18 Sold goods for cash and deposited into the bank on the same day Rs.5,000.
- 20 Sent to Bharathi by money order Rs.460, the money order commission being Rs.20.

Solution:

Triple Column Cash Book of Mrs.Anu Radha

Dr.				Cr.			
Date	Particulars	R. L.F. N.	Dis. Allow	Cash Rs.	Bank Rs.	Dis. Received	Cash Rs.
2002							
Sept 1	To Balance b/d						
2	„ Sales A/c		150	50,000	15,000		1,000
9	„ Elangovan's Loan			14,850			
12	„ Cash A/c			10,000			
16	„ Dividend A/c				5,000		
18	„ Sales A/c				2,000		
					5,000		
							460
							20
							67,670
							23,948
							74,850
							27,000
							74,850
							27,000
Oct 1	To Balance b/d						

From the following information show how Mr.Venu Gopal's triple column cash book would appear for the week ended 7th October 2002 and close the cash book for the day.

Oct 1	Cash in hand Rs.30,000 Bank balance Rs.1,000
2	Sivan, our customer has paid directly into our bank account Rs.5,000.
3	Paid rent by cheque Rs.500.
4	Cheque issued in favour of Bharathi for purchase of furniture Rs.2,400.
5	Received from Vinoth Rs.2,225 Discount allowed Rs.75.
6	Paid into bank Rs.4,000
7	Cash withdrawn from bank Rs.2,000. Bharathi, to whom we have issued a cheque of Rs.2,400 has reported that our cheque is dishonoured.

Triple Column Cash Book of Mr. Venu Gopal

Dr.							Cr.						
Date	Particulars	R. N.	L.F.	Dis. Allow	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Dis. Received	Cash Rs.	Bank Rs.
2002							2002						
Oct 1	To Balance b/d				30,000	1,000	Oct 3	By Rent A/c					500
2	„ Sivan's A/c					5,000	4	„ Bharathi A/c					2,400
5	„ Vinoth's A/c			75	2,225		6	„ Bank A/c		C		4,000	
6	„ Cash A/c		C			4,000	7	„ Cash A/c		C			2,000
7	„ Bank A/c		C		2,000								
7	„ Bharathi A/c					2,400							
							7	„ Balance c/d				30,225	7,500
				75	34,225	12,400						34,225	12,400
Oct 8	To Balance b/d				30,225	7,500							

7.3.4 Postings from cash book to concerned ledger accounts

1. Opening (Cash and Bank) balance appearing in the cash book is not posted to any account in the ledger.
2. Contra entries are not posted to any account.
3. Each item of discount allowed appearing on the debit side of the cash book will be posted to the credit of respective personal account. Total of discount allowed column should be posted to the debit side of discount allowed account with the words "To Sundry Accounts".
4. Each item of discount received appearing on the credit side of the cash book will be posted to the debit of respective personal account. Total of discount received column should be posted to the credit of discount received account with the words "By Sundry Accounts".
5. The other transactions recorded on the debit side of the cash book are posted to the credit of the respective accounts in the ledger.
6. The other transaction recorded on the credit side of the cash book are posted to the debit of the respective accounts in the ledger.

QUESTIONS

I. Objective Type:

a) Fill in the Blanks:

1. Discount allowed column appears in _____ side of the cash book.
2. In the triple column cash book, when a cheque is received the amount is entered in the _____ column.
3. Discount received column appears in _____ side of the cash book.
4. A cheque received and paid into the bank on the same day is recorded in the _____ column of the three column cash book.
5. When a cheque received from a customer is dishonoured, his account is _____.
6. Cash Book is one of the _____ books.

[Answers : 1. debit, 2. cash, 3. credit, 4. bank, 5. debited, 6. subsidiary]

b) Choose the correct answer:

1. The cash book records
 - a) all cash payments
 - b) all cash receipts
 - c) all cash receipts & payments
2. When goods are purchased for cash, the entry will be recorded in the
 - a) cash book
 - b) purchases book
 - c) journal

9. What are the rules for making entries in the double column cash book with cash and bank column?
10. How are postings made from the cash book?

III. Problems:

- 2002

(Answer : Cash balance Rs. 18,000)

- 2002

167

1. What is cash book? What are its features?
2. What are the advantages of cash book?
3. What are the various kinds of cash book?
4. What is single column cash book?
5. What is double column cash book?
6. What is triple column cash book?
7. Write notes on 'contra entry'.
8. Give the specimen of 'triple column cash book'.

- 12 Dividend received Rs.2,000.
- 14 Computer purchased Rs.35,000.
- 17 Cash received from Mani Rs.3,000.
- 24 Cash withdrawn from bank Rs.2,000.

(Answer : Cash balance Rs.35,000)

3. Prepare a single column cash book from the following particulars of Mr.Chandran.

2002

- Dec 1 Cash balance Rs.80,000.
- 7 Bought goods for cash Rs.25,000
- 9 Purchased goods on credit from Guru Rs.6,000.
- 12 Sold goods to Somu on credit Rs.8,000.
- 14 Paid Guru Rs.6,000.
- 17 Cash received from Somu Rs.8,000.
- 20 Paid trade expenses Rs.10,000.
- 21 Received cheque from Krishna Rs.10,000.
- 27 Commission received Rs.5,000.

(Answer : Cash balance Rs.62,000)

4. Enter the following transactions in the double column cash book of Mr.Srinivasan.

2002

- May 1 Cash in hand Rs.50,000.
- 3 Cash paid to Rajan Rs.6,000.
- Discount allowed by him Rs. 100.
- 6 Cash purchases Rs.10,000.

- 10 Received cash from Arun Rs.2,900 and allowed him discount Rs.100.
- 13 Cash sales Rs.15,000.
- 15 Electricity charges paid Rs.1,000.
- 18 Paid for miscellaneous expenses Rs.2,000.
- 20 Received cash from Murali Rs.3,450 Discount allowed Rs.50.

(Answer : Cash balance Rs.52,350)

5. Enter the following transactions in cash book with cash and discount column of Mr.Nandakumar.

2003

- Jan 1 Cash in hand Rs.60,000.
- 3 Bought goods from Premnath Rs.10,000.
- 4 Opened a current account with bank Rs.15,000.
- 7 Withdraw from bank Rs.5,000.
- 8 Sold goods to Kandan for Rs.10,000 credit on terms 2% cash discount if payable within two weeks.
- 10 Paid cash to Premnath, less 1% C.D.
- 14 Received a cheque from Arul Rs.3,400, allowed him discount Rs.100.
- 15 Kandan settled his account.

(Answer : Cash balance Rs.53,300)

6. Enter the following transaction in the Cash Book with Discount and Cash Columns of Mr.Guru.

2003

- Sep 1 Cash in hand Rs.19,000.
3 Sold goods for cash Rs.10,000.
4 Credit purchases from Venkat Rs.18,000.
6 Received from Mohan Rs.4,160
Discount allowed to him Rs.40.
8 Paid for Electricity charges Rs.850.
9 Cash deposited in bank Rs.20,000.
14 Paid cash to Venkat Rs.17,600 in full settlement.
24 Received cash from Vel Murugan Rs.4,800.
26 Salaries paid Rs.4,000.
28 Cash drawn from bank Rs.5,000.

[Answer : Cash balance Rs. 510]

7. Enter the following transactions in Cash Book with cash and bank columns: Balance the cash book.

2003

- May 1 Cash in hand Rs.30,000.
2 Paid into bank Rs.10,000.
3 Cash purchases Rs.2,500.
4 Loan obtained from Vasan Rs.10,000.
5 Cash deposited in bank Rs.7,500.
6 Cash sales Rs.2,500.

- 8 Rent paid by cheque Rs.2,000.
10 Cash withdrew for office use Rs.4,000.
14 Paid Nataraj Rs.300 by M.O.
15 Akilan directly paid into our bank account Rs.3,000.
25 Cash withdrawn from bank Rs. 5,000.

(Answer : Cash balance 31,200, Bank balance Rs. 9,500)

8. Record the following transactions in Sujatha's cash book with cash and bank columns.

2002

- Mar 1 Cash Balance Rs.45,000.
Bank Balance Rs.42,000.
3 Cash paid into bank Rs.5,000.
5 Purchases by cheque Rs.9,000.
8 Cash sales, deposited in the bank Rs.13,500.
10 Furniture purchased Rs.600.
14 Cheque received from Ramu Rs.2550.
17 Ramu's cheque deposited in the bank for collection.
18 Cash withdrawn for personal use by cheque Rs.750.
20 Cash withdrawn from bank Rs.3,000.
26 Ramu's cheque was returned by bank as dishonoured.

(Answer : Cash balance Rs.42,400; Bank Balance Rs.47,750)

9. Prepare Double Column Cash Book with cash and bank columns from the following:

2003

- Jan 1 Cash in hand Rs.22,000
Cash at bank Rs.5,000.
- 2 Sold goods for cash Rs.15,000.
- 4 Cash withdrawn from bank Rs.2,000.
- 5 Credit purchases from Deena Rs.15,000.
- 6 Cash deposited into bank Rs.5,000.
- 10 Paid wages by cheque Rs.10,000.
- 14 Cash received from sale of furniture Rs.10,000 and out of it paid into bank Rs.2,000.
- 18 Bank charges charged by the bank Rs.1,300.
- 20 Cheque issued to Deena Rs.15,000.
- 24 Received a cheque for Rs.1,000 from Pasubathy, deposited into the bank.
- 28 Deena, to whom we have issued a cheque for credit purchases has reported that our cheque is dishonoured.

(Answer : Cash balance Rs.42,000; Bank balance (Cr) Rs.300)

10. Prepare a cash book with cash, bank and discount columns from the transactions given below:

2002

- Jan 1 Cash Balance Rs.75,000.
Bank Balance Rs. 45,000.
- 3 Deposited into bank Rs.60,000.
- 4 Bought furniture and paid by cheque Rs.7,500

- 5 Paid for repair Rs.650.

- 6 Goods purchased and paid by cheque Rs.12,500.

- 10 Received a cheque for Rs.21,000 from Chandran and allowed him discount Rs.200.

- 13 Gave Muthu a cheque for Rs.11,500 and received a discount of Rs.150.

- 15 Sarathy directly paid into our bank account Rs.15,000.

- 20 Withdrew from bank for office use Rs.2,500.

- 28 Withdrew from bank for personal use Rs.500.

(Answer : Cash balance Rs.37,850; Bank balance Rs.85,500)

11. Enter the following transactions in Muralis cash book with column for discount, cash & bank.

2002

- April 1 Cash balance Rs.4,000.
Bank overdraft Rs.10,500.
- 4 Received Rs.2,000 from Manoj in cash. Allowed him discount of Rs.100.
- 7 Cash sales Rs.2,000.
- 10 Furniture purchased Rs.800 by cheque.
- 12 Paid rent by cheque Rs.1,500.
- 15 Paid Rs.2,500 to Karthikeyan half cash and half by cheque.
- 18 Cash sales Rs.15,000.
- 20 Paid packing charges Rs.500.

- 24 Paid Murugan Rs.4,000. Discount allow by him Rs.50.
 26 Paid into bank Rs.5,000.

(Answer : Cash balance Rs.12,250;
 Bank balance (Cr.) Rs. 9,050)

12. Enter the following transactions in the Three Column Cash Book of Mr.Albert.

2002

- May 1 Cash in hand Rs.30,000.
 Cash at bank Rs.2,000
- 3 Received cheque for goods sold to Arun and banked it Rs.1000.
- 5 Paid into bank Rs.4,000.
- 9 Paid cash to David from whom goods worth Rs.6,000 were purchased for credit on 1st May on term 2% cash discount within two weeks.
- 10 Paid to Robert by cheque Rs.2,400 in full settlement of his account of Rs.2,500.
- 12 Received cash from Nathan Rs.4,750. Discount allowed Rs.250.
- 19 Interest allowed by bank Rs.200.
- 20 Robert to whom we have issued a cheque has reported that our cheque is dishonoured.
- 22 Roshan got exchange a five hundred rupee note.
- 31 Paid into bank all cash in excess of Rs.5,000.

(Answer : Cash balance Rs.5,000. Bank balance Rs.27,070.
 Deposited into bank Rs.19,870)

13. Enter the following transactions in the Triple Column Cash Book of Mr.Raja Durai.

2002

- May 1 Cash balance Rs.6,000.
 Bank balance Rs.4,000.
- 2 Withdrew from Bank Rs.2,000.
- 3 Abdulla directly paid into our bank account Rs.3,000.
- 4 Cheque received from Daniel Rs.5,000 sent to bank.
- 7 Cheque received from Ramakrishnan for sales Rs.8,000.
- 8 Received cash from Subramaniyam Rs.2,800. Discount allowed Rs.200.
- 10 Ramakrishnan's cheque sent to bank for collection.
- 14 Paid to Balu by cheque Rs.13,900. Discount received Rs.100.
- 17 Withdrew cash for personal use Rs.1,500 and by cheque Rs.12,500.
- 27 Rent paid Rs.2,000.

(Answer : Cash balance Rs.7,300; Bank balance (cr) Rs.8,400)

CHAPTER - 6
SUBSIDIARY BOOKS I -
SPECIAL PURPOSE BOOKS

Learning Objectives

After studying this Chapter, you will be able to:

- *understand the Meaning, Kinds and Advantages of Subsidiary Books*
 - *know the Purpose, Format, Posting and Balancing of Purchases, Sales, Purchases Return and Sales Return Books.*
 - *understand Bill of exchange and the Different Terms involved in Bill transactions.*
 - *know the Meaning, Purpose and Posting of entries in Journal Proper.*
-

For a business having a large number of transactions it is practically impossible to write all transactions in one journal, because of the following limitations.

- i. Periodical details of some important business transactions cannot be known, from the journal easily, e.g., monthly sales, monthly purchases.

- ii. Such a system does not facilitate the installation of an internal check system since the journal can be handled by only one person.
- iii. The journal becomes bulky and voluminous.

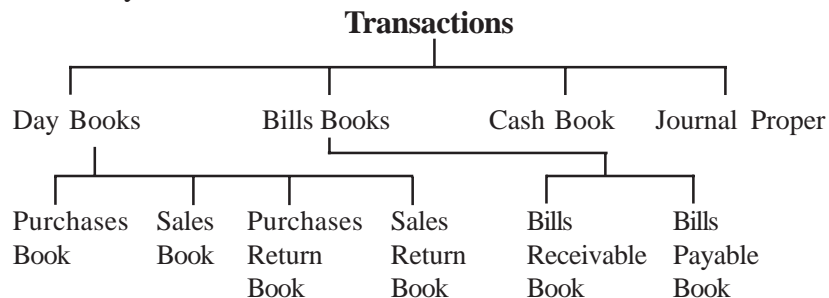
6.1 Need

Moreover, transactions can be classified and grouped conveniently according to their nature, as some transactions are usually of repetitive in nature. Generally, **transactions are of two types: Cash and Credit.** Cash transactions can be grouped in one category whereas credit transactions can be grouped in another category. Thus, in practice, the main journal is sub-divided in such a way that a separate book is used for each category or group of transactions which are repetitive and sufficiently large in number.

Each one of the subsidiary books is a special journal and a book of original or prime entry. Though the usual type of journal entries are not passed in these sub-divided journals, the double entry principles of accounting are strictly followed.

6.1.1 Kinds of Subsidiary Books

The number of subsidiary books may vary according to the requirements of each business. The following are the special purpose subsidiary books.



6.1.2 Purpose

- i. **Purchases Book** records only credit purchases of goods by the trader.
- ii. **Sales Book** is meant for entering only credit sales of goods by the trader.
- iii. **Purchases Return Book** records the goods returned by the trader to suppliers.
- iv. **Sales Return Book** deals with goods returned (out of previous sales) by the customers.
- v. **Bills Receivable Book** records the receipts of bills (Bills Receivable).
- vi. **Bills Payable Book** records the issue of bills (Bills Payable).
- vii. **Cash Book** is used for recording only cash transactions i.e., receipts and payments of cash.
- viii. **Journal Proper** is the journal which records the entries which cannot be entered in any of the above listed subsidiary books.

6.1.3 Advantages

The advantages of maintaining subsidiary books can be summarised as under :

- i. **Division of Labour** : The division of journal, resulting in division of work, ensures more clerks working independently in recording original entries in the subsidiary books.
- ii. **Efficiency** : The division of labour also helps the reduction in work load, saving in time and stationery. It also gives advantages of specialisation leading to efficiency.
- iii. **Prevents Errors and Frauds** : The accounting work can be divided in such a manner that the work of one person is automatically checked by another person. With the use of internal check, the possibility of occurrence of errors and frauds may be avoided.

iv. **Easy Reference** : It facilitates easy references to any particular item. For instance total credit sales for a month can be easily obtained from the Sales Book.

v. **Easy Postings** : Posting from the subsidiary books are made at convenient intervals depending upon the nature of the business.

6.2 Purchases Book

Purchases book also known as **Bought Day Book** is used to record all credit purchases of goods which are meant for resale in the business. **Cash purchases of goods, cash and credit purchases of assets are not entered in this book.**

Before discussing the Purchase Day Book, in detail we are to explain the most significant terms, Trade Discount and Cash Discount.

6.2.1 Trade Discount

Trade discount is an allowance or concession granted by the seller to the buyer, if the customer purchases goods above a certain quantity or above a certain amount. The amount of the purchase made, is always arrived at after deducting the trade discount, ie., only the net amount is considered. For example, if the list price (price prescribed by the manufacturers or wholesalers) of a commodity is Rs.100, and trade discount granted by manufacturer to the wholesaler is 20% then cost price of the commodity to the wholesaler is Rs.80. Trade discount is not recorded in the books. They are used for determining the net price.

6.2.2 Cash Discount

Sale of goods on credit is a common phenomenon in any business. When goods are sold on credit the customers enjoy a facility of making payment on some date in the future. In order to encourage them to make the payment before the expiry of the credit period a deduction is offered. The deduction so made is known as

cash discount. For example, If Ram purchases goods worth Rs.5,000 on 30 days credit then, as per the terms of contract, he is authorised to make payment 30 days after the date of purchase. If he is offered a cash discount of 2% on payment within 10 days and if he does so, he is entitled to deduct Rs.100 from the invoice price and pay Rs.4,900. In this case Rs.100 is cash discount. But if he does not choose to make payment within 10 days then he will not get any cash discount. In this case he will pay Rs.5,000 after 30 days.

6.2.3 Distinction between cash discount and trade discount

Trade discount differs from cash discount in the following respects.

S.No	Basis of Distinction	Trade Discount	Cash Discount
1.	Parties	It is a reduction granted by a manufacturer/supplier	It is a reduction granted by a wholesaler (creditor) to the buyer (debtor).
2.	Purpose	To help the retailer to earn some profit.	To encourage prompt payment within a stipulated period.
3.	Time when allowed	It is allowed on the purchase of goods.	It is allowed when payment is made within the specified period.
4.	Variation	It is usually given at the same rate which is applicable to all customers and will vary with the quantity purchased.	It varies from customer to customer depending on the time and period of payment.
5.	Disclosure	It is shown by way of deduction in the invoice itself.	It is not shown in the invoice.
6.	Ledger Account	A separate Account is not opened in the Ledger.	A separate Account is opened in the Ledger for discount received and discount allowed.

6.2.4 Format

Purchases Book

Date	Particulars	Inward Invoice No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

- i. Date Column – Represents the date on which the transaction took place.
- ii. Particulars Column – This column includes the name of the seller and the particulars of goods purchased.
- iii. Inward Invoice No. Column – Reveals the serial number of the inward invoice.
- iv. LF. Column – This column shows the page number of the suppliers account in the ledger accounts.
- v. Details Column – Reveals the amount of goods purchased and the amount of trade discount.
- vi. Total Column – This column represents the net price of the goods, i.e, the amount which is payable to the creditors after adjusting discount and expenses if any.
- vii. Remarks Column – Contains any extra information.

At the end of each month, the purchase book is totalled. The total shows the total amount of goods or materials purchased on credit.

6.2.5 Posting and Balancing

Once transactions are properly recorded in purchases journal, they are posted into the ledger. The procedure for posting is stated as under.

Step 1 → Entries will be posted to the credit side of the respective creditors (supplier) account in the ledger by writing “By Purchases A/c” in the particulars column.

Step 2 → Periodic total is posted to the debit of purchases account by writing “To sundries as per purchases book” in the particulars column.

Illustration 1: From the following transactions of Ram for July, 2003 prepare the Purchases Book and ledger accounts connected with this book.

2003

- July 5 Purchased on credit from Kannan & Co.
50 Iron boxes @ Rs. 500
10 Grinders @ Rs. 3,000
- 6 Purchased for cash from Siva & Bros.
25 Fans @ Rs. 1,250
- 10 Purchased from Balan & Sons on credit
20 Grinders @ Rs. 2,500
10 Mixie @ Rs. 3,000
- 20 Purchased, on credit, one Computer from Kumar for Rs. 35,000.

Solution :

**In the books of Ram
Purchases Book**

Purchases Book							
Date	Particulars	Inward Invoice No.	L.F.	Amount			
				Details Rs.	Total Rs.		
2003 July 5	Kannan & Co. 50 Iron boxes @ Rs. 500 10 Grinders @ Rs. 3,000 Goods purchased vide their bill No..... Dated.....			25,000 30,000	55,000		
10	Balan & Co. 20 Grinders @ Rs.2,500 10 Mixie @ Rs. 3,000 Goods purchased vide their bill No..... Dated.....			50,000 30,000			
	Total				1,35,000		
Ledger Accounts							
Dr. Purchases Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 July 31	To Sundries as per Purchases Book		1,35,000				
Dr. Kannan & Co. Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 July 5	By Purchases A/c		55,000
Dr. Balan & Co. Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 July 10	By Purchases A/c		80,000

Note : July 6th transaction is a cash transaction and July 20th transaction is purchase of an asset, so both will not be recorded in the purchases book.

6.3 Sales Book

The sales book is used to record all credit sales of goods dealt with by the trader in his business. **Cash sales, cash and credit sales of assets are not entered in this book.** The entries in the sales book are on the basis of the invoices issued to the customers with the net amount of sale. The format of sales book is shown below:-

6.3.1 Format

Sales Book						
Date	Particulars	Outward Invoice No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

- Date Column** – Represents the date on which the transaction took place.
- Particulars Column** – This column includes the name of purchasers and the particulars of goods sold.
- Outward Invoice No. Column** – Reveals the serial number of the outward invoice.
- L.F. Column** – The page number of the customers accounts in the Ledger is recorded.
- Details Column** – Contains the amount of goods sold and the amount of trade discount if any.

- vi. Total Column – This column shows the net amount which is receivable from the customers.
- vii. Remarks Column – Any other extra information will be recorded.

6.3.2 Posting and Balancing

At the end of the month the individual entries and the total of the sales book column are posted into the ledgers as under.

Step 1 → Individual amounts are daily posted to the debit of Customers' Accounts by writing "To Sales A/c" in the particulars column.

Step 2 → Grand total of the sales book is posted to the credit of sales account by writing "By Sundries as per Sales Book" in the particulars column.

Illustration 2 From the transactions given below prepare the Sales Book of Ram for July 2003.

2003			
July 5	Sold on credit to S.S. Traders		
	10 Chairs @ Rs. 250	} Less 10% Discount	
	10 Tables @ Rs. 850		
8	Sold to Raja for cash		
	15 Chairs @ Rs. 250		
20	Sold to Mohan & Co.		
	5 Almirah @ Rs. 2,200		
	10 Tables @ Rs. 850		
23	Sold on credit to Narayanan old computer for Rs. 5,000		
28	Sold to Kumaran for cash		
	15 Chairs @ Rs. 250		

Solution : In the books of Ram Sales Book

Date	Particulars	Outward Invoice No.	L.F.	Amount	
				Details Rs.	Total Rs.
2003 July 5	S.S. Traders & Co. 10 Chairs @ Rs. 250 10 Tables @ Rs. 850			2,500 8,500 11,000	
	Less : 10% Discount Sold to S.S. Traders, Invoice No..... dated			1,100	9,900
20	Mohan & Co. 5 Almirah @ Rs. 2,200 10 Tables @ Rs. 850 Sales as per Invoice No..... dated			11,000 8,500 19,500	
Total					29,400

Ledger Accounts							
Dr. Sales Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 July 31	By Sundries as per sales book		29,400
Dr. S.S. Trader's Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 July 5	To Sales A/c		9,900				
Dr. Mohan & Co.'s Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 July 20	To Sales A/c		19,500				

6.4 Returns Books

Returns Books are those books in which the goods returned to the suppliers and goods returned by the customers are recorded. The reasons for the return of goods are

- not according to the order placed.
- not upto the samples which were already shown.
- due to damage condition.
- due to difference in the prices charged.
- undue delay in the delivery of the goods.

6.4.1 Kinds of Returns Books

The following are the kinds of Returns Books;

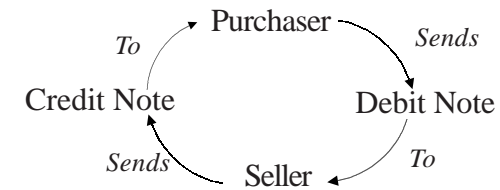
- Purchases Return** or **Returns outward book**
- Sales Return** or **Returns inward book**

When the business concern returns a part of the goods purchased on credit, the returns fall under the category **Purchases Return** or **Returns Outward**.

When the business concern receives a part of the goods sold on credit, the returns fall under the category of **Sales Return** or **Returns Inward**.

6.4.2 Purchases Return Book

This book is used to record all returns of goods by the business to the suppliers. The entries in the Purchases Returns Book are usually made on the basis of debit note issued to the suppliers or credit note received from the suppliers. We call it a debit note because the party's (supplier) account is debited with the amount written in this note. The same note is termed as credit note from the receiving party's point of view because he will credit the account of the party from whom he has received the note together with goods. The flow of notes is as follows.



6.4.2.1 Format

Purchases Return Book						
Date	Particulars	Debit Note No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

Note : The reason for goods returned is recorded in Remarks column.

Posting and Balancing

The individual entries and the periodic total of the Purchase Return Book are posted into the Ledger as under:

Step 1 → Individual amounts are daily posted to the debit of supplier accounts by writing “To Purchases Return A/c” in the particulars column.

Step 2 → Periodic total is posted to the credit of purchases return account by writing “By Sundries as per Purchases Return Book” in the particulars column.

Illustration 3

Enter the following transactions in the purchases return book of Hari and post them into the ledger.

- 2003 Jan 5 Returned goods to Anand 5 chairs @ Rs.200 each, not in accordance with order.
- 14 Returned goods to Chandran 4 chairs @ Rs.200 each and 10 tables @ Rs.350 each, due to inferior quality.

Solution :

**In the books of Hari
Purchases Return Book**

Date	Particulars	Debit Note No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	
2003 Jan 5	Anand 5 Chairs @ Rs.200				1,000	Not in accordance with order
14	Chandran 4 Chairs @ Rs.200 10 Tables @ Rs.350			800 3,500	4,300	Due to inferior quality
	Total				5,300	

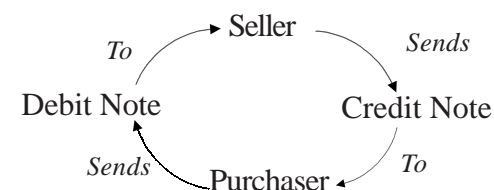
Ledger Accounts							
Dr. Purchases Return Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 Jan 31	By Sundries as per Purchases return book		5,300

Dr. Anand Account							
Cr.							
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 Jan 5	To Purchases Return A/c		1,000				

Dr. Chandran Account							
Cr.							
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 Jan 14	To Purchases Return A/c.		4,300				

6.4.3 Sales Return Book

This book is used to record all returns of goods to the business by the customers. The entries in the sales return book are usually on the basis of credit notes issued to the customers or debit notes issued by the customers.



6.4.3.1 Format

Sales Returns Book						
Date	Particulars	Credit Note No.	L.F.	Amount		Remarks
				Details Rs.	Total Rs.	

Note : Remarks column is meant to record the reason for return of goods.

Posting and Balancing

The individual entries and the periodic total of sales return book are posted into the ledger as under.

Step 1 → Individual amounts are daily posted to the credit of customers account by writing “By Sales return A/c” in the particulars column.

Step 2 → Periodic total is posted to the debit of sales return account by writing “To Sundries as per sales return book “ in the particulars column.

Illustration 4

Enter the following transactions in Returns Inward Book:

2003

April 6 Returned by Shankar 30 shirts each costing Rs.150, due to inferior quality.

8 Amar Tailors returned 10 Baba suits, each costing Rs.100, on account of being not in accordance with their order.

21 T.N. Stores returned 12 Salwar sets each costing Rs.200, being not in accordance with order.

Solution:

Sales Return Book

Date	Particulars	Credit Note No.	L.F.	Details Rs.	Amount Rs.	Remarks
2003 April 6	Shankar 30 shirts @ Rs.150			4,500		Due to inferior quality
8	Amar Tailors 10 Baba suits @ Rs. 100			1,000		Not in accordance with the order
21	T.N Stores 12 Salwar sets @ Rs.200			2,400		Not in accordance with the order
					7,900	
	Total				7,900	

Ledger Accounts

Dr. Sales Return Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 April 30	To Sundries as per Sales return book		7,900				

Dr. Shankar Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 April 6	By Sales Return A/c.		4,500

Dr. Amar Tailors Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 April 8	By Sales Return A/c.		1,000

Dr. T.N. Stores Account				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 April 21	By Sales Return A/c.		2,400

6.5 Bill of exchange

When one wants to increase the business transactions, credits may be allowed and the amounts are received after some time. If the amount involved in the credit transaction is large, the seller needs security and evidence over the dealings. Here the Bill of Exchange solves the problems of the seller.

6.5.1 Definition

According to the Negotiable Instruments Act, 1881, '**Bill of Exchange**' is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument'.

An analysis of the definition given above highlights the following important features of a bill of exchange.

- i. It is a written document.
- ii. It is an unconditional order.
- iii. It is an order to pay a certain sum of money.
- iv. It is signed by the drawer.
- v. It bears stamp or it is drafted on a stamp paper.
- vi. It is accepted by the acceptor.
- vii. The amount is paid to drawer or endorsee.

6.5.2 Format

Bill of Exchange

<div style="border: 1px solid black; width: 50px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">Stamp</div> <p>Rs. 10,000/-</p> <p>Three months after date pay to me or to my order the sum of Rupees Ten Thousand only for value received.</p> <p>To Thiru.Sundaram, 430, Mint Street, Chennai - 1.</p>	<p style="transform: rotate(-45deg);">Accepted Sundaram 4/6/2003</p> <p>328, Bazaar Street, Trichy - 4, 01.06.2003</p>	
--	--	--

6.5.3 Important terms

Explanation of some terms connected with bill of exchange is given below.

1. Drawing of a Bill

The seller (creditor) prepares the bill in the form presented above. The act of preparing the bill in its complete form with the signature is known as '**drawing**' a bill.

2. Parties

There are three parties to a bill of exchange as under.

- i. **Drawer:** The person who prepares the bill is called the drawer i.e., a creditor.
- ii. **Drawee:** The person who has to make the payment or who accepts to make the payment is called the drawee i.e., a debtor.
- iii. **Payee:** The person who receives the payment is payee. He may be a third party or the drawer himself.

In the above format drawer and payee is Damodaran. Sundaram is the drawee.

3. Acceptance

In a bill drawee gives his acceptance by writing the word '**accepted**' and also puts his signature and the date. Now the bill becomes a legal document enforceable in the court of law.

4. Due date and Days of grace

When a bill is drawn payable after a specified period the date on which the payment should be made is called '**Due Date**'. In the calculation of the due date three extra days are added to the specified period of the bill are known as '**Days of Grace**'. If the date of maturity falls on a holiday, the bill will be due for payment on the preceeding day.

Example :

Date of Bill	Period of Bill	Days of Grace	Due date
1st March	2 month	3	4th May
12th July	1 month	3	14th Aug. since 15th Aug. (being independence day) is a public holiday.
1st Oct.	30 days	3	3rd November

5. Endorsement

Endorsement means writing of one's signature on the face or back of a bill for the purpose of transferring the title of the bill to another person. The person who endorses is called the "**Endorser**". The person to whom a bill is endorsed is called the "**Endorsee**". The endorsee is entitled to collect the money.

6. Discounting

When the holder of a bill is in need of money before the due date of a bill he can convert it into cash by discounting the bill with his banker. This process is referred to as **discounting of bill**. The banker deducts a small amount of the bill which is called discount and pay the balance in cash immediately to the holder of the bill.

7. Retiring of Bill

An acceptor may make the payment of a bill before its due date and discharge his liability, it is called as **retirement of a bill**. Usually the holder of the bill allows a concession called rebate to the drawee for the unexpired period of the bill.

8. Renewal

When the acceptor of a bill knows in advance that he will not be able to meet the bill on its due date, he may approach the drawer

with a request for extension of time for payment. The drawer of the bill may agree to cancel the original bill and draw a new bill for the amount due with interest thereon. This is referred to as **renewal**.

9. Dishonour

Dishonour of the bill means the non-payment of bill, when it is presented for payment.

10. Noting and Protesting

If a bill is dishonoured, the drawer may approach the court, and file a suit against the drawee. In order to collect documentary evidence, the drawer may approach a lawyer and explain the fact of the dishonour of the bill. The lawyer will take the bill to the drawee and ask for the payment. If the drawee does not make the payment, the lawyer will note the statement of the drawee and get the statement signed by him. The lawyer will then put his signature. The statement noted by the lawyer will be the documentary evidence for the dishonour of the bill. Writing this statement by the lawyer is known as **noting** of the bill. The lawyer performing this work of noting the bill is called as the '**Notary Public**'. A notary public is an official appointed by the Government.

After recording a note of dishonour on the dishonoured bill, the Notary Public issues a certificate to this effect which is called **protest**. A protest is a certificate issued by the Notary Public attesting that the bill has been dishonoured.

6.6 Bills Books

When the number of bills received or issued is large journalising of all bill transactions will result in enormous waste of time. Hence, suitable registers like bills receivable book and bills payable book are maintained to record the receipt of bills receivable and issue of bills payable respectively. These books are also called Bills Journals / Books.

6.6.1 Bills Receivable Book

Bills receivable (B/R) book is used for the purpose of recording the details of bills receivable. The individual accounts of parties from whom bills are received will be credited with the amount in the bills receivable book. The periodic total is posted to the debit of bills receivable account in the ledger by writing “To sundries as per Bills Receivable Book”.

6.6.2 Bills Payable Book

Bills payable (B/P) book is used for the purpose of recording the details of bills payable. The individual accounts of the parties to whom the bills are issued will be debited with the corresponding amount in the bills payable book. The periodic total is posted to the credit of bills payable account in the ledger by writing “By Sundries as per Bills Payable Book”.

6.7 Journal Proper

Journal proper is used for making the original record of such transactions for which no special journal has been kept in the business. The usual entries that are put through this journal is explained below.

1. Opening Entries

Opening entries are used at the beginning of the financial year to open the books by recording the assets, liabilities and capital appearing in the balance sheet of the previous year.

Example:

Mr. Ramnath commenced business with the following items, make the opening entries in journal proper as on 1st January 2003.

Cash	Rs. 30,000
Stock	Rs. 15,000
Furniture	Rs. 3,000
Sundry creditors	Rs. 10,000

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Jan. 1	Cash A/c Dr. Stock A/c Dr. Furniture A/c Dr. To Sundry creditors A/c To Capital A/c (Commencement of business with assets & liabilities)		30,000 15,000 3,000	10,000 38,000

2. Closing Entries

Closing entries are recorded at the end of the accounting year for closing accounts relating to expenses and revenues. These accounts are closed by transferring the balances to the Trading, Profit and Loss Account.

Example : Salaries paid Rs.15,000. Give the closing entry as on Dec. 31, 2003.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Profit & Loss A/c Dr. To Salaries A/c (Closing entry for salaries paid)		15,000	15,000

3. Adjusting Entries

To arrive at a correct figure of profits and loss, certain accounts require some adjustments. Entries for making such adjustments are called as adjusting entries. These are needed at the time of preparing the final accounts.

Example : Provide depreciation on furniture Rs.1,00,000 @ 10% per annum. Give adjustment entry as on Dec. 31, 2003.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Depreciation A/c Dr. To Furniture A/c (Depreciation written off)		10,000	10,000

4. Transfer Entries

Transfer entries are passed in the journal proper for transferring an item entered in one account to another account.

Example : When the proprietor takes goods Rs.5,000 for personal use. Give transfer entry on Dec. 31, 2003.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Drawings A/c Dr. To Purchases A/c (Goods withdrawn for personal use)		5,000	5,000

5. Rectifying Entries

Rectifying entries are passed for rectifying errors which might have committed in the book of accounts.

Example : Purchase of furniture for Rs.10,000 was debited to Purchases Account. Pass rectifying entry on Dec. 31, 2003.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2003 Dec.31	Furniture A/c Dr. To Purchases A/c (Wrong debit to purchases account rectified)		10,000	10,000

6. Miscellaneous Entries or Entries of Casual Nature

These are entries of casual nature which do not occur so frequently. Such transactions include the following:

- Credit purchases and credit sale of assets which cannot be recorded through purchases or sales book
- Endorsement, renewal and dishonour of bill of exchange which cannot be recorded through bills book.
- Other adjustments like interest on capital and loan, bad debts, reserves etc.

QUESTIONS

I. Objective Type:

a) Fill in the blanks:

1. Sub division of the journals into various books for recording transactions of similar nature are called _____.
2. The total of the _____ book is posted to the debit of purchases account.
3. The person who prepares a bill is called the _____.
4. Days of grace are _____ in number.

[Answers : 1. subsidiary books, 2. purchases, 3. drawer, 4. three]

b) Choose the correct answer :

1. Purchase of machinery is recorded in
 - a) sales book
 - b) journal proper
 - c) purchases book
2. Purchases book is kept to record
 - a) all purchases
 - b) only cash purchases
 - c) only credit purchases
3. Credit sales are recorded in
 - a) sales book
 - b) cash book
 - c) journal proper
4. Goods returned by customers are recorded in
 - a) sales book
 - b) sales return book
 - c) purchases return book

5. On 1st January 2003, Chandran draws a bill on Sundar for 3 months, its due date is _____

- a) 31st March 2003
- b) 1st April 2003
- c) 4th April 2003

[Answers : 1. (b), 2. (c), 3. (a), 4. (b), 5. (c)]

II. Other Questions:

1. What are the various types of subsidiary books?
2. What are the advantages of subsidiary books?
3. What is cash discount?
4. What are the differences between Trade Discount and Cash Discount?
5. What is Purchases Book?
6. What is Sales Returns Book?
7. Define a bill of exchange. What are its features?
8. Write notes on parties involved in a bill of exchange.
9. What is Days of grace?
10. What is endorsement?
11. Write notes on retiring of a bill.
12. Write notes on renewal of a bill of exchange.
13. What is Journal Proper? For what purpose it is used?
14. Write notes on closing entries.
15. Write notes on rectifying entries.

III. Problems:

1. Enter the following transactions in the Purchase Book of M/s.Subhashree.

2003

- March 1 Purchased 100 Kg. of coffee seeds from Suresh @ Rs.40 per Kg.
- 5 Purchased 80 Kg. of tea dust from Hari @ Rs.20 per Kg.
- 12 Bought from Rekha Sugars, Trichy 1,200 Kg.of Sugar @ Rs.8 per Kg.
- 18 Bought from Perumal Sweets, Chennai, 40 tins of Sweets @ Rs.200 per tin.
20. Purchased from Govinda Biscuit Company, Chennai 20 tins of biscuits @ Rs.400 per tin.

[Answer : Purchases book total Rs.31,200]

2. From the following particulars prepare the sales book of Modern Furniture Mart

2003

- June 5 Sold on credit to Arvind & Co.
20 tables @ Rs.600 per table
20 chairs @ Rs.300 per chair
- 7 Cash sales to Anand & Co.,
10 tables @ Rs.300 per table
20 chairs @ Rs.150 per chair
- 10 Sold to Baskar & Co., on credit
10 almirahs @ Rs.3,000 per almirah
10 tables @ Rs.200 per table

- 15 Sold old typewriter for Rs.1,000 to Madan on credit
20. Sold to Gopinath on credit.
10 tables @ Rs.1,000 per table
2 revolving chairs @ Rs.1,200 per chair

[Answer : Sales book Rs.62,400]

3. Enter the following transactions in proper subsidiary books.

2003

- March 1 Purchased goods from Balaraman Rs.2000
- 2 Sold goods to Senthil Rs.1,000
- 3 Goods purchased from Durai Rs.1,000
- 5 Sold goods to Saravanan Rs.700
- 8 Sold goods to Senthil Rs.500
- 10 Purchased goods from Elangovan Rs.600
- 14 Purchased goods from Parthiban Rs.300
- 20 Sold goods to Sukumar Rs.600

[Answer : Purchase book Rs.3,900; Sales book Rs.2,800]

4. Record the following transactions in the proper subsidiary books of M/s.Ram & Co., and post them to the ledger.

2003

- April 1 Goods sold to Ramesh Rs.1,000
- 5 Sold goods to Kumar Rs.2,200
- 8 Sold goods to Shankar Rs.300
- 10 Goods returned by Kumar Rs.600
- 15 Credit Note sent to Shankar for Rs.200 being the invoice overcharged.

[Answer : Sales book Rs.3,500; Sales return book Rs.800]

5. Write the following transactions in proper subsidiary books of Mr.Rajasekaran.

2003

- May 10 Purchased goods from Raman Rs.15,000
 14 Returned goods to Raman Rs.500
 18 Purchased goods from Sekaran Rs.10,000
 20 Pradeep sold goods to us Rs.20,000
 24 Sent a debit note to Sekaran for goods damaged in transit Rs.1,000.

[Answer : Purchases book Rs.45,000;
 Purchases return book Rs.1,500]

6. Enter the following transactions in the proper subsidiary books of Mr.Somu

2003

- Nov. 1 Bought from Gopal 300 bags of wheat Rs.1,000 per bag less trade discount 10%
 3 Purchased from Madhavan 150 bags of rice Rs.900 per bag less trade discount 10%
 5 Returned to Gopal 10 bags of wheat which were purchased on 1.11.03.
 7 Sold to Shiva 50 bags of rice Rs.1,200 per bag less Trade Discount 5%.
 12 Sold to Sharma 25 bags of Wheat Rs.1,300 per bag less Trade Discount 10%.
 14 Returned 15 bags of rice to Madhavan.
 15 Shiva returned 5 bags of rice.

- 17 Bought from Rajan 200 bags of wheat Rs.950 per bag

- 24 50 bags of wheat returned to Rajan

[Answer: Purchases book Rs.5,81,500; Sales book Rs.86,250;
 Purchases return book Rs.68,650; Sales return book Rs.5,700]

7. Enter the following transactions in the appropriate Special Journal of M/s. Sita & Co.

2002

- Oct 2 Bought goods from Satish Rs.2,400 as per invoice No.63.
 4 Sold to Sivagami goods Rs.1,600 as per invoice No.71.
 7 Returned to Satish goods of Rs.250 as per debit note No.4
 8 Sivagami returned goods Rs.150 as per credit note No.8
 12 Sold to Vijaya goods of Rs.950 as per invoice No.72
 14 Purchased from Velan goods worth Rs.1,100
 18 Returned to Sampath goods of Rs.150 as per debit note No.5
 22 Vijaya returned goods of Rs.240 Credit Note No.9

[Answer: Purchases book Rs.3,500; Sales book Rs.2,550;
 Purchases return book Rs.400; Sales return book Rs.390]

CHAPTER - 7

SUBSIDIARY BOOKS II - CASH BOOK

Learning Objectives

After learning this chapter you will be able to:

- *understand the Need and Meaning of the various Kinds of Cash Book.*
- *prepare the various Kinds of Cash Books.*

In every business house there are cash transactions as well as credit transactions. All credit transactions will become cash transactions when payments are made to creditors or cash received from debtors. Since, cash transactions will be numerous, it is better to keep a separate book to record only the cash transactions.

7.1 Features

A **cash book** is a special journal which is used to record all cash receipts and cash payments. The cash book is a book of original entry or prime entry since transactions are recorded for the first time from the source documents. The cash book is a ledger in the sense that it is designed in the form of a cash account and records cash receipts on the debit side and cash payments on the credit side. **Thus, the cash book is both a journal and a ledger. Cash Book will always show debit**

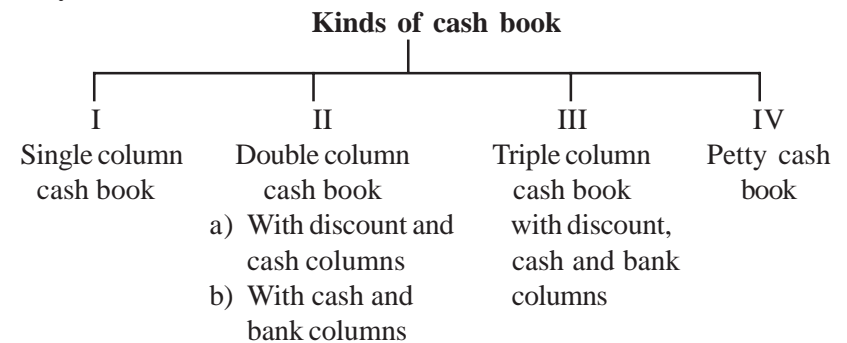
balance, as cash payments can never exceed cash available. In short, cash book is a special journal which is used for recording all cash receipts and cash payments.

7.2 Advantages

1. **Saves time and labour:** When cash transactions are recorded in the journal a lot of time and labour will be involved. To avoid this all cash transactions are straight away recorded in the cash book which is in the form of a ledger.
2. **To know cash and bank balance:** It helps the proprietor to know the cash and bank balance at any point of time.
3. **Mistakes and frauds can be prevented:** Regular balancing of cash book reveals the balance of cash in hand. In case the cash book is maintained by business concern, it can avoid frauds. Discrepancies if any, can be identified and rectified.
4. **Effective cash management:** Cash book provides all information regarding total receipts and payments of the business concern at a particular period. So that, effective policy of cash management can be formulated.

7.3 Kinds of Cash Book

The various kinds of cash book from the point of view of uses may be as follow:



7.3.1 Single Column Cash Book

Single column cash book (simple cash book) has one amount column in each side. All cash receipts are recorded on the debit side and all cash payments on the credit side. In fact, this book is nothing but a Cash Account. Hence, there is no need to open cash account in the ledger. The format of a single column cash book is given below.

Format

Debit Side					Single Column Cash Book of		Credit Side		
Date	Particulars	R. N.	L. F.	Amount Rs.	Date	Particulars	V. N.	L. F.	Amount Rs.

Explanation :

- Date :** This column appears in both the debit and credit side. It records the date of receiving cash at debit side and paying cash at credit side.
- Particulars :** This column is used at both debit and credit side. It records the names of parties (personal account), heads (nominal account) and items (real account) from whom payment has been received and to whom payment has been made.
- Receipt Number (R.N):** This refers to the serial number of the cash receipt.

- Voucher Number (V.N) :** This refers to the serial number of the voucher for which payment is made.
- Ledger Folio (L.F):** This column is used in both the debit and credit side of cash book. The ledger page (folio) of every account in the cash book is recorded against it.
- Amount :** This column appears in both sides of the cash book. The actual amount of cash receipt is recorded on the debit side. The actual payments are entered on the credit side.

Balancing :

The cash book is balanced like any other account. The total of the receipt (debit side) column will always be greater than the total of the payment column (credit side). The difference will be written on the credit side as “By Balance c/d”. In the beginning of the next period, to show the cash balance in hand, the balance amount is recorded in the debit side as “To balance b/d”.

Illustration 1

Enter the following transactions in a single column cash book of Mr.Kumaran.

2004 Jan	1	Started business with cash	...	Rs.	1,000
	3	Purchased goods for cash	...	Rs.	500
	4	Sold goods	...	Rs.	1,700
	5	Cash received from Siva	...	Rs.	200
	12	Paid Balan	...	Rs.	150
	14	Bought furniture	...	Rs.	200
	15	Purchased goods from Kala on credit	...	Rs.	2,000
	20	Paid electric charges	...	Rs.	225
	24	Paid salaries	...	Rs.	250
	28	Received commission	...	Rs.	75

Solution:**Cash Book
of Mr. Kumaran**

Dr.					Cr.				
Date	Particulars	R. N.	L. F.	Amount Rs.	Date	Particulars	V. N.	L. F.	Amount Rs.
2004					2004				
Jan 1	To Capital A/c			1,000	Jan 3	By Purchases			
4	To Sales A/c			1,700		A/c			500
5	To Siva A/c			200	12	„ Balan A/c			150
28	To Commission A/c			75	14	„ Furniture A/c			200
					20	„ Electric charges A/c			225
					24	„ Salaries A/c			250
					31	„ Balance c/d			1,650
				2,975					2,975
2004									
Feb 1	To Balance b/d			1,650					

Note : The transaction dated January 15th will not be recorded in the cash book as it is a credit transaction.

7.3.2 Double Column Cash Book

The most common double column cash books are

- Cash book with discount and cash columns
- Cash book with cash and bank columns.

i. Cash Book with discount and cash columns

On either side of the single column cash book, another column is added to record discount allowed and discount received. The format is given below.

Format**Double Column Cash Book**
(Cash book with Discount and Cash Column)

Debit						Credit					
Date	Parti- culars	R. N.	L. F.	Dis- count Allowed Rs.	Amount Rs.	Date	Parti- -culars	V. N.	L. F.	Dis- count Received Rs.	Amount Rs.

It should be noted that in the double column cash book, cash column is balanced like any other ledger account. But the discount column on each side is merely totalled. The total of the discount column on the debit side shows the total discount allowed to customers and is debited to Discount Allowed Account. The total of the discount column on the credit side shows total discount received and is credited to Discount Received Account.

Illustration 2: Prepare a Double Column Cash Book from the following transactions of Mr.Gopalan:

	Rs.
2004	
Jan. 1 Cash in hand	4,000
6 Cash Purchases	2,000
10 Wages paid	40
11 Cash Sales	6,000
12 Cash received from Suresh and allowed him discount	1,980 20
19 Cash paid to Meena and discount received	2,470 30
27 Cash paid to Radha	400
28 Purchased goods for cash	2,070

Solution : **Double Column Cash Book of Mr. Gopalan**
(Cash book with Discount Column)

Dr.						Cr.					
Date	Particulars	R.N	L.F	Discount Allowed	Amount Rs.	Date	Particulars	V.N	L.F	Discount Received	Amount Rs.
2004											
Jan 1	To Balance b/d				4,000	2004	By Purchases A/c				2,000
11	To Sales A/c				6,000	Jan 6	By Wages A/c				40
12	To Suresh A/c			20	1,980	10	By Meena A/c			30	2,470
						19	By Radha A/c				400
						27	By Purchases A/c				2,070
						28	By Balance c/d				5,000
						31					
				20	11,980					30	11,980
Feb 1	To Balance b/d				5,000						

ii. Cash Book with Cash and Bank Columns

When bank transactions are more in number, it is advisable to open a cash book by providing a separate column on either side of the cash book to record the bank transactions therein.

In such case, it is not necessary to open a separate Bank Account in the Ledger because the two columns in the cash book serve the purpose of Cash Account and Bank Account respectively. It is a combination of Cash Account and Bank Account. The format of this cash book is given below.

Double Column Cash Book											
Debit Side						Credit Side					
(Cash book with Cash and Bank Columns)											
Date	Parti- culars	R. N.	L. F.	Cash Rs.	Bank Rs.	Date	Parti- culars	V. N.	L. F.	Cash Rs.	Bank Rs.

There are two amount columns on debit side one for cash receipts and the other for bank deposits (i.e., payment made into Bank Account). Similarly there are two amount columns on the credit side, one for payments in cash and the other for payments by cheques respectively.

Contra Entry

When an entry affect both cash and bank accounts it is called a **contra entry**. Contra in Latin means *opposite*. In contra entries both the debit and credit aspects of a transaction are recorded in the cash book itself.

Example 1: Cash paid into bank

Bank A/c	Dr.	x x x	
To Cash A/c			x x x
(Cash paid into bank)			

This is a contra entry. As the cash book with cash and bank columns is a combined cash and bank account, both the aspects of the transaction will be entered in the same book. In the debit side 'To Cash A/c' will be entered in the particulars column and the amount will be entered in the bank column. In the credit side 'By Bank A/c' will be entered in the particulars column and the amount will be entered in the cash column.

Such contra entries are denoted by writing the letter 'C' in the L.F. column, on both sides of the cash book. They indicate that no posting in respect thereof is necessary in the ledger.

Example 2: Cash withdrawn from bank for office use.

Cash A/c	Dr.	x x x	
To Bank A/c			x x x
(Cash withdrawn for office use)			

This is also a contra entry. In the debit side 'To Bank A/c' will be entered in the particulars column and the amount will be entered in the cash column. In the credit side 'By Cash A/c' will be entered in the particulars column and the amount will be entered in the bank column.

Such contra entries are denoted by writing the letter 'C' in the L.F. column, on both sides of the cash book. They indicate that no posting in respect thereof is necessary in the ledger.

Illustration 3

Enter the following transactions in the double column cash book of Mr.Rajesh and balance it.

2003

- Aug. 1 Opening Balance : Cash in Hand Rs.4,250
Cash at Bank Rs.13,750
- 2 Paid to petty cashier Rs.2,500
- 2 Cash sales Rs.1,750
- 3 Paid to Arun by cheque Rs.3,750
- 3 Received a cheque from Mr.Ram Babu Rs.4,500 paid into bank.
- 5 Received cheque from Mr.Jayaraman Rs.6,000 paid into bank
- 8 Cash purchases Rs.2,500
- 8 Paid rent by cheque Rs. 2,500
- 9 Cash withdrawn from bank for office use Rs.2,500
- 10 Cash sales Rs.3,750
- 14 Stationery purchased Rs.1,000
- 20 Cash sales Rs.6750
- 21 Paid into bank Rs.10,000
- 23 Withdrew cash for personal use Rs.1,000
- 25 Salaries paid by cheque Rs.9000.

Solution: **Double Column Cash Book of Mr.Rajesh**
(Cash book with Cash and Bank Column)

Dr.

Cr.

Date	Particulars	R. N.	L.F.	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Cash Rs.	Bank Rs.
2003						2003					
Aug 1	To Balance b/d			4,250	13,750	Aug 2	By Petty Cash A/c			2,500	
2	" Sales A/c			1,750		3	" Arun's A/c				3,750
3	" Ram Babu's A/c				4500	8	" Purchases A/c			2,500	
5	" Jayaramans A/c				6,000	8	" Rent A/c				2,500
9	" Bank A/c		C	2,500		9	" Cash A/c		C		2,500
10	" Sales A/c			3,750		14	" Stationery A/c			1,000	
20	" Sales A/c			6,750		21	" Bank A/c		C	10,000	
21	" Cash A/c		C		10,000	23	" Drawings A/c				1,000
						25	" Salary A/c				9,000
						31	" Balance c/d			3,000	15,500
Sep 1	To Balance b/d			19,000	34,250					19,000	34,250
				3,000	15,500						

Points to be remembered while preparing cash book:

S. No.	Transaction	Debit/Credit side of cash book	The column in which the amount to be entered
1.	Cash/ M.O./P.O. - received	Debit	Cash
2.	Cash paid	Credit	Cash
3.	Discount allowed	Debit	Discount allowed
4.	Discount received	Credit	Discount received
5.	Cash deposited in the bank	Debit (C) Credit (C)	Bank Cash
6.	Cash withdrawn for office use	Debit (C) Credit (C)	Cash Bank
7.	Cheque received	Debit	Cash
8.	Cheque deposited into bank	Debit (C) Credit (C)	Bank Cash
9.	Cheque received and deposited into bank for collection immediately	Debit	Bank
10.	Cheque issued	Credit	Bank
11.	Customer directly paid into bank	Debit	Bank
12.	Cheque deposited and dishonoured	Credit	Bank
13.	Cheque issued and dishonoured	Debit	Bank

Illustration 4

Compile three column cash book of Mr.Sundar from the following transactions:

2002

- Aug 1 Sundar started business with cash Rs.2,00,000
- 2 Deposited into Bank Rs.50,000.
- 4 Cash purchases Rs.5,000.
- 5 Purchases by cheque Rs.6,000.
- 6 Goods sold to Nathan on credit Rs. 5,000.
- 8 Received cheque from Mano Rs.490, Discount allowed Rs.10.
- 10 Paid carriage Rs.1,000.
- 12 Withdrew from Bank for office use Rs.10,000.
- 15 Paid to Sundari Rs.4,960, Discount allowed by her Rs.40.
- 20 Received a cheque for Rs.4950 from Nathan in full settlement of his account, which is deposited into Bank.

Solution:

Triple Column Cash Book of Mr.Sundar

Dr.						Cr.							
Date	Particulars	R. N.	L.F.	Dis. Allocated	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Dis. Received	Cash Rs.	Bank Rs.
2002							2002						
Aug 1	To Capital A/c				2,00,000		Aug 2	By Bank A/c		C		50,000	
2	„ Cash A/c					50,000	4	„ Purchases A/c				5,000	6,000
8	„ Mano's A/c			10	490		5	„ Purchases A/c					
12	„ Bank A/c		C		10,000		10	„ Carriage A/c				1,000	
20	„ Nathan's A/c			50		4,950	12	„ Cash A/c		C		4,960	10,000
							15	„ Sundari's A/c			40		
							31	„ Balance c/d				1,49,530	38,950
				60	2,10,490	54,950					40	2,10,490	54,950
					1,49,530	38,950							
Sen 1	To Balance b/d												

Note : Transaction dated 6th August will not appear in the cash book as it is a credit transaction.

Enter the following transactions in three column cash book of Mr.Muthu and balance the same.

Aug 1	Cash in hand Rs.75,000 Cash at bank Rs.40,000
4	Paid into bank Rs.20,000.
6	Purchased machinery by cheque Rs.10,000.
8	Received from Mohan Rs.2,560 Discount allowed Rs. 40.
10	Paid to Somu by cheque Rs.3,970 in full settlement of his account Rs.4,000.
11	Withdrew cash from Bank for personal use Rs.5,000.
15	Received cheque from Balan Rs.4,900. Allowed him discount Rs.100.
19	Balan's cheque deposited into Bank
24	Anandan our customer has paid directly into our bank account Rs.10,000.
27	Rent paid by cheque Rs.3,000.

Triple Column Cash Book of Mr. Muthu

Dr.				Cr.							
Date	Particulars	R. L.F. N.	Dis. Allo-wed Rs.	Cash Rs.	Bank Rs.	Date	Particulars	V. L.F. N.	Dis. Recei-ved Rs.	Cash Rs.	Bank Rs.
2003						2003					
Aug 1	To Balance b/d			75,000	40,000	Aug 4	By Bank A/c	C		20,000	
4	„ Cash A/c	C			20,000	6	„ Machinery A/c				10,000
8	„ Mohan's A/c		40	2,560		10	„ Somu's A/c		30		3,970
15	„ Balan's A/c		100	4,900		11	„ Drawings A/c				5,000
19	„ Cash A/c	C			4,900	19	„ Bank A/c	C		4,900	
24	„ Anandan's A/c				10,000	27	„ Rent A/c				3,000
						31	„ Balance c/d			57,560	52,930
Sep 1	To Balance b/d		140	82,460	74,900				30	82,460	74,900
				57,560	52,930						

Illustration 6

Prepare three column cash book of Mrs.Eswari from the following transactions and balance the cash book on 30th June 2003.

2003

- June 1 Cash in hand Rs.50,000
Bank overdraft Rs.15,000
- 3 Paid into bank Rs.25,000
- 5 Parthiban settled his account for Rs.3,750 by giving a cheque for Rs.3,690.
- 8 Parthiban's cheque sent to bank for collection.
- 10 Cash withdrawn from bank Rs.8,000.
- 14 Parthiban's cheque returned dishonoured
- 15 Received from Ramesh a currency note for Rs.5,000 and gave him a change for it.
- 18 Paid rent Rs.500.
- 20 Bank charges as per pass book Rs.150.
- 30 Deposited into Bank all cash in excess of Rs.5,000.

Solution:

Triple Column Cash Book of Mrs.Eswari

Dr.						Cr.					
Date	Particulars	R. N.	L.F.	Dis. Allo -wed	Cash Rs.	Bank Rs.	Date	Cash Rs.	Bank Rs.	Dis. Recei -ved	L.F.
2003											
June 1	To Balance b/d				50,000		June 1		15,000		
3	„ Cash A/c		C			25,000	3	25,000			C
5	„ Parthiban's A/c			60	3,690		8	3,690			C
8	„ Cash A/c		C			3,690	10		8,000		C
10	„ Bank A/c		C				14		3,690		
30	„ Cash A/c		C			27,500	18	500			
							20		150		
							30	27,500			C
							30	5,000	29,350		
							30	61,690	56,190		
July 1	To Balance b/d				5,000	29,350					

Note : Transaction dated 15th June will not be recorded in the cash book.

Enter the following transactions in three column cash book of Mrs. Anu Radha.

- Sep 1 Cash in hand Rs.50,000
Bank balance Rs.15,000
- 2 Sold goods to Udayakumar for Rs.15,000, cash discount allowed 1% and received cash for the balance.
- 3 Tax paid Rs.1,000.
- 7 Bought goods from Munuswamy for Rs.2,400, cash discount received 2% and paid cheque for the balance.
- 9 Received repayment of loan from Elangovan Rs.10,000.
- 12 Paid into Bank Rs.5,000.
- 14 Paid Rs.1,400 to Aravind & Co., half by cash and half by cheque.
- 16 Dividend collected by the Bank as per pass book Rs.2,000.
- 18 Sold goods for cash and deposited into the bank on the same day Rs.5,000.
- 20 Sent to Bharathi by money order Rs.460, the money order commission being Rs.20.

Triple Column Cash Book of Mrs. Anu Radha

Dr.							Cr.						
Date	Particulars	R. N.	L.F.	Dis. Allow.	Cash Rs.	Bank Rs.	Date	Particulars	V. N.	L.F.	Dis. Received	Cash Rs.	Bank Rs.
2002							2002						
Sept 1	To Balance b/d				50,000	15,000	Sept 3	By Tax A/c				1,000	2,352
2	„ Sales A/c			150	14,850		7	„ Purchases A/c			48		
9	„ Elangovan's Loan				10,000		12	„ Bank A/c		C		5,000	
12	„ Cash A/c					5,000	14	„ Aravind & Co. A/c				700	700
16	„ Dividend A/c					2,000	20	„ Bharathi A/c				460	
18	„ Sales A/c					5,000	20	„ Money Order Commission A/c				20	
							30	„ Balance c/d A/c				67,670	23,948
				150	74,850	27,000					48	74,850	27,000
Oct 1	To Balance b/d				67,670	23,948							

Illustration 8

From the following information show how Mr.Venu Gopal's triple column cash book would appear for the week ended 7th October 2002 and close the cash book for the day.

2002

- Oct 1 Cash in hand Rs.30,000
Bank balance Rs.1,000
- 2 Sivan, our customer has paid directly into our bank account Rs.5,000.
- 3 Paid rent by cheque Rs.500.
- 4 Cheque issued in favour of Bharathi for purchase of furniture Rs.2,400.
- 5 Received from Vinoth Rs.2,225
Discount allowed Rs.75.
- 6 Paid into bank Rs.4,000
- 7 Cash withdrawn from bank Rs.2,000.
Bharathi, to whom we have issued a cheque of Rs.2,400 has reported that our cheque is dishonoured.

Solution:

Triple Column Cash Book of Mr.Venu Gopal

Dr.		Cr.									
Date	Particulars	R. L.F. N.	Dis. L.F. N.	Cash Rs.	Bank Rs.	Date	Particulars	V. L.F. N.	Dis. Received	Cash Rs.	Bank Rs.
2002						2002					
Oct 1	To Balance b/d			30,000	1,000	Oct 3	By Rent A/c				500
2	„ Sivan's A/c				5,000	4	„ Bharathi A/c				2,400
5	„ Vinoth's A/c		75	2,225		6	„ Bank A/c	C		4,000	
6	„ Cash A/c				4,000	7	„ Cash A/c	C			2,000
7	„ Bank A/c			2,000							
7	„ Bharathi A/c				2,400						
						7	„ Balance c/d			30,225	7,500
			75	34,225	12,400					34,225	12,400
Oct 8	To Balance b/d			30,225	7,500						

7.3.4 Postings from cash book to concerned ledger accounts

1. Opening (Cash and Bank) balance appearing in the cash book is not posted to any account in the ledger.
2. Contra entries are not posted to any account.
3. Each item of discount allowed appearing on the debit side of the cash book will be posted to the credit of respective personal account. Total of discount allowed column should be posted to the debit side of discount allowed account with the words "To Sundry Accounts".
4. Each item of discount received appearing on the credit side of the cash book will be posted to the debit of respective personal account. Total of discount received column should be posted to the credit of discount received account with the words "By Sundry Accounts".
5. The other transactions recorded on the debit side of the cash book are posted to the credit of the respective accounts in the ledger.
6. The other transaction recorded on the credit side of the cash book are posted to the debit of the respective accounts in the ledger.

QUESTIONS

I. Objective Type:

a) Fill in the Blanks:

1. Discount allowed column appears in _____ side of the cash book.
2. In the triple column cash book, when a cheque is received the amount is entered in the _____ column.
3. Discount received column appears in _____ side of the cash book.
4. A cheque received and paid into the bank on the same day is recorded in the _____ column of the three column cash book.
5. When a cheque received from a customer is dishonoured, his account is _____.
6. Cash Book is one of the _____ books.

[Answers : 1. debit, 2. cash, 3. credit, 4. bank, 5. debited, 6. subsidiary]

b) Choose the correct answer:

1. The cash book records
 - a) all cash payments
 - b) all cash receipts
 - c) all cash receipts & payments
2. When goods are purchased for cash, the entry will be recorded in the
 - a) cash book
 - b) purchases book
 - c) journal

9. What are the rules for making entries in the double column cash book with cash and bank column?
10. How are postings made from the cash book?

III. Problems:

- 2002

(Answer : Cash balance Rs. 18,000)

2. Enter the following transactions in the single column cash book of Mrs. Lalitha.

2002

1. What is cash book? What are its features?
2. What are the advantages of cash book?
3. What are the various kinds of cash book?
4. What is single column cash book?
5. What is double column cash book?
6. What is triple column cash book?
7. Write notes on 'contra entry'.
8. Give the specimen of 'triple column cash book'.

- 12 Dividend received Rs.2,000.
- 14 Computer purchased Rs.35,000.
- 17 Cash received from Mani Rs.3,000.
- 24 Cash withdrawn from bank Rs.2,000.

(Answer : Cash balance Rs.35,000)

3. Prepare a single column cash book from the following particulars of Mr.Chandran.

2002

- Dec 1 Cash balance Rs.80,000.
- 7 Bought goods for cash Rs.25,000
- 9 Purchased goods on credit from Guru Rs.6,000.
- 12 Sold goods to Somu on credit Rs.8,000.
- 14 Paid Guru Rs.6,000.
- 17 Cash received from Somu Rs.8,000.
- 20 Paid trade expenses Rs.10,000.
- 21 Received cheque from Krishna Rs.10,000.
- 27 Commission received Rs.5,000.

(Answer : Cash balance Rs.62,000)

4. Enter the following transactions in the double column cash book of Mr.Srinivasan.

2002

- May 1 Cash in hand Rs.50,000.
- 3 Cash paid to Rajan Rs.6,000.
- Discount allowed by him Rs. 100.
- 6 Cash purchases Rs.10,000.

- 10 Received cash from Arun Rs.2,900 and allowed him discount Rs.100.
- 13 Cash sales Rs.15,000.
- 15 Electricity charges paid Rs.1,000.
- 18 Paid for miscellaneous expenses Rs.2,000.
- 20 Received cash from Murali Rs.3,450 Discount allowed Rs.50.

(Answer : Cash balance Rs.52,350)

5. Enter the following transactions in cash book with cash and discount column of Mr.Nandakumar.

2003

- Jan 1 Cash in hand Rs.60,000.
- 3 Bought goods from Premnath Rs.10,000.
- 4 Opened a current account with bank Rs.15,000.
- 7 Withdraw from bank Rs.5,000.
- 8 Sold goods to Kandan for Rs.10,000 credit on terms 2% cash discount if payable within two weeks.
- 10 Paid cash to Premnath, less 1% C.D.
- 14 Received a cheque from Arul Rs.3,400, allowed him discount Rs.100.
- 15 Kandan settled his account.

(Answer : Cash balance Rs.53,300)

6. Enter the following transaction in the Cash Book with Discount and Cash Columns of Mr.Guru.

2003

- Sep 1 Cash in hand Rs.19,000.
3 Sold goods for cash Rs.10,000.
4 Credit purchases from Venkat Rs.18,000.
6 Received from Mohan Rs.4,160
Discount allowed to him Rs.40.
8 Paid for Electricity charges Rs.850.
9 Cash deposited in bank Rs.20,000.
14 Paid cash to Venkat Rs.17,600 in full settlement.
24 Received cash from Vel Murugan Rs.4,800.
26 Salaries paid Rs.4,000.
28 Cash drawn from bank Rs.5,000.

[Answer : Cash balance Rs. 510]

7. Enter the following transactions in Cash Book with cash and bank columns: Balance the cash book.

2003

- May 1 Cash in hand Rs.30,000.
2 Paid into bank Rs.10,000.
3 Cash purchases Rs.2,500.
4 Loan obtained from Vasan Rs.10,000.
5 Cash deposited in bank Rs.7,500.
6 Cash sales Rs.2,500.

- 8 Rent paid by cheque Rs.2,000.
10 Cash withdrew for office use Rs.4,000.
14 Paid Nataraj Rs.300 by M.O.
15 Akilan directly paid into our bank account Rs.3,000.
25 Cash withdrawn from bank Rs. 5,000.

(Answer : Cash balance 31,200, Bank balance Rs. 9,500)

8. Record the following transactions in Sujatha's cash book with cash and bank columns.

2002

- Mar 1 Cash Balance Rs.45,000.
Bank Balance Rs.42,000.
3 Cash paid into bank Rs.5,000.
5 Purchases by cheque Rs.9,000.
8 Cash sales, deposited in the bank Rs.13,500.
10 Furniture purchased Rs.600.
14 Cheque received from Ramu Rs.2550.
17 Ramu's cheque deposited in the bank for collection.
18 Cash withdrawn for personal use by cheque Rs.750.
20 Cash withdrawn from bank Rs.3,000.
26 Ramu's cheque was returned by bank as dishonoured.

(Answer : Cash balance Rs.42,400; Bank Balance Rs.47,750)

9. Prepare Double Column Cash Book with cash and bank columns from the following:

2003

- Jan 1 Cash in hand Rs.22,000
Cash at bank Rs.5,000.
- 2 Sold goods for cash Rs.15,000.
- 4 Cash withdrawn from bank Rs.2,000.
- 5 Credit purchases from Deena Rs.15,000.
- 6 Cash deposited into bank Rs.5,000.
- 10 Paid wages by cheque Rs.10,000.
- 14 Cash received from sale of furniture Rs.10,000 and out of it paid into bank Rs.2,000.
- 18 Bank charges charged by the bank Rs.1,300.
- 20 Cheque issued to Deena Rs.15,000.
- 24 Received a cheque for Rs.1,000 from Pasubathy, deposited into the bank.
- 28 Deena, to whom we have issued a cheque for credit purchases has reported that our cheque is dishonoured.

(Answer : Cash balance Rs.42,000; Bank balance (Cr) Rs.300)

10. Prepare a cash book with cash, bank and discount columns from the transactions given below:

2002

- Jan 1 Cash Balance Rs.75,000.
Bank Balance Rs. 45,000.
- 3 Deposited into bank Rs.60,000.
- 4 Bought furniture and paid by cheque Rs.7,500

- 5 Paid for repair Rs.650.

- 6 Goods purchased and paid by cheque Rs.12,500.

- 10 Received a cheque for Rs.21,000 from Chandran and allowed him discount Rs.200.

- 13 Gave Muthu a cheque for Rs.11,500 and received a discount of Rs.150.

- 15 Sarathy directly paid into our bank account Rs.15,000.

- 20 Withdrew from bank for office use Rs.2,500.

- 28 Withdrew from bank for personal use Rs.500.

(Answer : Cash balance Rs.37,850; Bank balance Rs.85,500)

11. Enter the following transactions in Muralis cash book with column for discount, cash & bank.

2002

- April 1 Cash balance Rs.4,000.
Bank overdraft Rs.10,500.
- 4 Received Rs.2,000 from Manoj in cash. Allowed him discount of Rs.100.
- 7 Cash sales Rs.2,000.
- 10 Furniture purchased Rs.800 by cheque.
- 12 Paid rent by cheque Rs.1,500.
- 15 Paid Rs.2,500 to Karthikeyan half cash and half by cheque.
- 18 Cash sales Rs.15,000.
- 20 Paid packing charges Rs.500.

24 Paid Murugan Rs.4,000. Discount allow by him Rs.50.

26 Paid into bank Rs.5,000.

(Answer : Cash balance Rs.12,250;
Bank balance (Cr.) Rs. 9,050)

12. Enter the following transactions in the Three Column Cash Book of Mr.Albert.

2002

May 1 Cash in hand Rs.30,000.
Cash at bank Rs.2,000

3 Received cheque for goods sold to Arun and banked it Rs.1000.

5 Paid into bank Rs.4,000.

9 Paid cash to David from whom goods worth Rs.6,000 were purchased for credit on 1st May on term 2% cash discount within two weeks.

10 Paid to Robert by cheque Rs.2,400 in full settlement of his account of Rs.2,500.

12 Received cash from Nathan Rs.4,750. Discount allowed Rs.250.

19 Interest allowed by bank Rs.200.

20 Robert to whom we have issued a cheque has reported that our cheque is dishonoured.

22 Roshan got exchange a five hundred rupee note.

31 Paid into bank all cash in excess of Rs.5,000.

(Answer : Cash balance Rs.5,000. Bank balance Rs.27,070.
Deposited into bank Rs.19,870)

13. Enter the following transactions in the Triple Column Cash Book of Mr.Raja Durai.

2002

May 1 Cash balance Rs.6,000.

Bank balance Rs.4,000.

2 Withdrew from Bank Rs.2,000.

3 Abdulla directly paid into our bank account Rs.3,000.

4 Cheque received from Daniel Rs.5,000 sent to bank.

7 Cheque received from Ramakrishnan for sales Rs.8,000.

8 Received cash from Subramaniyam Rs.2,800. Discount allowed Rs.200.

10 Ramakrishnan's cheque sent to bank for collection.

14 Paid to Balu by cheque Rs.13,900. Discount received Rs.100.

17 Withdrew cash for personal use Rs.1,500 and by cheque Rs.12,500.

27 Rent paid Rs.2,000.

(Answer : Cash balance Rs.7,300; Bank balance (cr) Rs.8,400)

NATIONAL INSTITUTE OF TECHNOLOGY SIKKIM

Ravangla, South Sikkim – 737 139

STUDENT GATE PASS (FOR HOME) – Gate Copy

Date:

I, Mr. / Ms. Karthik R, Roll No. 34 of 1st / 2nd / 3rd / 4th Year
B.Tech in the Department of IT, want to go home on 07.07.2017 at 10.00 am
A.M./P.M.

The purpose of my visit to home is going for holiday

I will return to Ravangla campus on 10.7.2017 by 9.30 am

During absence form Ravangla

Home Address: 7/14, MLR STREET, Govinda Nagar,
Rangpoor, Sikkim.

My Contact No.: 770 774 7581

Parent's name: A. Ravijith parkar

Parent's Contact No.: 9590077081

Approved by

Chief Warden / FISA Member

FIAA / FIAA Member

Karthik
Signature of the student

NATIONAL INSTITUTE OF TECHNOLOGY SIKKIM

Ravangla, South Sikkim – 737 139

STUDENT GATE PASS (FOR HOME) – Office Copy

Date:

I, Mr. / Ms. Karthik R, Roll No. 34 of 1st / 2nd / 3rd / 4th Year
B.Tech in the Department of IT, want to go home on 07.07.2017 at 10.00 A.M./P.M.

The purpose of my visit to home is going for holiday

I will return to Ravangla campus on 10.7.2017 by 9.30 A.M. / P.M.

During absence form Ravangla

Home Address: 7/14, MLR STREET, Govinda Nagar,
Rangpoor, Sikkim.

My Contact No.: 770 774 7581

Parent's name: A Ravijith Parkar

Parent's Contact No.: 9590077081



Approved by

Chief Warden / FISA Member


FIAA / FIAA Member

Karthik
Signature of the student

INWARD MAIL

NO	DATE	NAME AND ADDRESS OF SENDER	NATURE OF CONTENT	SUBJECT	TO WHOM REFERRED	DATE OF REPLY	INITIAL OF OFFICER
1	2016 August 8. 8. 2016	Photo of the Juland	payment by Cheque	Reporting letter	Daksh	8.8.2016	
2.	10th November 2016 10.11.2016	Sachin & Co. Amritsar	Information about payment	Acceptance letter	Ramesh	12.11.2016	

OUTWARD MAIL

ORIGINATING DEPARTMENT WITH IN THE ORGANISATION	FILE REFERENCE (NO.S FILE CONTAINING COPY)	DATE WHEN LETTER WAS SEND OUT	SUBJECT OF THE LETTER	RECEIVING & AGENCY	ADDRESS RECEIPT
HR	2	9. 12. 2016	Full, and final Report	9.12.2016 at (10 am)	Photo Letter Julandue.
Sales	1	11. 12. 2016	Balance sheet	11.12.2016 at (12.20pm)	Sachin & Co. Amritsar.
 REFERENCE CORRESPONDENT					



29

COST SHEET

You are running a factory which manufactures electronic toys. You incur expenses on raw material, labour and other expenses which can be directly attributed to cost and which cannot be directly attributed but are incurred upto their sales. You need to know the composition of cost at different stages. This will help you in the analysis of cost of a product so that same can be used for its proper management. In this lesson you will learn about cost sheet and its various components.



OBJECTIVES

After studying this lesson, you will be able to:

- state the meaning and type of Cost Sheet;
- state the importance of Cost Sheet;
- explain the components of total cost;
- prepare the cost sheet as per format.

29.1 COST SHEET : MEANING AND ITS IMPORTANCE

Cost sheet is a statement, which shows various components of total cost of a product. It classifies and analyses the components of cost of a product. Previous periods data is given in the cost sheet for comparative study. It is a statement which shows per unit cost in addition to Total Cost. Selling price is ascertained with the help of cost sheet. The details of total cost presented in the form of a statement is termed as Cost sheet. Cost sheet is prepared on the basis of :

1. Historical Cost
2. Estimated Cost

**Notes****Historical Cost**

Historical Cost sheet is prepared on the basis of actual cost incurred. A statement of cost prepared after incurring the actual cost is called Historical Cost Sheet.

Estimated Cost

Estimated cost sheet is prepared on the basis of estimated cost. The statement prepared before the commencement of production is called estimated cost sheet. Such cost sheet is useful in quoting the tender price of a job or a contract.

Importance of Cost Sheet

The importance of cost sheet is as follows:

- **Cost ascertainment**

The main objective of the cost sheet is to ascertain the cost of a product. Cost sheet helps in ascertainment of cost for the purpose of determining cost after they are incurred. It also helps to ascertain the actual cost or estimated cost of a Job.

- **Fixation of selling price**

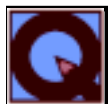
To fix the selling price of a product or service, it is essential to prepare the cost sheet. It helps in fixing selling price of a product or service by providing detailed information of the cost.

- **Help in cost control**

For controlling the cost of a product it is necessary for every manufacturing unit to prepare a cost sheet. Estimated cost sheet helps in the control of material cost, labour cost and overheads cost at every point of production.

- **Facilitates managerial decisions**

It helps in taking important decisions by the management such as: whether to produce or buy a component, what prices of goods are to be quoted in the tender, whether to retain or replace an existing machine etc.

**INTEXT QUESTIONS 29.1**

I. State the meaning of cost sheet.

.....

.....

II. Fill in the blanks with suitable words:

- (i) Cost sheet classifies and analyses the of cost of a product.
- (ii) is ascertained with the help of cost sheet.
- (iii) Cost sheet is prepared on the basis of actual cost incurred.
- (iv) Cost sheet also helps to ascertain the actual cost or cost of a job.
- (v) Cost sheet helps in fixing of products or services by providing detailed cost information.
- (vi) cost sheet helps in the control of material cost of a product/service.

29.2 COMPONENTS OF TOTAL COST

The Components of cost are shown in the classified and analytical form in the cost sheet. Components of total cost are as follows:

● **Prime Cost**

It consists of direct material, direct wages and direct expenses. In other words “Prime cost represents the aggregate of cost of material consumed, productive wages, and direct expenses”. It is also known as basic, first, flat or direct cost of a product.

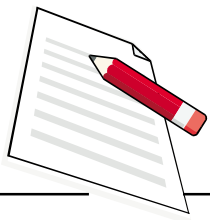
$$\text{Prime Cost} = \text{Direct material} + \text{Direct Wages} + \text{Direct expenses}$$

Direct material means cost of raw material used or consumed in production. It is not necessary that all the material purchased in a particular period is used in production. There is some stock of raw material in balance at opening and closing of the period. Hence, it is necessary that the cost of opening and closing stock of material is adjusted in the material purchased. Opening stock of material is added and closing stock of raw material is deducted in the material purchased and we get material consumed or used in production of a product. It is calculated as :

$$\text{Material Consumed} = \text{Material purchased} + \text{Opening stock of material} - \text{Closing stock of material.}$$



Notes



Notes

Illustration 1

Calculate prime cost from the following particulars for a production unit:

	Rs.
Cost of material purchased	30,000
Opening stock of material	6,000
Closing stock of material	4,000
Wages paid	3,000
Rent of hire of a special machine for production	5,000

Solution:

Statement showing Prime Cost

Details	Amount (Rs.)
Direct Material: Material Consumed	
Opening stock of material	6,000
Add : Material Purchased	30,000
Material available for consumption	36,000
Less : Closing stock of material	4,000
Material consumed	32,000
Direct Labour : Wages	3,000
Direct Expenses: Rent of hire a special machine	5,000
Prime cost	40,000

● Factory Cost

In addition to prime cost it includes works or factory overheads. Factory overheads consist of cost of indirect material, indirect wages, and indirect expenses incurred in the factory. Factory cost is also known as works cost, production or manufacturing cost.

$$\text{Factory Cost} = \text{Prime cost} + \text{Factory overheads}$$


Illustration 2

Calculate factory cost from the following particulars:

	Rs.
Material consumed	60,000
Productive wages	20,000
Direct Expenses	5,000
Consumable stores	2,000
Oil grease/Lubricating	500
Salary of a factory manager	6,000
Unproductive wages	1,000
Factory rent	2,000
Repair and Depreciation on Machine	600

Notes
Solution:

Statement showing Factory cost

Details	Amount (Rs.)
Direct Material: Material Consumed	60,000
Direct Labour: Productive wages	20,000
Direct Expenses	5,000
Prime cost	85,000
Add : Factory overheads	
Indirect Material:	
Consumable stores 2,000	
Oil grease/lubricants 500	2,500
Indirect Labour:	
Unproductive wages 1,000	
Salary of a factory Manager 6,000	7,000
Indirect Expenses:	
Factory rent 2,000	
Repair and Depreciation on Machine 600	2,600
Factory cost	97,100



Notes

Adjustment for stock of work-in-progress

In the process of production, some units remain to be completed at the end of a period. These incomplete units are known as work-in-progress. Normally, the cost of incomplete units include direct material, direct Labour, direct expenses, and average factory overheads. Hence, at the time of computing factory cost, it is necessary to make adjustment of opening and closing stock of work in progress to arrive at the net Factory cost/works cost.

Illustration 3

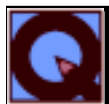
From the following information calculate the works cost.

	Rs.
Direct material	80,000
Direct Labour	22,000
Direct Expenses	5,000
Factory overheads	12,000
Work-in-progress: Opening stock	13,000
Closing stock	7,000

Solution:

Statement showing Factory cost

Details	Amount (Rs.)
Direct Material: Material Consumed	80,000
Direct Labour: Productive wages	22,000
Direct Expenses	5,000
Prime cost	1,07,000
Factory overheads	12,000
Factory Cost (Gross)	1,19,000
Add: Opening stock of work-in-progress	13,000
	1,32,000
Less: Closing stock of work-in-progress	7,000
Works or Factory cost (Net)	1,25,000



INTEXT QUESTIONS 29.2

Fill in the blanks with suitable words:

- (i) The Component of cost shown in the and form is the cost sheet.
- (ii) Prime cost is also known as first, flat or cost of a job.
- (iii) Material Consumed = Material purchased + – Closing stock of material.
- (iv) Factory cost is also known as works cost, or manufacturing cost.
- (v) Some units are not completed in process, they are known as

Notes



29.3 TOTAL COST AND COST SHEET

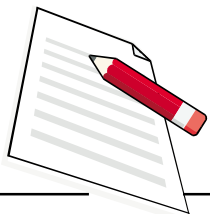
If office and administrative overheads are added to factory or works cost, total cost of production is arrived at. Hence the total cost of production is calculated as:

$$\text{Total Cost of production} = \text{Factory Cost} + \text{office and administration overheads}$$

Illustration 4

From the following information calculate the total cost of production

	Rs.
Direct material	90,000
Direct Labour	32,000
Direct Expenses	9,000
Factory overheads	25,000
Office and administration overheads	18,000



Notes

Solution:

Statement showing total cost of production

Details	Amount (Rs.)
Direct Material: Material Consumed	90,000
Direct Labour: Productive wages	32,000
Direct Expenses	9,000
PRIME COST	1,31,000
Factory overheads	25,000
FACTORY COST	1,56,000
Office and administration overheads	18,000
TOTAL COST OF PRODUCTION	1,74,000

Cost of goods sold

It is not necessary, that all the goods produced in a period are sold in the same period. There is stock of finished goods in the opening and at the end of the period. The cost of opening stock of finished goods is added in the total cost of production in the current period and cost of closing stock of finished goods is deducted. The cost of goods sold is calculated as:

$$\text{Cost of goods sold} = \text{Total cost of production} + \text{Opening stock of Finished goods} - \text{Closing stock of finished goods}$$

Illustration 5

From the following information calculate the cost of goods sold.

	Rs.
Total Cost of Production	1,22,000
Opening stock of finished goods	12,000
Closing stock of finished goods	16,000

Solution:

$$\text{Cost of goods sold} = \text{Cost of Production} + \text{Opening stock of Finished goods} - \text{closing stock of Finished goods}$$

$$\text{Cost of goods sold} = \text{Rs.}1,22,000 + 12,000 - 16,000 = \text{Rs.}1,18,000$$


Total Cost i.e, Cost of Sales

If selling and distribution overheads are added to the total cost of production, total cost is arrived at. This cost is also termed as cost of Sales. Hence the total cost is calculated as:

$$\text{Total Cost} = \text{Cost of Goods sold} + \text{Selling and distribution overheads}$$

Notes
Illustration 6

From the following information calculate the total cost.

	Rs.
Direct material	1,60,000
Direct Labour	52,000
Direct Expenses	19,000
Factory overheads	45,000
Office and administration overheads	28,000
Selling and distribution overheads	33,000

Solution:

Statement showing total cost

Details	Amount (Rs.)
Direct Material:	1,60,000
Direct Labour:	52,000
Direct Expenses	19,000
PRIME COST	2,31,000
Factory overheads	45,000
FACTORY COST	2,76,000
Office and administration overheads	28,000
TOTAL COST OF PRODUCTION	3,04,000
Selling and distribution overheads	33,000
Total cost = cost of sales	3,27,000

Sales

If the profit margin is added to the total cost, sales are arrived at. Excess of sales over total cost is termed as profit. When total cost exceeds sales, it is termed as Loss.

$$\text{Sales} = \text{Total Cost} + \text{Profit}$$



Notes

Sometimes profit is calculated on the basis of given information in percentage of cost or sales. In such a situation, the amount is assumed 100 in which the percentage is calculated. Then the Profit is calculated in the following ways:

Case 1

If Cost is Rs.10,000 and profit on cost 10%. Assume the cost is Rs.100 and profit on cost is Rs.10. Hence Profit on cost of Rs.10,000 is

$$10,000 \times 10/100 = \text{Rs.1,000}$$

Thus the sales value is Rs 11000 (10,000 + 1000)

Case 2

If Cost is Rs.10,800 and profit on sales price is 10%. Assume sales price is Rs.100. cost price is Rs.90 [i.e. Rs.100 – Rs.10]. When profit on cost of Rs.90 is Rs.10. Hence profit on cost of Rs.10,800 is

$$10,800 \times 10/90 = \text{Rs.1,200}$$

$$10,800 + 1200 = 12,000 \text{ sales value}$$

Case 3

If sales price is Rs.12,100 and profit on cost is 10%. Assume Cost price is Rs.100. Sales price is Rs.110 [i.e.100 + 10]. If sales price is Rs.110, profit is Rs.10. Profit on sales price of Rs.12,100 is

$$12,100 \times 10/110 = \text{Rs.1,100 profit}$$

Illustration 7

From the following information, calculate the value of goods sold.

	Rs.
Total Cost of Production	1,45,000
Opening stock of finished goods	22,000
Closing stock of finished goods	6,000
Selling and distribution overheads	25,000
Profit	22,000


Solution
Statement showing Sales

Details	Amount (Rs.)
Total cost of production	1,45,000
Add : Opening stock of finished goods	22,000
	1,67,000
Less Closing stock of finished goods	6,000
Cost of Goods sold	1,61,000
Selling and distribution overheads	25,000
Total Cost	1,86,000
Profit	22,000
Sales	2,08,000

Notes

There is no prescribed format of a Cost sheet. It may change from industry to industry. A specimen format of a Cost Sheet is given as under:

Particulars	Total (Rs.)
A. Materials Consumed :	
Purchases
Add : Opening Stock of Raw material
Expenses on Purchases
Less : Closing Stock of Raw Material
Direct Material consumed
B. Direct Labour (Wages)
C. Direct Expenses
D. Prime Cost (A + B + C)
E. Factory/Works Overheads
Add : Opening Stock of Work-in-Progress
Less : Closing Stock of Work-in-Progress
F. Works/Factory Cost (D + E)
G. Office and administration overheads

MODULE - 6B

Elementary Cost Accounting



Notes

Cost Sheet

H.	Total Cost of Production (F + G)
	Add : Opening Stock of finished Goods
	Cost of Goods available for sale
	Less : Closing Stock of finished Goods
I.	Cost of production of goods Sold or cost of good sold
J.	Selling and Distribution Overheads
K.	Total Cost (I + J) = Cost of Sales
L.	Profit
M.	Sales (K + L)

Preparation of cost sheet

The various components of cost explained above are presented in the form of a statement. Such a statement of cost consists of prime cost, works cost, cost of production of goods, cost of goods sold, total cost and sales and is termed as cost sheet. The Preparation of a cost sheet can be understood with the help of following illustration:

Illustration 8

From the following information, prepare a cost sheet for period ended on 31st March 2006.

	Rs.
Opening stock of raw material	12,500
Purchases of raw material	1,36,000
Closing stock of raw material	8,500
Direct wages	54,000
Direct expenses	12,000
Factory overheads	100% of direct wages
Office and administrative overheads	20% of works cost
Selling and distribution overheads	26,000
Cost of opening stock of finished goods	12,000
Cost of Closing stock of finished goods	15,000
Profit on cost 20%	


Solution:
Cost sheet

Details	Amount (Rs.)
Direct Material : Material consumed	12500
Opening 'stock of raw material	136000
Add: Purchases	148500
Less: Closing stock of raw material	8500
Direct wages	54,000
Direct expenses	12,000
Prime cost	2,06,000
Factory overheads: 100% of direct wages	54,000
(i.e. $\left(100 \times \frac{54000}{100}\right)$)	
Works cost	2,60,000
Office and administrative overheads	
20% of works cost, $(2,60,000 \times 20/100)$	52,000
Total cost of production	3,12 000
Add : opening stock of finished goods	12,000
Cost of Goods available for sale	3,24,000
Less : Closing stock of finished goods	15,000
Cost of goods sold	3,09,000
Selling and distribution overheads	26,000
Total Cost = cost of sales	3,35,000
Profit (20% On Cost i.e. $3,35,00 \times 20/100$)	67,000
Sales	4,02,000

Notes
Illustration 9

The following information is given to you from which you are required to prepare Cost Sheet for the period ended on 31st march 2006:

MODULE - 6B

Elementary Cost Accounting



Notes

Cost Sheet

Consumable material:	Rs.
Opening stock	20,000
Purchases	1,22,000
Closing stock	10,000
Direct wages	36,000
Direct Expenses	24,000
Factory overheads	50 % of direct wages
Office and administration overheads	20% of works cost
Selling and distribution expenses	Rs.3 per unit sold
Units of finished goods	
In hand at the beginning of the period (Value Rs. 12500)	500
Units produced during the period	12,000
In hand at the end of the period	1,500
Find out the selling price per unit if 20% profit on selling price. There is no work-in-progress either at the beginning or at the end of the period.	

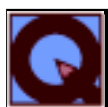
Solution:

Cost Sheet for the period ended on 31st March 2006 (output 12000units)

Particulars	Total cost	Cost per unit
Material Consumed:		
Opening Stock	20000	
Add: Purchases	122000	
	142000	
Less: Closing Stock	10000	
Cost of raw material consumed	132,000	11.00
Direct wages	36000	3.00
Direct Expenses	24000	2.00
Prime Cost	192000	16.00
Factory Overheads		
50% of Direct Wages (i.e. 12000 × 1.50)	18000	1.50
Works/Factory overheads	210000	17.50
Office overheads		
20% of works cost	42000	3.50
Total Cost of production	252000	21.00

Cost Sheet

Add: Opening stock of finished goods (500 units @ 25)	12500	
Cost of goods available for sale (12000 + 500)	264500	
Less : Closing stock of Finished goods @ 21per unit (1500 units)	31500	
Cost of goods sold (12500 – 1500 = 11000 units)	233000	21.18
Add: Selling & Distribution overheads @ per unit	330001	3.00
Cost of Sales	266000	24.18
Add: Profit 20% On Selling Price i.e. 25% of cost of sales	66500	6.04
Sales $\left(266000 \times \frac{25}{100}\right)$	332500	30.22



INTEXT QUESTIONS 29.3

Fill in the blanks with suitable words:

- is also termed as administrative cost or total cost of production.
- Cost of production of goods sold = + opening stock of Finished goods – closing stock of finished goods
- Total cost is also termed as
- If profit is added to the total cost are arrived at.
- Sales = + Profit.



WHAT YOU HAVE LEARNT

Cost Sheet: Meaning :

Cost sheet is a statement, which shows various components of total cost of a particular product. Cost sheet is prepared on the basis of :

- Historical Cost
- Estimated Cost
- The importance of cost sheet is follows:
- Cost ascertainment
- Fixation of selling price

MODULE - 6B

Elementary Cost Accounting



Notes



Notes

- Help in cost control
- Facilitates managerial decisions
- Components of Total Cost

Prime Cost = Direct material + Direct Wages + Direct expenses works/ factory cost;

Factory Cost = Prime cost + Factory overheads

Cost of production/office cost = Factory Cost + office and administration overheads

Cost of production of goods sold = Cost of Production + Opening stock of Finished' goods – closing stock of finished goods

Total Cost = Cost of Production of goods sold + Selling and distribution overheads

Sales = Total Cost + Profit

- The various components of cost explained above are presented in the form of a statement.



TERMINAL QUESTIONS

1. What is meant by cost sheet? Explain the importance of Cost Sheet.
2. Define various components of total cost.
3. Compute the cost of material consumed from the following data:

Opening stock of raw material	Rs.9,000
Purchases of raw material	Rs.1,27,000
Closing stock of raw material	Rs.12,000

4. Compute Prime cost from the data given below:

	Rs.
Direct Material	1,80,000
Expenses on purchases	20,000
Rent of special machine taken on hire for production	40,000
Productive wages	65,000

**Notes**

5. From the following information., prepare cost sheet.

	Rs.
Direct material	1,60,000
Direct Labour	45,000
Direct Expenses	15,000
Factory overheads	35,000
Office and administration overheads 20% of works cost	
Selling and distribution overheads	45,000
Opening stock of finished goods	25,000
Closing stock of finished goods	10,000
Profit on Sales 10%	

**ANSWERS TO INTEXT QUESTIONS****Intext Questions 29.1**

- II. (i) Components (ii) Selling price
 (iii) Historical (iv) estimated
 (v) selling price (vi) Estimated

Intext Questions 29.2

- I. Direct material + Direct wages + Direct expenses
 II. (i) Classified, analysis (ii) basic, direct
 (iii) Opening stock of material (iv) production
 (v) work-in-progress.

Intext Questions 29.3

- (i) Office cost (ii) cost of production
 (iii) cost of Sales (iv) sales
 (v) Total Cost or cost of sales.

Answers to Terminal Questions

3. Materials consumed Rs.1,24,000
 4. Prime cost Rs.305,000
 5. Sales Rs 4,07,000

Form No. SH-4
SECURITIES TRANSFER FORM

[Pursuant to Section 56 of the Companies Act, 2013 and sub-rule (1) of rule 11 of the Companies (Share Capital and Debentures) Rules, 2014]

Date of execution: 17/10/2016

FOR THE CONSIDERATION stated below the "Transferor(s)" named do hereby transfer to the "Transferee(s)" named the securities specified below subject to the conditions on which the said securities are now held by the Transferor(s) and the Transferee(s) do hereby agree to accept and hold the said securities subject to the conditions aforesaid.

CIN: L28992MH1998 Name of the company (in full): PRIMAL GLASS LIMITED
Name of the Stock Exchange where the company is listed, if any: NSE & BSE

DESCRIPTION OF THE SECURITIES:

Kind/ Class of securities (1)	Nominal Value of each unit of security (2)	Amount called up per unit of security (3)	Amount paid up per unit of security (4)
<u>Equity</u>	<u>Rs 10/-</u>	<u>Rs 10/-</u>	<u>Rs. 10/-</u>

No. of securities being transferred		Consideration received (Rs.)	
In figures	In words	In words	In figures

Distinctive Number	From	<u>116</u>	<u>118</u>	<u>2</u>	<u>10</u>
	To	<u>118</u>	<u>120</u>	<u>2</u>	<u>10</u>
Corresponding Certificate Nos.					

Transferor's Particulars-

Registered Folio Number:

Sr. No.	Name(s) in full	Signature (s)
<u>1</u>	<u>Mr. Xxx</u>	<u>[Signature]</u>
<u>2</u>		
<u>3</u>		
<u>4</u>		

I, hereby confirm that the Transferor has signed before me.

Signature of witness [Signature]

Name and address Sekar, Coim

Transferee's Particulars

Name in full (1)	Father's/mother's / Spouse name (2)	Address & E-mail id (3)	Occupation (4)	Existing folio no. if any. (5)	Signature (6)
<u>PEL MANAGEMENT SERVICE PRIVATE LIMITED</u>	<u>NA</u>	<u>Primal Tower, 8th floor, Chhatrapati Shivaji Maharaj, Mumbai</u>		<u>IN 306484 1742231</u>	

Folio No. of Transferee

Specimen Signature of Transferee

1) [Signature]
2) [Signature]
3) [Signature]

Value of stamp affixed:..... (Rs.) 20

<p style="text-align: center;">Stamps</p>

Enclosures:

- (1) Certificate of shares or debentures or other securities
- (2) If no certificate is issued, letter of allotment.
- (3) Others, specify.....

For office use only

Checked by.....

Signature tallied by.....



Entered in the Register of Transfer on.....vide Transfer No.....

Approval Date.....


Power of attorney / Probate / Death Certificate / Letter of Administration

Registered on..... at No.....

INWARD MAIL

NO	DATE	NAME AND ADDRESS OF SENDER	NATURE OF CONTENT	SUBJECT	TO WHOM REFERRED	DATE OF REPLY	INITIAL OF OFFICER
1	2016 August 8. 8. 2016	Photo of the Juland	payment by Cheque	Reporting letter	Daksh	8.8.2016	
2.	10th November 2016 10.11.2016	Sachin & Co. Amritsar	Information about payment	Acceptance letter	Ramesh	12.11.2016	

OUTWARD MAIL

ORIGINATING DEPARTMENT WITH IN THE ORGANISATION	FILE REFERENCE (NO.S FILE CONTAINING COPY)	DATE WHEN LETTER WAS SEND OUT	SUBJECT OF THE LETTER	RECEIVING & AGENCY	ADDRESS RECEIPT
HR	2	9. 12. 2016	Full, and final Report	9.12.2016 at (10 am)	Photo Letter Julandue.
Sales	1	11. 12. 2016	Balance sheet	11.12.2016 at (12.20pm)	Sachin & Co. Amritsar.
 REFERENCE CORRESPONDENT					

FORMATS FOR MINUTES TAKING

Format 1

Purpose of the Meeting with time and date : 26/10/16.

Chair : Selvar.R. BOD,

Attendance : 1. Kannan. - Marketing manager.
2. Sivam - Finance manager
3. Jayashree - HR manager.

Agenda 1

Background

Discussion

Conclusion/Resolution/Recommendation/Decision

Action – Responsible person

Agenda 2

Background

Discussion

Conclusion/Resolution/Recommendation/Decision

Action – Responsible person

Agenda 3

.....NA.....

Closing time : 4.30 PM

Format No.2

Name of Organization: ABC Ltd.

Purpose of Meeting: Sales Reduction-

Date/ Time : 27/10/16.

Chair : Sekar, BOD

Members Present:

1. Kannan - Marketing Manager
2. Sivam - Finance Manager.
3. Jayashree - HR Manager

Starting Time : 3.00pm

Agenda /Topic	Discussion	Action	Person Responsible
Sales Reduction	Made	Advertisement will give	Kannan.
Closing Time: 4.30pm			

Format No.3

Meeting Title

MINUTES

[MEETING DATE]

[MEETING TIME]

[MEETING LOCATION]

MEETING CALLED BY	BOD
TYPE OF MEETING	Open Meeting
FACILITATOR	BOD
NOTE TAKER	Marketing manager
TIME KEEPER	HR Manager
ATTNDEES	All functional Employees.

Agenda topics

[TIME ALLOTTED]

[AGENDA TOPIC]

Sales Reduction.

[PRESENTER]

DISCUSSION	Dismissed.	
CONCLUSIONS	Advisement given	
ACTION ITMES	PERSON RESPONSIBLE	DEADLINE
	Marketing Manager.	

[TIME ALLOTTED]

[AGENDA TOPIC]

[PRESENTER]

DISCUSSION		
CONCLUSIONS		
ACTION ITMES	PERSON RESPONSIBLE	DEADLINE

[TIME ALLOTTED]

[AGENDA TOPIC]

[PRESENTER]

DISCUSSION		

25

Advertising

25.1 Introduction

You have already learnt about the term 'sales promotion' in your previous lesson. Advertising is an important technique of sales promotion used by business firms.

You watch television, listen to radio, go to a cinema house to see a movie and read news papers and magazines. While doing so, you observe a number of advertisements of several products. Some of these products are cold drinks such as Pepsi, Coca-Cola, and Limca, hot drinks such as tea and coffee (Taj, Nescafe), washing powders such as Surf, Ariel and Nirma, washing soaps such as Lux, Breeze, Hamam and Life Buoy, tooth pastes such as Colgate, Pepsodent, Promise, Close-up and Babool, various shampoos, cold creams, hair oils, skin care products like Dettol, refrigerators, televisions, scooters, motor cycles, cars, washing machines, computers, shoes, clothes and services such as banking and insurance.

These advertisements are given by manufactures, wholesalers, retailers and providers of services to inform their customers about their products, create demand and increase sales of the same. Advertisements provide tremendous help to business firms in successful conduct of business operations, As such, most of the business firms whether big or small, manufactures or traders, operating in public sector or private sector, make use of advertising. In this lesson we shall learn more about advertising.

25.2 Objectives

After reading this lesson, you will be able to -

- recall the meaning of Advertising
- enumerate the objectives and role of advertising.
- describe the essentials of good advertising
- state the meaning of advertising copy.
- enumerate the qualities of a good advertising copy.
- draft a suitable copy of press advertisement with a statement which will help in remembering the name of the product
- discuss the impact of advertising on the sale of a product
- identify different media of advertising
- cite two examples of products or services with suitable reasons for which the following advertising media may be used in preference to others
(i) News Papers, (ii) Radio, (iii) Television.
- suggest the choice of a particular medium of advertising in a given case.

25.3 Meaning of advertising

Advertising is an impersonal communication of messages regarding ideas, products and services from manufacturers, wholesales and retailers (called sponsors) to a targeted group of existing and potential customers, with a view to educate and influence them to act in a manner desired by the sponsor of the message. The message may be oral or in writing, may be audio or visual or both and is paid for by the sponsor.

The characteristics of advertising may be stated as follows:

- (i) Advertising is an impersonal communication of message. It involves sending messages through one or more media such as
-

television, radio, newspapers and magazines, etc. It is called impersonal because the message is conveyed through some media rather than a person. As such advertising is one-way communication.

- (ii) The message is regarding some idea, product or service. The message generally contains information regarding product characteristics, prices uses and important needs that may be satisfied by use of the product.
- (iii) The message is sent by manufacturers, wholesalers and retailers who are called sponsors of the advertisement.
- (iv) The sponsors send the message to a target group of people who are either the existing customers or the potential customers. The message is generally not sent to people who are unlikely to buy the product.
- (v) The purpose of sending the message is to inform the customers about their needs, availability of the product to satisfy those need, arouse their desire to have the product, and create demand for the product. Thus the aim of advertising is to make people act as desired by the sponsors.
- vi) The message may be sent through different media such as television, radio, news papers and magazines. Depending on the media used it may be audio or visual, or written or oral.
- vii) The sponsors spend money to send the message. Thus advertising is not free of cost but involves some expenditure.

25.4 Objectives of advertising

The main objectives of advertising are:

1. Creating demand for products

Now a days, goods are produced on a large scale in anticipation of future demand. It is therefore, important that sufficient demand is created for the product. Goods produced can be sold only if there exists sufficient demand for them.

The objective of advertising is to create demand for products and services through customer education. The objective is important both in respect of the existing products as well as new products.

2. Sustaining demand for products and service

Sometimes, there are a number of manufactures, who manufacture products which basically meet the same needs of the customers. In such situations, there may develop an intense competition among the manufactures to sell their products. The objective of advertising, then is to see that the demand for a firm's product does not decline and is maintained at the existing level.

3. Creating and enhancing goodwill of the firm

This is another objective of advertising. Through advertising, a firm highlights the importance it attaches to consumer satisfaction and good of the society. Achievements of the firm in these matters are also highlighted.

This helps in creating a good image of the business in the minds of consumers, workers, investors, suppliers government and other groups of people in society. Thus business goodwill is created and enhanced.

4. Establishing and enhancing brand image

A number of products are sold by their brand name. Washing powder is sold under the brand name of Surf, tooth paste is sold under the name of Close up, and a particular type of car is sold under the name of Maruti. One of the objectives of advertising is to popularise the brand name of the product so that its brand image is established and enhanced. Brand name is popularised at the existing level by highlighting the name again and again in the advertisement.

5. Helping salesmen

Advertising aims at helping salesmen in selling goods and services.

Role of advertising

Advertising plays an important role in business and society. The role of advertising is explained below.

Role of advertising in business

Advertising helps in creating and sustaining demand for existing and new products. It builds brand image and goodwill of the firm.

Advertising thus enables business firms to sell goods on a large scale. This makes possible large scale production of goods. The goods are produced and distributed at a lower cost. All this helps in lowering the price of products and services, which further boosts the demand for the product. Research and development efforts of the business firms also receive encouragement by way of greater investment which leads to development of new products and improvement in the existing products.

In the absence of advertising, business firms may not be able to reach large numbers of customers and those widely` scattered in different regions. Advertising achieves the objective at a much lower cost than is possible through other means (such as personal selling). This factor gives an added significance to the role of advertising.

Role of advertising in society

Advertising creates awareness among masses regarding their needs and the availability of goods to satisfy those needs. By repeated advertisement, a desire to possess the goods is aroused. Those people who do not have sufficient purchasing power, work extra hard to earn more income to purchase goods and services. Thus, advertising motivates people to earn more and buy more goods. This increases the standard of living of the people. Advertising also generates employment. It helps artists by making available more job opportunities. It also supports the press.

Intext Question 25.1

1. Which of the following statements are correct and which are incorrect ? Write 'C' against correct statements and 'I' against incorrect statements:
 - i) Advertising is a personal communication of messages.
 - ii) The message advertised may be oral or in writing.
 - iii) Advertising is done by wholesalers only.
 - iv) The aim of sending a message in any advertisement is to inform the customers about the availability of product.
 - v) There is only one medium of advertising. i.e newspapers.
 2. Fill in the blanks with suitable words from those given within brackets against each sentence:
 - i) Goods are produced these days on a large scale in anticipation of _____ demand. (past, future)
 - ii) Goods produced can be sold only if there exists _____ demand for them. (sufficient, less)
 - iii) The objective of advertising in case of competition is to see that the _____ for the firm's product is maintained at the existing level. (price, demand)
 - iv) In advertising, the business firms highlight the importance they attach to _____ satisfaction. (consumer, producer)
 - v) In the absence of advertising, firms _____ reach the consumers in large numbers. (can, cannot)
-

25.5 Essentials of good advertising

Good advertising is that which achieves its objectives. It should have the following features:

1. It must be able to attract the customers' attention to the advertisement. An advertisement which goes unnoticed by existing
-

or potential customers is a waste of money.

2. The customer should read or listen to or view the advertisement. The purpose of advertisement to educate the customers can be achieved, only if the message contained in the advertisement is properly communicated to them.
3. The customer should act in the desired manner. The aim of advertising is to create and sustain demand for goods and services. Good advertising is one which is able to create and sustain demand for goods and services.

Requisites of good advertising

Good advertising requires that advertising be undertaken on a scientific basis, so that it is both effective and efficient. In other words, the advertising programme should be so designed that the objectives of advertising are achieved at the least cost. A scientifically designed advertisement programme involves the following four phases:

- (i) **Investigation Phase** : This phase involves collecting facts on the following matters
 - (a) The customers, both the existing or prospective, to whom advertising is to be directed.
 - (b) The needs and requirements of customers and how the product to be advertised will meet these requirements.
 - (c) Factors or reasons that motivate customers to buy a product.
 - (ii) **Budgeting and media planning** : This phase involves determining the amount of money to be spent on advertising programme and the media to be used.
 - (iii) **Implementing the advertising programme** : This phase involves actual advertising. It involves preparation of an advertisement copy and its communication to the customers through the selected media.
 - (iv) **Ascertaining performance** : This phase involves finding out the
-

results of advertising. This is done to ascertain the effectiveness of advertising programme. This helps in improving advertising in future.

Intext Questions 25.2

State whether the following statements are true or false by writing 'T' against true statements and 'F' against false statements :

- i) Good advertising is one which is able to achieve its objectives.
 - ii) An advertisement which goes unnoticed by potential customers is waste of money.
 - iii) The function of advertising is not to educate the customer but only to create demand for the product.
 - iv) The object of advertising is to achieve its aims at the least costs.
 - v) Ascertaining performance means to ascertain the effectiveness of advertising programme.
-

25.6 Advertising copy

Meaning

By 'advertising copy' we mean the contents, size, colour and presentation of the message of advertisement. The advertising copy may make use of different forms of expression depending on the media used. In case the media of advertising is radio, the contents of the message of advertisement may be words spoken or sung, music, etc. In case of television, words, pictures, animals, machines, songs, voice, dances, drama (written or spoken) form part of the content of message. If news papers and magazines are used as media of advertising, the advertising copy may have contents similar to television except voice.

Thus advertising copy refers to the form of presentation of message and its contents. It is different from the media of advertising.

Qualities of good advertising copy :

A good advertising copy is one which is seen and read. It conveys the message and is acted upon. A good advertising copy should have the following characteristics:

- (1) **Attention value** : It should be able to attract customers.
- (2) **Suggestive value** : It should suggest products which satisfy consumer needs.
- (3) **Memorising value** : It should enable consumers to remember the name of the product and the need it would satisfy.
- (4) **Conviction value** : It should be able to sufficiently convince the consumer regarding the truth of the message.
- (5) **Educational value** : It should educate the customer regarding the needs, products that satisfy these needs & uses of the same.
- (6) **Motivational value** : It should arouse a desire among consumers to possess the advertised product.

Drafting an advertising copy

The task of drafting an advertising copy is very important. The copy of advertisement affects the success of advertising campaign/programme.

Drafting an advertising copy requires a lot of imagination on your part. While drafting the copy, you have to decide the matter which will form part of the advertisement. You have unrestricted freedom in your task except that the advertising copy should not violate cultural values and legal laws. You can put all your imagination in the advertising copy.

Matter that you can use in the advertising copy

You can use different ideas in the advertising copy to convey your message. These ideas may consist of making use of songs, dialogues, dramas, dances, comedies, animals, machines, men and women, young, adult and old, oceans, rivers, sky, fields, social functions such as marriages, birthday parties, games, laboratories, factories, offices, homes, picnic spots, shops and things like that. These ideas are used to highlight

the product, its name and characteristics in such as way that the advertising copy contains all the desirable features.

As stated earlier, the advertising copy should have the attention value, educative value, suggestive value, memorising value, motivating value and conviction value. You should aim at incorporating all these values in the advertising copy through the use of imaginative ideas.

In order that the customer is able to remember the name of the product advertised, the name of the product should be frequently used in the advertisement. For example in an advertisement of Suzuki Motor Cycle, the words–Suzuki, No Problem, are used again and again which helps in memorising the product name. Similarly it may be used again and again either on the border or in the body of the advertising copy. The name of product may be given in the advertisement in an attractive manner. In this way advertising may help the reader or listner in remembering the product name.

Impact of advertising on sale of a product

The impact of advertising on sale of a product depends upon the effectiveness of advertising. If advertising is effective, it has a positive/ favorable impact on the sale of a product. Existing consumers continue to purchase the same product and maintain their brand loyalty. New consumers are also attracted to the product and buy it. This increases the sale of product.

However, if advertising is not effectives, sales may actually decline. This may happen because of competitive advertising done by competitors, which is more effective. The customers of a firm which is not able to effectively advertise, may change their loyalty and start buying other products. This results in decline in sales.

Intext Question 25.3

1. Fill in the blanks with suitable words :
 - i) By advertising copy is meant the contents, _____, colour and presentation of the message of advertisement.
 - ii) The advertising copy may make use of different forms of
-

_____ depending on the media used.

- iii) Advertising copy refers to the form of presentation of _____ and its _____.
- iv) Motivational value of advertising refers to arousing a desire among consumers to _____ the advertised product.
- v) The advertising copy should educate the customers regarding his needs, _____ that satisfy these needs & uses.

2. State whether the following statements in respect of an advertising copy are correct or wrong. Write 'c' against correct and 'w' against wrong statements:

- i) Advertising copy affects the success of advertising campaign.
- ii) Drafting an advertising copy does not require lots of imagination on the part of advertiser.
- iii) Advertising copy should have only attention value.
- iv) In order that the customer is able to remember the name of the product, it is frequently used in the advertisement copy.
- v) The name of the product should be given in the advertisement in an attractive manner.

25.7 Media of Advertising

Advertising media means the channel of communication through which advertisement message is sent to the customers. They are the vehicles of carrying messages from advertisers to the customers. Businessmen use several media to send messages. The more important of these media are :

- 1. Press Advertising
 - a) Newspapers

b) Periodicals

2. Radio Advertising :
3. Television Advertising
4. Film Advertising
5. Outdoor Advertising
6. Direct Mail Advertising

The media of advertising listed above differ from each other with respect to cost, coverage, presentation and effectiveness. The choice of appropriate media of advertisement is important for the success of advertising programme.

Suitability of different media of advertising

Different media of advertising are suitable for different products. The suitability of different media of advertising for different products is outlined below.

Newspapers :

Newspapers are an important source of news and views. Reading newspapers has become a regular habit of crores of people living in cities and villages. Hence businessmen make use of newspapers to advertise their products in a big way.

Suitability of newspapers as media of advertising :

Newspapers may be regarded as a suitable media for advertising consumer products used by masses. Such products include both consumer durables as well as consumer non-durables. Various services are also advertised through newspapers. Some of the products regularly advertised through newspapers are television, music systems, motor cycles, scooters, refrigerators, washing machines, cars (all consumer durables) or products such as washing powders, soaps, oils, footwears, tooth pastes, clothes, etc. (all consumer non-durables).

Unsuitability of newspapers as media of advertising

Newspapers are not suitable for advertising industrial products (products

used by industry for further production of goods) or products used by professionals such as doctors, lawyers, chartered accountants, scientists or players. Some such products are cement manufacturing machine, surgical equipment used by doctors, law books and reports, etc.

Reasons

Advertisement for consumer products published in newspapers reach millions of people who are the present or potential customers of the products. Such advertisements are therefore beneficial to the advertisers. If Industrial products are advertised through newspapers, the value of advertisement is lost as most of the people who read newspapers do not use industrial products.

Television

Television has become an important source of entertainment, news and views to people both literate and illiterate, living in cities and villages and young and old. Due to its wide coverage, greater flexibility in designing the advertising copy, and appeal to the customers, television has become a very important media of advertising. Television is used extensively by manufacturers to advertise their products & services.

Suitability :

Television is suitable for advertising consumer products. Television offers extra benefit of greater flexibility in designing and reaching consumers over newspapers. As television is mainly a source of entertainment, it is watched by literate as well illiterate people and hence has a wider reach than news papers. It is more flexible as the advertisement can make use of more features than newspapers and radio. Time of advertising can also be decided in such a way that the advertisement is watched by the maximum number of people.

Unsuitability

Television like newspaper is not suitable for advertising industrial products or products used by special categories of people such as doctors, players, lawyers, scientists etc.

Reasons : Same as in the case of newspapers.

Radio :

Radio is also a source of entertainment, news and views just as television is. However television has become more popular now a days and popularity of radio has declined, due to extra features of television (viewing is an extra feature of television). Radio is used to advertise consumer products. Industrial Products are not advertised on radio.

However, radio is losing its importance as a media of advertising in comparison with television and newspapers.

Magazines and Journal :

Magazines and journals are print media like newspapers. These generally publish views of different people on various issues as well as stories and poems and jobs etc. These are read by a limited number of people and do not have as wide a circulation as newspapers. Therefore, only such products are advertised through magazines and journals which are of interest to the readers of these publications.

For example, if some magazine is mainly read by women, products used by women are advertised through the magazine. Famina is one such magazine. Sport goods are generally advertised through sports magazines. One such magazine is Sports Star. Medicines and medical equipments are advertised through medical journals.

Thus, magazines and journals are suitable for advertising products of special type, used or purchased by only a particular section of the society.

Film advertising

Movie film is an important source of entertainment. Consumer products can be advertised through cinema houses. However, the reach of such advertisements is very limited. Cinema as a source of entertainment is expensive in comparison with television and radio. Viewership is less. Due to this reason, film advertising may be expensive, considering the number of viewers. In modern times, film advertising has only a limited role to play in the advertising campaign of business firms.

Conclusions :

It can be safely concluded that newspapers and television are generally superior to other media, through which consumer goods produced on a

mass scale may be advertised for maximum benefit.

For advertising industrial products or products used/purchased by a particular section of society, magazines and journals may be preferable.

Goods and services which are locally consumed may be advertised through cinema or outdoor advertising like posters, banners, handbills, etc.

Intext Questions 25.4

1. Fill in the blanks with suitable word/words :
 - i) Advertising media means the _____ of communication through which advertisement message is sent to the customers.
 - ii) Different media of advertising are _____ for difference products.
 - iii) Newspapers happen to be suitable media for advertising _____ products used by masses.
 - iv) Magazines and Journals are suitable for advertising products of _____ type purchased by only a particular section of society.
 - v) Television is not suitable for advertising _____ products.
 2. State whether the following statements are correct or incorrect. Write 'C' against correct and 'I' against incorrect statements:
 - i) Newspapers are most suitable for advertising consumer products.
 - ii) Television is suitable for advertising products used by special class of people such as doctors, lawyers etc.
 - iii) Cinema advertising is suitable for advertising goods and services that are locally consumed.
 - iv) Advertising on radio is losing importance in comparison with television.
-
-

25.8 What you have learnt :

Advertising

Advertising is an impersonal communication of messages.

- The message may be oral or in writing
- The message relates to some idea, product or service.
- The message is sent by manufacturers, wholesalers and retailers.
- The message is sent to a target group of people – existing and prospective customers – for their information about their needs.
- The messages may be communicated through different media.

Objectives of Advertising

1. To create demand for products
2. To sustain demand for products
3. To create and enhance goodwill of the advertising firm.
4. To establish and enhance brand image.
5. To help salesmen in selling the products.

Essentials of good advertising

1. It should be able to attract customers.
2. It should ensure that customers read or view it.
3. It should aim at creating and sustaining demand of good.

Requisites of good advertising

It should be designed on scientific basis. There are four phases of scientifically designing an advertisement :

1. Investigation phase.
 2. Budgeting and media planning
-

3. Implementing the advertising programme.
4. Ascertaining performance

Advertising copy

It refers to the form of presentation of message and its contents.
A good copy of advertisement should have –

1. Attention value
2. Suggestive value
3. Memorising value
4. Connection value
5. Education value
6. Motivational value.

Media of Advertising

It means the channel of communication through which advertisement messages may be sent to the customers.

Type of media :

- a) Press Advertising - (i) Newspapers, (ii) Periodicals.
- b) Radio Advertising
- c) Television Advertising

25.9 Terminal Exercises

1. Explain briefly the term advertising and state its characteristics.
 2. What are the main objectives of advertising? Explain in brief.
 3. “Advertising plays an important role in business and society”, Discuss.
 4. Explain, in brief, the essentials of good advertising.
-

5. What is meant by 'Advertising Copy'? State the qualities of a good advertising copy.
6. "Newspapers are not suitable for advertising industrial products". Do you agree with this statement? Give reasons.
7. Do you consider television a suitable medium for advertising consumer products?
8. What is the impact of advertising on sale of a product? Explain briefly.
9. What considerations will you keep in mind while drafting a copy of advertisement? Explain in detail.
10. Name any four items which are suitable for advertisement in magazines and journals.

25.11 Answers to Intext Questions

- 25.1** 1. i) I ii) C iii) I iv) C v) I
2. i) future ii) sufficient iii) demand
iv) consumers v) cannot
- 25.2** i) T ii) T iii) F iv) T v) T.
- 25.3** 1. i) size ii) expressions iii) message, contents,
vi) possess v) products
2. i) e (ii) w iii) w iv) c v) c
- 25.4** 1. i) Channel ii) suitable iii) consumer
iv) special v) industrial
2. i) C ii) I iii) C iv) C
-

25

Advertising

25.1 Introduction

You have already learnt about the term 'sales promotion' in your previous lesson. Advertising is an important technique of sales promotion used by business firms.

You watch television, listen to radio, go to a cinema house to see a movie and read news papers and magazines. While doing so, you observe a number of advertisements of several products. Some of these products are cold drinks such as Pepsi, Coca-Cola, and Limca, hot drinks such as tea and coffee (Taj, Nescafe), washing powders such as Surf, Ariel and Nirma, washing soaps such as Lux, Breeze, Hamam and Life Buoy, tooth pastes such as Colgate, Pepsodent, Promise, Close-up and Babool, various shampoos, cold creams, hair oils, skin care products like Dettol, refrigerators, televisions, scooters, motor cycles, cars, washing machines, computers, shoes, clothes and services such as banking and insurance.

These advertisements are given by manufactures, wholesalers, retailers and providers of services to inform their customers about their products, create demand and increase sales of the same. Advertisements provide tremendous help to business firms in successful conduct of business operations. As such, most of the business firms whether big or small, manufactures or traders, operating in public sector or private sector, make use of advertising. In this lesson we shall learn more about advertising.

25.2 Objectives

After reading this lesson, you will be able to -

- recall the meaning of Advertising
- enumerate the objectives and role of advertising.
- describe the essentials of good advertising
- state the meaning of advertising copy.
- enumerate the qualities of a good advertising copy.
- draft a suitable copy of press advertisement with a statement which will help in remembering the name of the product
- discuss the impact of advertising on the sale of a product
- identify different media of advertising
- cite two examples of products or services with suitable reasons for which the following advertising media may be used in preference to others
(i) News Papers, (ii) Radio, (iii) Television.
- suggest the choice of a particular medium of advertising in a given case.

25.3 Meaning of advertising

Advertising is an impersonal communication of messages regarding ideas, products and services from manufacturers, wholesales and retailers (called sponsors) to a targeted group of existing and potential customers, with a view to educate and influence them to act in a manner desired by the sponsor of the message. The message may be oral or in writing, may be audio or visual or both and is paid for by the sponsor.

The characteristics of advertising may be stated as follows:

- (i) Advertising is an impersonal communication of message. It involves sending messages through one or more media such as
-

television, radio, newspapers and magazines, etc. It is called impersonal because the message is conveyed through some media rather than a person. As such advertising is one-way communication.

- (ii) The message is regarding some idea, product or service. The message generally contains information regarding product characteristics, prices uses and important needs that may be satisfied by use of the product.
- (iii) The message is sent by manufacturers, wholesalers and retailers who are called sponsors of the advertisement.
- (iv) The sponsors send the message to a target group of people who are either the existing customers or the potential customers. The message is generally not sent to people who are unlikely to buy the product.
- (v) The purpose of sending the message is to inform the customers about their needs, availability of the product to satisfy those need, arouse their desire to have the product, and create demand for the product. Thus the aim of advertising is to make people act as desired by the sponsors.
- vi) The message may be sent through different media such as television, radio, news papers and magazines. Depending on the media used it may be audio or visual, or written or oral.
- vii) The sponsors spend money to send the message. Thus advertising is not free of cost but involves some expenditure.

25.4 Objectives of advertising

The main objectives of advertising are:

1. Creating demand for products

Now a days, goods are produced on a large scale in anticipation of future demand. It is therefore, important that sufficient demand is created for the product. Goods produced can be sold only if there exists sufficient demand for them.

The objective of advertising is to create demand for products and services through customer education. The objective is important both in respect of the existing products as well as new products.

2. Sustaining demand for products and service

Sometimes, there are a number of manufactures, who manufacture products which basically meet the same needs of the customers. In such situations, there may develop an intense competition among the manufactures to sell their products. The objective of advertising, then is to see that the demand for a firm's product does not decline and is maintained at the existing level.

3. Creating and enhancing goodwill of the firm

This is another objective of advertising. Through advertising, a firm highlights the importance it attaches to consumer satisfaction and good of the society. Achievements of the firm in these matters are also highlighted.

This helps in creating a good image of the business in the minds of consumers, workers, investors, suppliers government and other groups of people in society. Thus business goodwill is created and enhanced.

4. Establishing and enhancing brand image

A number of products are sold by their brand name. Washing powder is sold under the brand name of Surf, tooth paste is sold under the name of Close up, and a particular type of car is sold under the name of Maruti. One of the objectives of advertising is to popularise the brand name of the product so that its brand image is established and enhanced. Brand name is popularised at the existing level by highlighting the name again and again in the advertisement.

5. Helping salesmen

Advertising aims at helping salesmen in selling goods and services.

Role of advertising

Advertising plays an important role in business and society. The role of advertising is explained below.

Role of advertising in business

Advertising helps in creating and sustaining demand for existing and new products. It builds brand image and goodwill of the firm.

Advertising thus enables business firms to sell goods on a large scale. This makes possible large scale production of goods. The goods are produced and distributed at a lower cost. All this helps in lowering the price of products and services, which further boosts the demand for the product. Research and development efforts of the business firms also receive encouragement by way of greater investment which leads to development of new products and improvement in the existing products.

In the absence of advertising, business firms may not be able to reach large numbers of customers and those widely` scattered in different regions. Advertising achieves the objective at a much lower cost than is possible through other means (such as personal selling). This factor gives an added significance to the role of advertising.

Role of advertising in society

Advertising creates awareness among masses regarding their needs and the availability of goods to satisfy those needs. By repeated advertisement, a desire to possess the goods is aroused. Those people who do not have sufficient purchasing power, work extra hard to earn more income to purchase goods and services. Thus, advertising motivates people to earn more and buy more goods. This increases the standard of living of the people. Advertising also generates employment. It helps artists by making available more job opportunities. It also supports the press.

Intext Question 25.1

1. Which of the following statements are correct and which are incorrect ? Write 'C' against correct statements and 'I' against incorrect statements:
 - i) Advertising is a personal communication of messages.
 - ii) The message advertised may be oral or in writing.
 - iii) Advertising is done by wholesalers only.
 - iv) The aim of sending a message in any advertisement is to inform the customers about the availability of product.
 - v) There is only one medium of advertising. i.e newspapers.
 2. Fill in the blanks with suitable words from those given within brackets against each sentence:
 - i) Goods are produced these days on a large scale in anticipation of _____ demand. (past, future)
 - ii) Goods produced can be sold only if there exists _____ demand for them. (sufficient, less)
 - iii) The objective of advertising in case of competition is to see that the _____ for the firm's product is maintained at the existing level. (price, demand)
 - iv) In advertising, the business firms highlight the importance they attach to _____ satisfaction. (consumer, producer)
 - v) In the absence of advertising, firms _____ reach the consumers in large numbers. (can, cannot)
-

25.5 Essentials of good advertising

Good advertising is that which achieves its objectives. It should have the following features:

1. It must be able to attract the customers' attention to the advertisement. An advertisement which goes unnoticed by existing
-

or potential customers is a waste of money.

2. The customer should read or listen to or view the advertisement. The purpose of advertisement to educate the customers can be achieved, only if the message contained in the advertisement is properly communicated to them.
3. The customer should act in the desired manner. The aim of advertising is to create and sustain demand for goods and services. Good advertising is one which is able to create and sustain demand for goods and services.

Requisites of good advertising

Good advertising requires that advertising be undertaken on a scientific basis, so that it is both effective and efficient. In other words, the advertising programme should be so designed that the objectives of advertising are achieved at the least cost. A scientifically designed advertisement programme involves the following four phases:

- (i) **Investigation Phase** : This phase involves collecting facts on the following matters
 - (a) The customers, both the existing or prospective, to whom advertising is to be directed.
 - (b) The needs and requirements of customers and how the product to be advertised will meet these requirements.
 - (c) Factors or reasons that motivate customers to buy a product.
 - (ii) **Budgeting and media planning** : This phase involves determining the amount of money to be spent on advertising programme and the media to be used.
 - (iii) **Implementing the advertising programme** : This phase involves actual advertising. It involves preparation of an advertisement copy and its communication to the customers through the selected media.
 - (iv) **Ascertaining performance** : This phase involves finding out the
-

results of advertising. This is done to ascertain the effectiveness of advertising programme. This helps in improving advertising in future.

Intext Questions 25.2

State whether the following statements are true or false by writing 'T' against true statements and 'F' against false statements :

- i) Good advertising is one which is able to achieve its objectives.
 - ii) An advertisement which goes unnoticed by potential customers is waste of money.
 - iii) The function of advertising is not to educate the customer but only to create demand for the product.
 - iv) The object of advertising is to achieve its aims at the least costs.
 - v) Ascertaining performance means to ascertain the effectiveness of advertising programme.
-

25.6 Advertising copy

Meaning

By 'advertising copy' we mean the contents, size, colour and presentation of the message of advertisement. The advertising copy may make use of different forms of expression depending on the media used. In case the media of advertising is radio, the contents of the message of advertisement may be words spoken or sung, music, etc. In case of television, words, pictures, animals, machines, songs, voice, dances, drama (written or spoken) form part of the content of message. If news papers and magazines are used as media of advertising, the advertising copy may have contents similar to television except voice.

Thus advertising copy refers to the form of presentation of message and its contents. It is different from the media of advertising.

Qualities of good advertising copy :

A good advertising copy is one which is seen and read. It conveys the message and is acted upon. A good advertising copy should have the following characteristics:

- (1) **Attention value** : It should be able to attract customers.
- (2) **Suggestive value** : It should suggest products which satisfy consumer needs.
- (3) **Memorising value** : It should enable consumers to remember the name of the product and the need it would satisfy.
- (4) **Conviction value** : It should be able to sufficiently convince the consumer regarding the truth of the message.
- (5) **Educational value** : It should educate the customer regarding the needs, products that satisfy these needs & uses of the same.
- (6) **Motivational value** : It should arouse a desire among consumers to possess the advertised product.

Drafting an advertising copy

The task of drafting an advertising copy is very important. The copy of advertisement affects the success of advertising campaign/programme.

Drafting an advertising copy requires a lot of imagination on your part. While drafting the copy, you have to decide the matter which will form part of the advertisement. You have unrestricted freedom in your task except that the advertising copy should not violate cultural values and legal laws. You can put all your imagination in the advertising copy.

Matter that you can use in the advertising copy

You can use different ideas in the advertising copy to convey your message. These ideas may consist of making use of songs, dialogues, dramas, dances, comedies, animals, machines, men and women, young, adult and old, oceans, rivers, sky, fields, social functions such as marriages, birthday parties, games, laboratories, factories, offices, homes, picnic spots, shops and things like that. These ideas are used to highlight

the product, its name and characteristics in such as way that the advertising copy contains all the desirable features.

As stated earlier, the advertising copy should have the attention value, educative value, suggestive value, memorising value, motivating value and conviction value. You should aim at incorporating all these values in the advertising copy through the use of imaginative ideas.

In order that the customer is able to remember the name of the product advertised, the name of the product should be frequently used in the advertisement. For example in an advertisement of Suzuki Motor Cycle, the words–Suzuki, No Problem, are used again and again which helps in memorising the product name. Similarly it may be used again and again either on the border or in the body of the advertising copy. The name of product may be given in the advertisement in an attractive manner. In this way advertising may help the reader or listner in remembering the product name.

Impact of advertising on sale of a product

The impact of advertising on sale of a product depends upon the effectiveness of advertising. If advertising is effective, it has a positive/ favorable impact on the sale of a product. Existing consumers continue to purchase the same product and maintain their brand loyalty. New consumers are also attracted to the product and buy it. This increases the sale of product.

However, if advertising is not effectives, sales may actually decline. This may happen because of competitive advertising done by competitors, which is more effective. The customers of a firm which is not able to effectively advertise, may change their loyalty and start buying other products. This results in decline in sales.

Intext Question 25.3

1. Fill in the blanks with suitable words :
 - i) By advertising copy is meant the contents, _____, colour and presentation of the message of advertisement.
 - ii) The advertising copy may make use of different forms of
-

_____ depending on the media used.

- iii) Advertising copy refers to the form of presentation of _____ and its _____.
- iv) Motivational value of advertising refers to arousing a desire among consumers to _____ the advertised product.
- v) The advertising copy should educate the customers regarding his needs, _____ that satisfy these needs & uses.

2. State whether the following statements in respect of an advertising copy are correct or wrong. Write 'c' against correct and 'w' against wrong statements:

- i) Advertising copy affects the success of advertising campaign.
- ii) Drafting an advertising copy does not require lots of imagination on the part of advertiser.
- iii) Advertising copy should have only attention value.
- iv) In order that the customer is able to remember the name of the product, it is frequently used in the advertisement copy.
- v) The name of the product should be given in the advertisement in an attractive manner.

25.7 Media of Advertising

Advertising media means the channel of communication through which advertisement message is sent to the customers. They are the vehicles of carrying messages from advertisers to the customers. Businessmen use several media to send messages. The more important of these media are :

- 1. Press Advertising
 - a) Newspapers

b) Periodicals

2. Radio Advertising :
3. Television Advertising
4. Film Advertising
5. Outdoor Advertising
6. Direct Mail Advertising

The media of advertising listed above differ from each other with respect to cost, coverage, presentation and effectiveness. The choice of appropriate media of advertisement is important for the success of advertising programme.

Suitability of different media of advertising

Different media of advertising are suitable for different products. The suitability of different media of advertising for different products is outlined below.

Newspapers :

Newspapers are an important source of news and views. Reading newspapers has become a regular habit of crores of people living in cities and villages. Hence businessmen make use of newspapers to advertise their products in a big way.

Suitability of newspapers as media of advertising :

Newspapers may be regarded as a suitable media for advertising consumer products used by masses. Such products include both consumer durables as well as consumer non-durables. Various services are also advertised through newspapers. Some of the products regularly advertised through newspapers are television, music systems, motor cycles, scooters, refrigerators, washing machines, cars (all consumer durables) or products such as washing powders, soaps, oils, footwears, tooth pastes, clothes, etc. (all consumer non-durables).

Unsuitability of newspapers as media of advertising

Newspapers are not suitable for advertising industrial products (products

used by industry for further production of goods) or products used by professionals such as doctors, lawyers, chartered accountants, scientists or players. Some such products are cement manufacturing machine, surgical equipment used by doctors, law books and reports, etc.

Reasons

Advertisement for consumer products published in newspapers reach millions of people who are the present or potential customers of the products. Such advertisements are therefore beneficial to the advertisers. If Industrial products are advertised through newspapers, the value of advertisement is lost as most of the people who read newspapers do not use industrial products.

Television

Television has become an important source of entertainment, news and views to people both literate and illiterate, living in cities and villages and young and old. Due to its wide coverage, greater flexibility in designing the advertising copy, and appeal to the customers, television has become a very important media of advertising. Television is used extensively by manufacturers to advertise their products & services.

Suitability :

Television is suitable for advertising consumer products. Television offers extra benefit of greater flexibility in designing and reaching consumers over newspapers. As television is mainly a source of entertainment, it is watched by literate as well illiterate people and hence has a wider reach than news papers. It is more flexible as the advertisement can make use of more features than newspapers and radio. Time of advertising can also be decided in such a way that the advertisement is watched by the maximum number of people.

Unsuitability

Television like newspaper is not suitable for advertising industrial products or products used by special categories of people such as doctors, players, lawyers, scientists etc.

Reasons : Same as in the case of newspapers.

Radio :

Radio is also a source of entertainment, news and views just as television is. However television has become more popular now a days and popularity of radio has declined, due to extra features of television (viewing is an extra feature of television). Radio is used to advertise consumer products. Industrial Products are not advertised on radio.

However, radio is losing its importance as a media of advertising in comparison with television and newspapers.

Magazines and Journal :

Magazines and journals are print media like newspapers. These generally publish views of different people on various issues as well as stories and poems and jobs etc. These are read by a limited number of people and do not have as wide a circulation as newspapers. Therefore, only such products are advertised through magazines and journals which are of interest to the readers of these publications.

For example, if some magazine is mainly read by women, products used by women are advertised through the magazine. Famina is one such magazine. Sport goods are generally advertised through sports magazines. One such magazine is Sports Star. Medicines and medical equipments are advertised through medical journals.

Thus, magazines and journals are suitable for advertising products of special type, used or purchased by only a particular section of the society.

Film advertising

Movie film is an important source of entertainment. Consumer products can be advertised through cinema houses. However, the reach of such advertisements is very limited. Cinema as a source of entertainment is expensive in comparison with television and radio. Viewership is less. Due to this reason, film advertising may be expensive, considering the number of viewers. In modern times, film advertising has only a limited role to play in the advertising campaign of business firms.

Conclusions :

It can be safely concluded that newspapers and television are generally superior to other media, through which consumer goods produced on a

mass scale may be advertised for maximum benefit.

For advertising industrial products or products used/purchased by a particular section of society, magazines and journals may be preferable.

Goods and services which are locally consumed may be advertised through cinema or outdoor advertising like posters, banners, handbills, etc.

Intext Questions 25.4

1. Fill in the blanks with suitable word/words :
 - i) Advertising media means the _____ of communication through which advertisement message is sent to the customers.
 - ii) Different media of advertising are _____ for difference products.
 - iii) Newspapers happen to be suitable media for advertising _____ products used by masses.
 - iv) Magazines and Journals are suitable for advertising products of _____ type purchased by only a particular section of society.
 - v) Television is not suitable for advertising _____ products.
 2. State whether the following statements are correct or incorrect. Write 'C' against correct and 'I' against incorrect statements:
 - i) Newspapers are most suitable for advertising consumer products.
 - ii) Television is suitable for advertising products used by special class of people such as doctors, lawyers etc.
 - iii) Cinema advertising is suitable for advertising goods and services that are locally consumed.
 - iv) Advertising on radio is losing importance in comparison with television.
-
-

25.8 What you have learnt :

Advertising

Advertising is an impersonal communication of messages.

- The message may be oral or in writing
- The message relates to some idea, product or service.
- The message is sent by manufacturers, wholesalers and retailers.
- The message is sent to a target group of people – existing and prospective customers – for their information about their needs.
- The messages may be communicated through different media.

Objectives of Advertising

1. To create demand for products
2. To sustain demand for products
3. To create and enhance goodwill of the advertising firm.
4. To establish and enhance brand image.
5. To help salesmen in selling the products.

Essentials of good advertising

1. It should be able to attract customers.
2. It should ensure that customers read or view it.
3. It should aim at creating and sustaining demand of good.

Requisites of good advertising

It should be designed on scientific basis. There are four phases of scientifically designing an advertisement :

1. Investigation phase.
 2. Budgeting and media planning
-

3. Implementing the advertising programme.
4. Ascertaining performance

Advertising copy

It refers to the form of presentation of message and its contents.
A good copy of advertisement should have –

1. Attention value
2. Suggestive value
3. Memorising value
4. Connection value
5. Education value
6. Motivational value.

Media of Advertising

It means the channel of communication through which advertisement messages may be sent to the customers.

Type of media :

- a) Press Advertising - (i) Newspapers, (ii) Periodicals.
- b) Radio Advertising
- c) Television Advertising

25.9 Terminal Exercises

1. Explain briefly the term advertising and state its characteristics.
 2. What are the main objectives of advertising? Explain in brief.
 3. “Advertising plays an important role in business and society”, Discuss.
 4. Explain, in brief, the essentials of good advertising.
-

5. What is meant by 'Advertising Copy'? State the qualities of a good advertising copy.
6. "Newspapers are not suitable for advertising industrial products". Do you agree with this statement? Give reasons.
7. Do you consider television a suitable medium for advertising consumer products?
8. What is the impact of advertising on sale of a product? Explain briefly.
9. What considerations will you keep in mind while drafting a copy of advertisement? Explain in detail.
10. Name any four items which are suitable for advertisement in magazines and journals.

25.11 Answers to Intext Questions

- 25.1** 1. i) I ii) C iii) I iv) C v) I
2. i) future ii) sufficient iii) demand
iv) consumers v) cannot
- 25.2** i) T ii) T iii) F iv) T v) T.
- 25.3** 1. i) size ii) expressions iii) message, contents,
vi) possess v) products
2. i) e (ii) w iii) w iv) c v) c
- 25.4** 1. i) Channel ii) suitable iii) consumer
iv) special v) industrial
2. i) C ii) I iii) C iv) C
-

Karpagam Academy of Higher Education

Coimbatore - 641021

Department of Commerce

III B. Com. CA

End Semester Practical Examination Oct. 2017

COMMERCE PRACTICAL – 15CCU512

Split up

Date:24.10.2017 FN

TIME:9.30 FN to 12.30 AN

1. Preparation of purchase book, sales book, purchase return book, sales return book
bills receivable book and bills payable book
 2. Preparation of cost sheet and bin card
-
1. Preparation of entry pass, Gate pass
 2. Post office Money order form
-
1. Preparation of Inward mail and outward mail register
 2. Life insurance and mutual funds – account opening
-
1. Preparation agenda and meeting minutes
 2. Computation of tax liability, PAN, Filling form -16, Preparation of Saral form
-
1. Preparation of an Advertisement copy, collection of Advertisement in dailies and journal
 2. Filling jewel application for, releasing of jewellery in jewel loans and repayment
-
1. Filling up loan application forms and deposit challen
 2. Opening of savings Account, Current Account and FDR's
-
1. Drawing, Endorsing and crossing of cheques, Bills of Exchange and Promissory note
 2. Application of share & allotment, letter of shares and transfer of shares
-
1. Filling up application forms for admissions to co-operative societies
 2. Preparation of entry pass, Gate pass