

## 404 AEC Agriculture Accounting

### Lecture#3

#### Subdivision of the Journal

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#### Subdivision of the Journal:

Where the number of transactions are many it would be time consuming and cumbersome if each and every transaction were to be entered in a single Journal. Usually firms maintain subsidiary books to record transactions. These books are:

1. Cash Book (to record cash and bank transactions)
2. Petty Cash Book (to record cash payments involving small amounts)
3. Sales Book (to record credit sales)
4. Purchase Book (to record credit purchases)
5. Sales Return Book (to record return from customers)
6. Purchase Returns Book (to record return to suppliers)
7. Bills Receivable Book (to record acceptances received)
8. Bills Payable Book (to record acceptances given)
9. Journal Proper (to record transactions which cannot be entered in any of the above specialized Journals)

#### 1-Cash Book

All transactions relating to each cash are recorded in the cash book, and on the basis of such a record ledger accounts are prepared. The different types of cash book are:

1. Simple Cash Book containing Cash Column only
2. Two Column Cash Book containing both Cash Column and Bank Column
3. Three Column Cash Book containing Cash, Bank and Discount columns.

##### (a) Simple Cash Book

The simple cash book is maintained strictly for cash transactions, a bank book being maintained separately for bank transactions. The form of a simple cash book is like that of any other account and is as follows:

Dr.				Payments				Cr.
Date	Particulars	LF	Amount	Date	Particulars	LF	Amount	

##### (b) Two Column Cash Book

Unlike the simple cash book the Two Column Cash Book combines both bank and cash transactions for the sake of convenience due to the ever increasing bank transactions. The ruling of this book is –

Dr. Receipts					Payments Cr.				
Date	Particulars	LF	Cash	Bank	Date	Particulars	LF	Cash	Bank

The cash book is so ruled that the debit column of cash and bank are placed alongside each other likewise with the credit column of cash and bank. The bank column contains details of payment made by cheques and money received and paid into the bank A/c.

In the folio columns the letter “C” is used whenever cash is being paid into the bank or there is a receipt from the bank, “C” means contra item and described transaction affecting only cash and bank accounts.

#### Illustration 2:

Enter the following transactions in a two column cash book, 1997

- Jan 1 Balances brought down – bank Rs. 5,000 and cash Rs. 450
- Jan 3 Withdrew Rs. 2,000 from bank
- Jan 5 Bought goods for Rs.1,500 paying by cheque
- Jan 8 Purchased stationery by cash Rs.50
- Jan 11 Paid electricity bill Rs.100 by cheque
- Jan 15 Sold goods for Rs.2,000 and received cheque
- Jan 20 Paid into bank Rs.150

Dr. Receipts					Payments Cr.				
Date	Particulars	LF	Cash	Bank	Date	Particulars	L F	Cash	Bank
1997									
Jan 1	To Balance b/d		450	5,000	Jan 3	By Cash	C		2,000
Jan3	To Bank	C	2,000		Jan 5	By Purchases			1,500
Jan15	To Sales			2,000	Jan 8	By Stationery		50	
Jan20	To Cash	C		150	Jan11	By Electricity			100
					Jan20	By Bank	C	150	
					Jan30	By Balance		2,250	3,550
			2,450	7,150				2,450	7,150
Feb 1	To Balance b/d	2,250	3,550						

Payments can easily be identified as either cash or bank payments. If a payment is made directly from bank account e.g., by a standing order it appears in the bank account column. Payments of cash are entered in the cash column. When an amount is received by cheque it should be recorded directly in the bank column. The banking on any cash is a separate transaction.

#### (c) Three Column Cash Book:

The three column cash book has the cash and bank discount column. Cash discount is an incentive given to customers to pay before the date specified. It encourages early payment and when given to a customer is a loss and when received from a supplier is a gain. Since this discount arises only when cash is received or paid it is recorded in the cash book, discount allowed on the debit side and discount received on the credit side of the cash book.

The discount columns are total led and not balanced. The form of a three column cash book is illustrated with the following example:

**Illustration 3: 2003**

- May 1 Balances Brought down – bank Rs. 3080, cash Rs. 709
- May 2 Paid wages in cash Rs. 218
- May 4 Received Rs. 177 cash from Kiran after allowing him a discount of Rs. 13.
- May 6 Paid Ravi Rs.188 after deducting discount of Rs. 12 by cheque.
- May 8 Received cheque for Rs. 485 from Ali after allowing him a discount of 3%.
- May 10 Received cash from Joshi of Rs. 145.5 a discount 3% being deducted.

Dr.						Cr.					
Receipts			Payments								
Date (may)	Particulars	LF	Disc allowed	Cash Rs.	Bank Rs.	Date (may)	Particulars	LF	Disc Rec.	Cash Rs.	Bank Rs.
1	To balance b/d			709	3080	2	By wages			218	
4	To kiran		13	177		6	By ravi		12		188
8	To Ali		15		485						
10	To joshi		4.5	145.5		11	By balance c/d			813.5	3377
			32.5	1031.5	3565				12	1031.5	3565
11	To balance b/d			813.5	3377						

The total of the debit discount column i.e., discount allowed is transferred to the discount allowed account in the ledger. Similarly, discount received (credit discount column) is transferred to the discount received account in the ledger.

**2-Petty Cash Book:**

In any business there will be numerous small cash payments. It would be advantageous if these payments could be kept separate from the main cash book. This separate book is called Petty Cash Book.

**Advantages of maintaining a Petty Cash Book are:**

- It saves the time of the General Cashier.
- (ii) As the record of Petty Cash is checked by the cashier periodically, so the mistake is rectified immediately.
- (iii) Under Imprest System, the Petty Cashier is not allowed to keep idle cash with him.

- d) (iv) The chance of misappropriation is less.
- e) (v) It trains the staff to handle money with responsibility.
- f) (vi) It reduces the work load of general Cashier and the volume of General Cash Book becomes small.

#### **The Imprest System:**

In this system the cashier gives the petty cashier a fixed amount of cash to meet his needs for the ensuring period. At the end of the period the cashier ascertains the amount spent by the petty cashier and reimburses the same to him. The petty cash in hand will then be equal to the original amount at the beginning of the period.

Amount given by cashier at the beginning	Rs. 200
Expenses during the period	Rs. 142
Petty cash in hand	Rs. 58
Reimbursement from cashier	Rs. 142
Petty cash at the end of the period	Rs. 200

#### **Illustration 4: 2003**

July 1 The cashier of a firm gives Rs. 200 as imprest to the petty cashier. Payments of petty cash during July are :

- July 2 Postage stamps purchased Rs. 10
- July 3 Pencils bought Rs. 3
- July 4 Busfare Rs. 3
- July 5 Cleaning charges Rs. 15
- July 6 Wages to coolie for shifting furniture Rs. 15
- July 9 Taxi fare paid Rs. 10
- July 10 Refreshments bought for customers for Rs. 17
- July 14 Telegram charges Rs. 7
- July 15 Stationery bought Rs. 9
- July 17 Repair of chair Rs. 12
- July 18 Battery for clock purchased Rs. 6
- July 21 Stamps bought Rs.8
- July 23 Spare keys made for manager's cabin Rs.5
- July 24 Busfare Rs. 2
- July 26 Casual labour Rs. 9
- July 27 Carbon paper Rs.5
- July 29 Newspaper (special edition) Rs. 3
- July 30 Busfare Rs. 3

Write up the petty cash book, cash book and the necessary ledger accounts.

Petty Cash Book										
Dr.	Receipt			Payment						Cr.
Date 2003	Particular	Amt. Rs.	Receipt Date 2003	Particular	Total Rs.	Postage	stationary	Travelling	Cleaning Payment	Other Expns.
July1	To cash book	200								
			Jul2	By Postage	10	10				
			3	By Stationary	3		3			
			4	By Travelling	3			3		
			5	By Cleaning	15				15	
			6	Other Expns.	15					15 wages to colic
			9	By Travelling	10			10		
			10	Other Expns.	17					17 refreshment
			14	By Postage	7	7				
			15	By Stationary	9		9			
			17	Other Expns.	12					12 Repair of chair
			18	Other Expns.	6					6 battery
			21	By Postage	8	8				
			23	Other Expns.	5	5				5 spare Key
			24	By Travelling	2			2		
			26	Other Expns.	9					9 Casual labor
			27	By Stationary	5		5			
			29	Other Expns.	3					3Newspaper (spl.Edition)
			30	By Travelling	3					
					142	25	17	18	15	67
			31	ByBalance b/d	58					
					200					
Aust1	To Balanc e b/d	58								
Aust1	To Cash	142								

Dr. Cash Book Cr.									
Date	Particulars	LF	Cash	Bank	Date	Particulars	LF	Cash	Bank
2003			Rs.	Rs.	(2003)			Rs.	Rs.
					Jul1	To Petty Cash		200	

### General Ledger

Dr. Travelling Account Cr.					
Date	Particulars	Amount	Date	Particulars	Amount
2003		Rs.	2003		Rs.
July31	To Petty Cash	18			

Dr. Printing & Stationery Account Cr.					
Date	Particulars	Amount	Date	Particulars	Amount
2003		Rs.	2003		Rs.
July31	To Petty Cash	17			

Dr. Postage & Telegram Account Cr.					
Date	Particulars	Amount	Date	Particulars	Amount
2003		Rs.	2003		Rs.
July31	To Petty Cash	25			

Similarly there will be Clearing Expenses and Other Expenses Accounts.

### 3-Sales Book:

The sales book records all credit sales of goods of business, cash sales are recorded in cash book.

The form of a sales book can be explained with the following example: *Transactions of Beauty Ltd, 2003*

- June 1 Sold to P Ltd. 25 jars of cream @ Rs. 37 and 200 packets of powder @ Rs. 9.50 each less T.D. @ 10%.
- 2 Sold old books to B Ltd. on credit Rs. 750
- 4 Sold to S stores 35 packets of powder @ Rs. 9.50 for cash.
- 7 Sold to A departmental stores 310 packets of powder @ Rs. 9.50 and 40 jars of cream @ Rs. 36 each less T.D. @ 10%.

Sales Book					
Date	Particulars	LF	Invoice	Amount	Amount
2003			No.	Rs.	Rs.
Jun1	P. Ltd. - 25 jars of cream@Rs. 37			925	

Jun 7	- 200 packets of powder@Rs.9.5			1,900	
				2,825	
	Less : T.D. @ 10%			282.5	2,542.5
	A Departmental Stores				
	– 40 jars of cream @ Rs. 36			1,441	
	– 310 packets of powder @ Rs. 9.5			2,945	
				4,385	
	Less : T.D. @ 10%			438.5	3,946.5
					6,489

**Note.** Cash sales and sale of the old books (asset) in cash are not entered in the sales book. Trade discount is allowed where a customer purchases goods above a certain quantity or amount. Only the net amount i.e., after deduction of trade discount is considered. No entry is made in the ledger accounts.

Sales Account					
Dr.					Cr.
Date	Particulars	Amount	Date	Particulars	Amount
2003		Rs.	2003		Rs.
June 1	To Balance c/d	6821.5	4	By Cash	332.5
			7	By Sales as per sales book	6489
		6821.5			6821.5

**Difference between Trade discount and Cash discount**

Cash Discount	Trade Discount
When payment is made earlier than the stipulated date.	It is normally allowed on purchases.
Cash discounts allowed/ received are accounted for in the ledger.	Trade discount is not entered in ledger.
It is not deducted from the invoice.	The amount of trade discount is deducted from the invoice.

#### 4-Purchase Book:

The purchase book records all credit purchases of goods of business, cash purchases and credit purchases of assets are not entered in this book. The form of a purchase book can be explained with the following illustration.

#### Illustration 5:

Transaction of M/s Sporting Ltd, 2003

July 1 Purchased from Indian Sports Co. on credit 75 cricket bats at Rs. 100 each 90 footballs at Rs. 80 each less trade discount at 10%.

July 3 Purchased from Gripwell Co. 45 hockey sticks at Rs. 85 each for cash.

July 7 Purchased vacuum cleaner for office use from M/a Spic & Span on credit Rs. 3050

July 8 purchased on credit from Wicket Pvt. Ltd. 40 Cricket bats at Rs. 105 each 70 footballs at Rs. 82 each less trade discount at 10%

July 9 Purchased from Green & Co. 15 Hockey sticks at Rs. 75 each on credit.

Purchase Book				
Date 2003	Particulars	LF	Amount Rs.	Amount Rs.
Jun1	Indian Sports Co. 75 Cricket bats @ Rs. 100 each		7,500	
	Footballs @ Rs. 80 each		7,200	
			14,700	
	Less : Trade Discount 10 %		1,470	13,230
Jun 8	Wicket Pvt. Ltd. 40 Cricket bats @ Rs. 105 each		4,200	
	70 Footballs @ Rs. 82 each		5,740	
			9,940	
	Less : T.D. @ 10%		994	8,946
Jun 9	Green and Company 15 Hockey Sticks @ Rs. 75 each			1,125
	Total			23,301

Cash purchases of goods and purchase of assets (i.e., vacuum cleaner) are not entered in the purchase book. From the purchase book a purchase account is prepared.

**Note.** The Purchase account records the cash purchases also.

Purchase Account							
Dr.				Cr.			
Date (Jul, '03)	Particulars	JF	Amount Rs.	Date (Jul, '03)	Particulars	JF	Amount Rs.
3	To Cash		3,825	Oct 9	By Balance c/d		27,126
9	To Purchases as per purchase book		23,301				
			27126				27126

Purchase Ledger					
Dr.			Cr.		
Date (Jul, '03)	Particulars	Amount Rs.	Date (Jul, '03)	Particulars	Amount Rs.
			1	By Purchases A/c	
				Wicket Pvt. Ltd	8,946
			8	By Purchases A/c	23,301



### 5-Sales Return Book:

The sales return book is also known as Returns Inward Book. Where customers frequently return the goods sold to them it would be convenient to record the returns in a separate book called the Sales Return Book. Where goods are returned by customers a document known as credit note will be sent to them, showing the amount of allowance given in respect of the returns. The term credit note takes its name from the fact that the customer's account will be credited with the amount of the allowance, so as to show the reduction in the amount owed by him. The Sales Return Book is illustrated below with assumed figures:

Date (July 2003)	Particulars	JF	Amt. Rs.	Amt. Rs.
5	Indian Glassware Co. 20 Glass Cups @ Rs. 8 Less : Trade Discount @ 10%		160 16	144
27	Hindustan Dept. Stores 15 Coffee Cups @ Rs. 10 Less : Trade Discount @ 10%		150 15	135
	Total			279

The form of credit note is illustrated below:

Date (July 2003)	Particulars	JF	Amt. Rs.	Amt. Rs.
	to			Indian Glassware Co. 15,N.S.C.Road Chennai-600 052
	Bric - A - Brac Co. Ltd. 19, Lal Street, Delhi - 110 103			
		Credit Note No.		166
		8/83 Per unit Rs.		
	20 Glass Cups	8		16
	Less:Trade discount 10%		Total	144

The total of the Sales Return Book is transferred to the sales returns account.

Sales Return Account							
Dr.							Cr.
Date (2003)	Particulars	JF	Rs. P.	Date (2003)	Particulars	JF	Rs. P.
Jul 31	To Sales returns as per sales		279	Jul 31	By Balance c/d		279

	return book						
			279				279
Aug 1	To Balance b/d		279				

Dr. Indian Glassware Co. Account				Cr.			
Date (2003)	Particulars	JF	Rs. P.	Date (2003)	Particulars	JF	Rs. P.
Jul 31	To Balance c/d		144	Jul 5	By Sales Returns		144
			144				144
				Jul 6	By Balance b/d		144

Dr. Hindustan Departmental Store				Cr.			
Date (2003)	Particulars	JF	Rs. P.	Date (2003)	Particulars	JF	Rs. P.
Jul 27	To Balance c/d		135		By Sales Returns		135
			135				135
				Jul 28	By Balance b/d		135

#### 6-Purchases Returns Book:

When goods are returned to suppliers these are recorded in the Purchases Returns or Returns Outward Book. A debit note is sent to the supplier stating the amount of allowance to which the firm returning the goods is entitled. The term Debit Note stems from the fact that as the liabilities to the supplier is accordingly reduced and his personal account must be debited to record this. The Return Outward book is illustrated below.

Date	Particulars	JF	Rs.	Rs.
May 15	Travel Luggage Co. 2 40" Suitcases @ Rs. 500 Less : Trade discount @ 10%		1,000 100	900
May 26	Bags & Bags Co One 24" travel bag			200
	Total			1,100

The total of the Returns Outward Book is transferred to the Returns Outwards account.

Dr. Return Outward Account				Cr.			
Date	Particulars	JF	Rs. P.	Date	Particulars	JF	Rs. P.
May31	To Balance c/d		1,100	May31	By Returns		1,100
					Less : Outwards as per Returns Outwards Book		
			1,100				1,100

				June 1	By Balance b/d		1,100
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Dr. Travel Luggage Co.				Cr.			
Date	Particulars	J F	Rs. P.	Date	Particulars	J F	Rs. P.
May15	To Returns Outward		900	May15	By Balance c/d		900
			900				900
May16	To Balance c/d		900				

Dr. Bags & Bags Co.				Cr.			
Date	Particulars	J F	Rs. P.	Date	Particulars	J F	Rs. P.
May26	To Returns Outward		200	May26	By Balance c/d		200
			200				200
May27	To Balance b/d		200				

#### 7-Bills Receivable Books:

When the number of bills or promissory notes received is large, instead of journalizing each receipt of bills, which would be cumbersome, a register to record all receipts of bill is maintained. Every month this register is totaled. Receipts of cash in respect of bills will be recorded in the cash book. Only the endorsement of bills in favor of other parties or dishonor will be journalized. The Bill Receivable Book can be illustrated with the following example :

Illustration

X received the following bills:

Sept 5 Drew on A a bill of exchange at 3 months which was accepted and returned by him on 5th Sept. 2002 The amount being Rs. 1,500.

Sept 20 Drew on C a bill of exchange for Rs. 2,500 at 2 months which was accepted on the same day. The bill was payable at Union Bank of India.

Sr. No.	From whom received	Acceptor	Date of bill	Term	Date of maturity	Amount	How disposed of
1	A	A	Sept5	3mths	Dec. 8	1,500	
2	C	C	Sept20	2mths	Nov 23	2,500	
						4,000	

The total of the Bills Receivable is transferred to the Bills Receivable A/c.

#### 8-The Bills Payable Book

The Bills Payable Book recording the acceptances given can be illustrated with the following example.

**Illustration 7:**

M accepted the following bills, 2002

Aug 13 Accepted P's bill for Rs. 3,000 due in one month.

Aug 17 Accepted Q's bill for Rs. 5,000 due in two months payable at Canara Bank

Bills Payable Book							
Sr. No.	Date of issue	To whom given	Term	Date of maturity	Where maturity	Amount Rs.	Remarks
1	Aug 13	P	1 mth	Sep 16	---	3,000	
2	Aug 17	Q	2 mth	Nov 20	Canara Bank	5,000	
						8,000	

Bills Payable Account							
Dr.				Cr.			
Date	Particulars	J	Rs. P.	Date	Particulars	J	Rs. P.
		F		2002		F	
				Aug 31	By Sundries as per Bills Payable Book		8,000

P's Account							
Dr.				Cr.			
Date	Particulars	J	Rs. P.	Date	Particulars	J	Rs. P.
2002		F		2002		F	
Aug 13	To Bills Payable A/c		3,000				

Q's Account							
Dr.				Cr.			
Date	Particulars	J	Rs. P.	Date	Particulars	J	Rs. P.
2002		F		2002		F	
Aug 17	To Bills Payable A/c		5,000				

**9-Journal Proper:**

All transactions which do not find place in the subsidiary books find place in the journal proper. Opening entries, closing entries, adjustment entries, rectification entries etc. appear in the journal proper. (All these entries are explained in detail in subsequent Study Notes).

e.g. Purchase of fixed asset on credit :

Asset A/c

Dr.

To Creditor's A/c

e.g. Drawings made by the proprietor

*a) Cash drawn*

Drawings A/c

Dr.

To Bank/Cash A/c

*b) Goods withdrawn at sale or purchase price for personal use :*

Drawings A/c

Dr.

To Purchase/Sale A/c