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Odisha State Open University, Sambalpur, Odisha

Established by an Act of Government of Odisha.

Diploma in Accounting

DIA-1

BASIC ACCOUNTING

Block

3

Unit-I

SUBSIDIARY BOOKS -1

Unit-II

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Unit-III

BANK RECONCILIATION STATEMENT

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Unit – I
Subsidiary Book-1

Learning Objectives:

After studying this lesson, you will be able to know:

Meaning of Subsidiary Books, features of Subsidiary Books, objective of Subsidiary Books, Different types of Subsidiary Books, Advantages and importance of Subsidiary Books, Invoice, Debit Note and Credit Note and Difference between debit note and credit note, .

Structure:

1.1Introduction:

1.2Meaning of Subsidiary Books:

1.3Different types of Subsidiary Books

1.4 Objectives for Subsidiary Books

1.5 Advantages of Subsidiary Books

1.6 Importance of Subsidiary Books

1.7 Disadvantages of Subsidiary Books

1.8 Invoice

1.9 Debit note

1.10 Credit note

1.11 Difference between Debit note and Credit note

1.1 Introduction:

Most of the big companies are recording the business transactions in one journal and the posting of the same to the concerned ledger accounts are very difficult tasks and which require more clerical labour also. For avoiding such kind of difficulties most of the business organizations are subdividing the journal in to subsidiary journals or subsidiary books. Subsidiary books are those books of original entry in which similar nature of transactions are recording in a chronological order. Subsidiary book may be defined as a book of prime entry in which transactions of a particular category are recorded. In other words, in order to save time and energy, the transactions which are of similar character are recorded in separate books; these are called subsidiary books or subdivision of journal. A number of subsidiary books are maintained by the organization.

1.2 Meaning of Subsidiary Books:

Subsidiary Books are those books of original entry in which transactions of similar nature are recorded at one place and in chronological order. In a big concern, recording of all transactions in one Journal and posting them into various ledger accounts will be very difficult and involve a lot of clerical work.

This is avoided by sub-dividing the journal into various subsidiary journals or books. The sub-divisions of journal into various subsidiary journals for recording transactions of similar nature are called as 'Subsidiary Books.'

1.3 Different types of subsidiary books

The different subsidiary books and their purpose are shown below:

1. Purchases Day Book – for recording credit purchase of goods only. Cash purchase or assets purchased on credit are not entered in this book.

2. Sales Day Book – for recording credit sales of goods only. Assets sold or cash sales are not recorded in this book.

3. Purchases Returns Book – for recording the goods returned to the suppliers when purchased on credit.

4. Sales Returns Books – for recording goods returned by the customers when sold on credit.

5. Bills Receivable Book – for recording the bills received [Bills Receivables] from customers for credit sales.

6. Bills Payables Book – for recording the acceptances [Bills Payables] given to the suppliers for credit purchases.

7. Cash Book – for all receipts and payments of cash.

8. Journal Proper – for recording any transaction which could not be recorded in the above-mentioned subsidiary books. For example, assets purchased or sold on credit and opening entry etc., are entered in this book.

Purchase Day book (Purchase Register) is the book of original entry in which all the transactions relating to only credit purchase are recorded. Cash purchases do not find place in purchase day book as they are recorded in Cash book. At the end of every month purchase day book is totaled. The total amount show the total goods purchased on credit. The total of purchase book is debited to the purchase account and the accounts of the suppliers of goods are credited with the amount standing against their names. Ruling of purchase day book is different from a journal. There are five columns in a purchase day book: first column records Date, second column records name of the supplier, quantity supplied, Rate at which quantity supplied, description, etc. , third column records Invoice number, fourth column records Ledger Folio, fifth column records total amount to the supplier

Sales Book

In this book are recorded all goods sold on credit. The ruling is similar to that of purchases book. If there are cash sales they are recorded in cash book and sale of assets (distinguish between goods and assets) are recorded in the journal proper. The entries in the sales book are made from the copies of the invoices which have been sent to the customers along with the .goods. Such copies of the invoices may be termed as 'Outward invoice' Each such outward invoice should be numbered consecutively and the reference be given in the sales book along with the entry. .Posting. The net amounts of the invoices are posted to the ledger as follows: Debit the personal accounts of the customers with the value of sales to them. Credit Sales account with the periodical total.

Purchases Returns Book/ Return Outward Book

This book is also known as "Returns Outwards Book". It records all returns of goods bought. Goods purchased may have to be returned to the supplier for various reasons such as not up to sample or not ordered or damaged during the transit etc. The ruling of the return books is identical with the ruling of purchases book. Debit Note. While returning the goods to the suppliers a letter is sent to them for their information and stating therein that we have debited your account by this amount on account of goods being returned herewith for the reasons stated. Generally such "information letters' are printed with counterfoil. Debit notes are sent to the parties concerned the counterfoils providing the base for writing up the purchases returns book.

Sales Returns Book/ Return Inward Book

This book is also known as "Returns inwards book" . It records all returns of goods sold. Goods sold may be returned. by our customers for various reasons such as goods sent being of wrong description or inferior quality or damaged. Ruling is identical with the ruling of sales book. Credit Note: When a debit note is received along with the goods returned from the customer, it is a claim on us. If claim is accepted then Credit Note, usually printed in red ink, with full details is sent to the customer signifying our acceptance of the goods and customer's account being given the required credit. Counterfoils provide the base for writing up the Sales Returns Book.

Bills Receivable Book

All receipts of bills are entered in a book called bills receivable book. Whenever a bill of exchange is received its particulars are entered in the appropriate columns of the Bills Receivable Book. Posting from bills receivable book-The periodical total of the bills receivable book is posted to the debit of the bills receivable account in the ledger. Each entry in the book is posted to the credit of the individual account from whom the bill is received.

Bills Payable Book

The details of the bills accepted by a trader are recorded in the book known as Bills Payable Book. Posting of the bills payable book-The periodical total of the bills payable book is posted to the credit of the bills payable account in the ledger. Each entry in the book is posted to the debit of the individual account to whom the bill is granted

Journal proper:

It is one of the important journals or subsidiary books. It is a subsidiary book in which not all but only a few types of transactions are recorded. There are certain types of transactions which are not recorded in other subsidiary books but are recorded in the journal proper. These transactions, for example, include the transactions relating to drawings, outstanding expenses, accrued incomes, reserves, provisions, and interest on capital, drawing of goods and assets by proprietor, loss of goods by some reasons, and credit purchase and sale of other assets such as land, buildings, machinery, and furniture. In journal proper book, the transactions are recorded by passing journal entries based on the rules of debit and credit. The difference between Special Journal and Journal Proper are:

Difference between special journal and journal proper:

Special Journal:

- It records transactions of similar nature and is in the form of a statement.
- It arises as a result of credit transactions only and it is not a part of the double entry book-keeping system.
- It is necessary for preparation of the Trial Balance and it records only external transactions.
- Each transaction is not recorded in the ledger separately.
- A mistake in the journal proper is not rectified by a special journal.

Journal Proper:

- It does not record the transactions of similar nature and it is in the form of a journal.
- It arises not only due to credit transactions but for other reasons also; it is a part of the double entry book-keeping system.
- Some entries are recorded after the preparation of the trial balance and it records both internal and external transactions.
- Each transaction is recorded in the ledger separately.
- A mistake in the special journal is rectified by the journal proper.

1.4 Objectives of Subsidiary Books:

1. Simplify the re cording of business transactions in the books of original entry

2. To facilitate the classification of transactions according to their name.

3. To make it easier to locate any transaction recorded in the books of original entry.

4. To reduce the chances of error and frauds in the recording of business transactions in the books of original entry

5. To develop a systematic approach

1.5 Advantages of Subsidiary Books:

The following are the advantages of Subsidiary books or Special journal:

1. Saving of Clerical Labour:

Subsidiary books effect considerable saving of clerical labour in postings and narration. Transactions of any one class such as credit purchases, credit sales, cash transactions etc., are recorded through separate subsidiary journals and there is no need for giving narration.

For example, by recording the transactions in the Purchase Day book 50% of the labour in postings is saved. The periodical total of this book is to be debited to the Purchases a/c. Only the personal accounts of the suppliers are to be credited.

2. Division of Clerical Work:

As separate journals are used for recording the transactions of each particular type, the division of clerical labour amongst several office clerks becomes possible. This makes speedy record of day-to-day transactions practicable.

3. Minimizes Frauds:

These books make possible the introduction of internal check system under which the system of rotation of writing up books can be adopted. This helps minimizing errors and detecting frauds.

4. Facilitates Further Reference:

As transactions of similar nature are grouped together in a separate book, the further reference to any particular item is considerably facilitated

1.6 Importance of Subsidiary Books:

1. A significant advantage of these subsidiary books is that their use makes it possible for division of labour which is extremely important in a large organization. For instance, one clerk may record nothing but credit sales of goods, another nothing but purchases of goods on credit, another nothing but cash receipts and still another nothing but cash payments and so on.

2. The amount of space needed for the record of same transactions is lowered.

3. The volume of postings to ledger accounts is substantially minimized. For example, by using sales journal, it is possible to obtain the total amount of thousands of credit sales transactions from the amount column of the sales journal and post it as one credit to the sales account.

4. Work is delegated to each and every employee, which ensures in evaluating the efficiency of individual employees, as specialization usually leads to efficiency. When a specific task is done again and again, the activity may result in **enhanced efficiency** while it enables one to eliminate mistakes. That is how the efficiency can be increased amid the accountants of a business organization.

5. Accounting work is split to record transactions in a variety of subsidiary books. If the jobs are divided in such a fashion that the work of one person is automatically checked by someone else, it would be an easy task to identify errors and correct them immediately.

6. It becomes easy to access the details associated with a specific transaction as the transactions associated with one head are recorded in a separate book.

In earlier times, traders used to maintain record of the transaction in the journal. But it was later found not convenient. If all the transactions are noted in the journal then the journal grows more thick and hard to handle. In big business houses, it becomes extremely hard to carry on the work of recording business transaction. As a result nowadays large scale business firms like to keep record of transaction in subsidiary books as opposed to journal.

1.7 Disadvantages of the subsidiary book are:

1) Unsuitable for the small business.
2) Subsidiary book is Very expensive.
3) Subsidiary book never provides the complete information

1.8 Invoice:

An **invoice**, **bill** or **tab** is a commercial document issued by a seller to a buyer, relating to a sale transaction and indicating the products, quantities, and agreed prices for products or services the seller had provided the buyer.

Payment terms are usually stated on the invoice. These may specify that the buyer has a maximum number of days in which to pay and is sometimes offered a discount if paid before the due date. The buyer could have already paid for the products or services listed on the invoice.

In the rental industry, an invoice must include a specific reference to the duration of the time being billed. So in addition to quantity, price, and discount, the invoice amount is also based on duration. Generally, each line of a rental invoice will refer to the actual hours, days, weeks, months, etc., being billed.

From the point of view of a seller, an invoice is a *sales invoice*. From the point of view of a buyer, an invoice is a *purchase invoice*. The document indicates the buyer and seller, but the term *invoice* indicates money is owed *or* owing.

A typical invoice may contain:

- The word *invoice* (or *Tax Invoice*);
- A unique reference number (in case of correspondence about the invoice);
- Date of the invoice;
- Credit terms;
- Tax payments, if relevant (e.g., GST);
- Name and contact details of the seller;
- Tax or company registration details of seller, if
- Name and contact details of the buyer;
- Date that the goods or service was sent or delivered;
- Purchase order number (or similar tracking numbers requested by the buyer to be mentioned on the invoice);
- Description of the product(s);
- Unit price(s) of the product(s), if relevant;
- Total amount charged (optionally with breakdown of taxes, if relevant);
- Payment terms (including method of payment, date of payment, and details about charges for late payment.

Different types of invoices:

- **Pro forma** invoice — In foreign trade, a *pro forma* invoice is a document that states a commitment from the seller to provide specified goods to the buyer at specific prices. It is often used to declare value for customs. It is not an actual invoice, and thus the seller does not record a *pro forma* invoice as an account receivable and the buyer does not record a *pro forma* invoice as an account payable. A *pro forma* invoice is not issued by the seller until the seller and buyer have agreed to the terms of the order. In a few cases, a *pro forma* invoice is issued to request advance payments from the buyer, either to allow production to start or for security of the goods produced.

- **Credit memo** - If the buyer returns the goods, the seller usually issues a credit memo for the same or lower amount than the invoice, and then refunds the money to the buyer, or the buyer can apply that credit memo to another invoice.
- **Commercial invoice** - a customs declaration form used in international trade that describes the parties involved in the shipping transaction, the goods being transported, and the value of the goods.[9] It is the primary document used by customs, and must meet specific customs requirements, such as the Harmonized System number and the country of manufacture. It is used to calculate tariffs.
- **Debit memo** - When a company fails to pay or short-pays an invoice, it is common practice to issue a *debit memo* for the balance and any late fees owed. In function, debit memos are identical to invoices.
- **Self-billing invoice** - A *self billing invoice* is when the buyer issues the invoice to himself (e.g. according to the consumption levels he is taking out of a vendor-managed inventory stock).[10] The buyer (i.e. the issuer) should treat the invoice as an account payable, and the seller should treat it as an account receivable. If there is tax on the sale, e.g. VAT or GST, then buyer and seller may need to adjust their tax accounts in accordance with tax legislation.[11]
- **Evaluated receipt settlement (ERS)** - ERS is a process of paying for goods and services from a packing slip rather than from a separate invoice document. The payee uses data in the packing slip to apply the payments. "In an ERS transaction, the supplier ships goods based upon an Advance Shipping Notice (ASN), and the purchaser, upon receipt, confirms the existence of a corresponding purchase order or contract, verifies the identity and quantity of the goods, and then pays the supplier."[12]
- **Timesheet** - Invoices for hourly services issued by businesses such as lawyers and consultants often pull data from a timesheet. A timesheet invoice may also be generated by Operated equipment rental companies where the invoice will be a combination of timesheet based charges and equipment rental charges.
- **Statement** - A periodic customer statement includes opening balance, invoices, payments, credit memos, debit memos, and ending balance for the customer's account during a specified period. A monthly statement can be used as a summary invoice to request a single payment for accrued monthly charges.
- **Progress billing** used to obtain partial payment on extended contracts, particularly in the construction industry (see Schedule of values)
- **Collective Invoicing** is also known as monthly invoicing in Japan. Japanese businesses tend to have many orders with small amounts because of the outsourcing system (Keiretsu), or of demands for less inventory control (Kanban). To save the administration work, invoicing is normally processed on monthly basis.

- **Continuation or Recurring Invoicing** is standard within the equipment rental industry, including tool rental. A recurring invoice is one generated on a cyclical basis during the lifetime of a rental contract. For example, if you rent an excavator from 1 January to 15 April, on a calendar monthly arrears billing cycle, you would expect to receive an invoice at the end of January, another at the end of February, and another at the end of March and a final Off-rent invoice would be generated at the point when the asset is returned. The same principle would be adopted if you were invoiced in advance, or if you were invoiced on a specific day of the month.
- **Electronic Invoicing** is not necessarily the same as EDI invoicing. Electronic invoicing in its widest sense embraces EDI as well as XML invoice messages as well as other format such as PDF. Historically, other formats such as PDF were not included in the wider definition of an electronic invoice because they were not machine readable and the process benefits of an electronic message could not be achieved. However, as data extraction techniques have evolved and as environmental concerns have begun to dominate the business case for the implementation of electronic invoicing, other formats are now incorporated into the wider definition

Invoice vs. Bill

Invoice is a term used by vendors/suppliers when they want to collect funds from their customers.

When you create transactions to receive money from your customers you would refer to it as an **Invoice** or **Sales Receipt**.

Invoices are the individual sales transactions that partially comprise a statement of a customer's account activity.

Invoices are sent to customers who are not paying immediately when specific work items or goods/services sold are completed or fulfilled (when you are expecting a payment at a later date from a customer). **Receive Payment** is used in conjunction with **Invoice** at the time the customer payment is received.

Sales Receipts are generally used for goods/services rendered at the time of a purchase (sometimes referred to as a "point of sale" purchase), or if customers give you immediate payment.

Bill:

Bill is a term used to describe transactions that are owed to vendors/suppliers.

When your vendors/suppliers send you an invoice to collect money from you, it is referred to as a Bill.

Since you are a customer to the vendor/supplier, you will receive an invoice from them and enter it as a bill that you are expected to pay.

Cash memo vs. challan vs. invoice

Cash Memo:

It simply means a document showing receipt of goods against payment of cash (from buyer view) and receipt of cash against sales of goods (from sellet view)

Challan:

Challan is generally a document showing payment of cash to some lawful authority.

E.g tax challan, challan against fine for breaking traffic rules, etc

So basically it's a document against payment of legal charges or legal fees

Now going to Bill vs. Invoice…

Invoice:

Invoice is more like used in commercial entities. It's a legal document for selling of goods or rendition of services. Generally invoices are not prepaid. You get your goods/services and then you pay against invoice.

E.g. invoice for labour contract, invoice for purchase of machinery

It is a legal document and has certain details like tax identification number, registration number, bank details, terms and conditions for payment, etc.

Invoice vs. voucher

Basis for Comparison	Voucher	Invoice
Meaning	The voucher is termed as a written internal document used for recording a liability or debt to make payment to the supplier or seller of goods or services.	An invoice is termed as a written commercial document issued to a buyer by the seller, indicating the transaction details of the sale of goods or services.
Types	Receipt, Payment, Purchase, Sales, Journal, Contra etc.	Excise Invoice, Commercial Invoice, Tax Invoice, Proforma Invoice etc.
Description	Name, Address and other details of payee, transaction details, amount, date, etc.	Items and its quantities, prices, amount, discount details (if given), date, credit terms and payment details, etc.

1.9 Debit Note :

Debit note or **Debit Memorandum (memo)** is a commercial document issued by a buyer to a seller as a means of formally requesting a credit note. A seller might also issue a debit note instead of an invoice in order to adjust upwards the amount of an invoice already issued (as if the invoice is recorded in wrong value). Debit notes are generally used in business-to-business transactions. Such transactions often involve an extension of credit, meaning that a vendor would send a shipment of goods to a company before the goods have been paid for. Although real goods are changing hands, until an actual invoice is issued, real money is not. Rather, debits and credits are being logged in an accounting system to keep track of inventories shipped and payments owed.

A commercial instrument made and issued by the purchaser and delivered to seller giving details regarding the amount debited from the seller's account and the reasons for the same is known as Debit Note. The document provides information to the vendor that a debit has been made to his account in the buyer's book. The reasons for debiting the account are given as under:

- When the buyer's account is overcharged, he sends a debit note to seller.
- When the buyer returns the goods purchased by him, then also he delivers the debit note.
- When the buyer undercharges the seller's account, then he issues debit note.

The seller issues a credit note to the buyer as an acknowledgment of the Debit Note. It is written in blue ink. In general, Debit note reduces the receivables.

1.10 Credit Note:

A memo prepared and issued by one party to the other party, containing the details of the amount credited to the buyer's account and the reasons for so, is known as Credit Note. It is issued in exchange for the Debit Note. It gives the information to the buyer; that is account is credited in the vendor's book. The note is prepared with red ink. The reasons for issuing a credit note is as under:

- When the buyer overcharges the seller's account, he issues the credit note.
- When the supplier gets back the goods sold by him to the buyer, then also credit note is issued.
- A buyer can also send credit note, in case the seller undercharges him.

The issue of credit note shows that the account payables are reduced. In general, it shows the negative amount.

1.11 Difference between debit note and credit note :

Millions of purchase and sale transactions occur in day to day life, and so does the returns are made by many customers, when the find the products are not upto their requirement. Debit Note and Credit Note are used while the return of goods is made between two businesses. **Debit Note** is issued by the purchaser, at the time of returning the goods to the vendor, and the vendor issues a **Credit Note** to inform that he/she has received the returned goods.

When the goods are returned to the seller or supplier, a debit note is issued to him which indicates that his/her account has been debited with the repective amount. On the other hand, when a customer returns goods, a credit note is issued to him which shows that his account has been credited with the amount indicated in the note. Here in the given article we have discussed the substantial differences betweenn debit note and credit note, take a read.

Content: Debit note Vs Credit Note

1. Comparison Chart
2. Definition
3. Key Differences
4. Conclusion

Comparison chart:

Basis for Comparison	Debit Note	Credit Note
Meaning	Debit Note is a document which reflects that a debit is made to the other party's account.	Credit Note is an instrument used to inform that the other party's account is credited in his books.
Use of	Blue Ink	Red Ink
Represents	Positive Amount	Negative Amount
Which book is updated on the basis of note?	Purchase Return Book	Sales Return Book
Effect	account receivables	Minimization in account payables.
Exchanged for	Credit Note	Debit Note

Key Differences between Debit Note and Credit Note

The following are the differences between debit note and credit note:

1. A memo sent by one party to inform the other party that a debit has been made to the seller's account, in buyer's books, is known as Debit Note. A commercial

document which is sent by one party to inform the other party that a credit has been made to buyer's account, in seller's books is known as Credit Note.

2. Debit Note is written in blue ink while Credit Note is prepared in red ink.
3. Debit Note is issued in exchange for Credit Note.
4. Debit Note represents a positive amount whereas Credit Note prepares negative amount.
5. Debit Note reduces receivables. On the other hand, Credit Note reduces payables.
6. On the basis of the Debit Note, purchase return book is updated. Conversely, sales return book is updated with the help of a Credit Note.

Sum Up:

In other words, in order to save time and energy, the transactions which are of similar character are recorded in separate books, these are called subsidiary books or subdivision of journal. A number of subsidiary books are maintained by the organization. Most of the big companies are recording the business transactions in one journal and the posting of the same to the concerned ledger accounts are very difficult tasks and which require more clerical labour also. For avoiding such kind of difficulties most of the business organizations are subdividing the journal in to subsidiary journals or subsidiary books. Subsidiary books are those books of original entry in which similar nature of transactions are recording in a chronological order.

Key Words:

Subsidiary books: Subsidiary Books are those books of original entry in which transactions of similar nature are recorded at one place and in chronological order

Journal proper: It is a subsidiary book in which not all but only a few types of transactions are recorded. There are certain types of transactions which are not recorded in other subsidiary books but are recorded in the journal proper. These transactions, for example, include the transactions relating to drawings, outstanding expenses, accrued incomes, reserves, provisions, and interest on capital, drawing of goods and assets by proprietor,

Bill is a term used to describe transactions that are owed to vendors/suppliers.

Debit note: A commercial instrument made and issued by the purchaser and delivered to seller giving details regarding the amount debited from the seller's account and the reasons for the same is known as Debit Note.

Cash Memo: It simply means a document showing receipt of goods against payment of cash (from buyer view) and receipt of cash against sales of goods (from sellet view)

Challan: Challan is generally a document showing payment of cash to some lawful authority.

Invoice: It's a legal document for selling of goods or rendition of services. Generally invoices are not prepaid. You get your goods/services and then you pay against invoice

Credit Note: A memo prepared and issued by one party to the other party, containing the details of the amount credited to the buyer's account and the reasons for so, is known as Credit Note.

Self Assessment Questions

1. What do you mean by Subsidiary Books? What are the different types of it?

Ans. ____

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2. Clearly discuss the objectives of Subsidiary Books

Ans. ____

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3. State the advantages of Subsidiary Books

Ans. ____

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4. Describe the importance of Subsidiary Books

Ans. ____

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5. What are the disadvantages of Subsidiary Books?

Ans.

Model Questions:

1. What is invoice? What are the contents of it? State the different types of it.
2. Distinguish between invoice and voucher?
3. What do you mean by debit note and credit note? What are the differences between them?
4. Write a short note on Cash Memo, Invoice, Challan and Bill.

Further Readings:

1. Financial Accounting, Ashis Bhattacharya, Prentice hall of India Pvt. Ltd, New Delhi.

2. Financial Accounting, S. N. Maheshwari, Vikash Publishing House Pvt. Ltd., New Delhi.

3. Theory and Practice of Financial Accounting, B. B Dam and H C Gautam, Capital Publishing Company, Guwahati

4. Advance Accountancy, R. L. Gupta and M. Radhaswamy, Sultan Chand & Sons, New Delhi.

5. Jain & Narang, Accounting Theory and Management Accounting, Kalayani Publishers.

Unit-II
Subsidiary Books -II

Learning Objectives :

After studying this lesson, you will be able to know:

The detail contents of the purchase day book and its difference with purchase account, formats of purchase day book, purchase return book, sales day book, sales return day book, bills receivable and bills payable book. Distinction between Sales Day book and Sales account and Journal Proper.

Structure:

2.1 Introduction :

A *day book* is a descriptive and chronological (diary-like) record of day-to-day financial transactions also called a *book of original entry*. The day book's details must be entered formally into journals to enable posting to ledgers. The ledger accounts of a business are the main source of information used to prepare the financial statements. However, if a business were to update their ledgers each time a transaction occurred, the ledger accounts would quickly become cluttered and errors might be made. This would also be a very time consuming process. To avoid this complication, all transactions are initially recorded in a book of prime entry. This is a simple note of the transaction, the relevant customer/supplier and the amount of the transaction. It is, in essence, a long list of daily transactions.

2.2 Features of Subsidiary Books:

- It is quite clear that maintaining a subsidiary book is facilitation to journal entries, practically it is not possible to post each and every transaction through journal entries, especially in big organizations because it makes the records bulky and unpractical.
- Maintenance of subsidiary books gives us more scientific, practical, specialized, controlled, and easy approach to work.
- It provides us facility to divide the work among different departments like sale department, purchase department, cash department, bank department, etc. It makes each department more accountable and provides an easy way to audit and detect errors.
- In modern days, the latest computer technology has set its base all over the world. More and more competent accounts professionals are offering their services. Accuracy, quick results, and compliance of law are the key factors of any organization. No one can ignore these factors in a competitive market

2.3 Purchase Day Book:

In purchase Day Book the transactions relating to credit purchase of goods are recorded. But cash purchases and purchase of fixed assets are not recorded in this book. This book is also known as Purchase Journal or Bought Day Book. At the end of a certain period, the total of Purchase Book is posted to the debit side of Purchase Account and the suppliers' accounts will be credited with the respective amounts in the ledger book. Cash purchases of the goods are recorded in cash book and not in the purchase book

Following is the Format of Purchase Book:

Column (1): In this column the date on which particular transaction takes place are recorded.
Column (2): In this column, the entire account name or the names of the suppliers of goods are recorded.

Column (3): In this column, Inward Invoice No. is in respect of the transactions are recorded.
Column (4): L.F is the ledger folio in which the page number of the ledger is shown
Column (5): In this column the net amount of the invoice is recorded.

From the following particulars, prepare a purchase journal of Dina Nath Book Lovers, Bhubaneswar :

2009

April 3. Purchased from Kalyani Publishers, Ludhiana on credit 150 copies of Book-keeping @ Rs. 200 per copy less 20% discount.

April 12. Purchased from Pearsons Publications 60 copies of Business Environment @RS.300 each less 15% discount.

April 25. Purchased on credit from Taxman Publication 80 Copies of Income Tax @ Rs. 350 each less 10% discount.

Solution DinaNath Book Lovers, Bhubaneswar

Purchase Book

Date	Particulars	Invoice No.	L.F.	Details	Amount
2009				Rs.	Rs.
April 3	**M/s Kalyani Publishers,Ludhiana**				
	150 copies of book-keeping @Rs. 200 each			30,000	
	Less trade discount 20%			6,000	
					24,000
April 12	**M/s Pearsons Publications**				
	60 copies of Business Environment @ RS. 300 each			18,000	
	Less trade discount 15%			2,7000	
					15,300
April 25	**M/s Taxman Publications**				
	80 copies of Income Tax @ Rs. 350 each			28,000	
	Less trade discount 10%			2,800	25,200
	Total				64,500

2.4 The difference between purchase book and purchase account

Purchases ledger is simply a collection of creditors' T-accounts or an accounting book in which accounts of creditors are maintained. Under Purchases ledger also called as "Creditors Ledger" individual accounts of creditors from whom we have bought stock, services or any kind of assets are kept and updated accordingly.

Purchases account is a T-account in which we only record value of purchases made in a particular period and this account is maintained under General Ledger. Purchases account only contains purchases of **stock** and nothing else. Please read the difference in stock purchase and fixed asset purchase from accounting perspective for more details about why we do not record all kind of purchases in Purchases account.

Differences are:

Purchase Book:

1. Purchase book is a part or sub-division of journal.

2. Purchase book is a sub-division of journal and is not divided into debit and credit sides.

3. Purchase book contains the information about the credit purchases of goods only.

4. Total balance of purchase book is transferred to the debit side of Purchase Account.

Purchase Account:

1. Purchase account is a part of ledger.

2. Purchase account is a part of ledger and is divided into two sides viz. debit and credit.

3. Purchase account contains the information about the total purchases of goods, because in this book cash purchases and total of credit purchases from the purchase book are recorded.

4. Balance of purchase account is to be transferred to the debit side of trial balance and thereafter to the Trading Account.

2.5 Purchase Return Book:

The book which is used for recording goods return to the seller is called "Purchase Return Book". The transactions relating to return of goods to the supplier which were purchased on credit are recorded in Purchase Return Book. The goods may be returned due to not confronting to the specifications or defective goods or for any other reason. It is also known as Returns Outward Book. The total of this book, after a certain period, is credited to Returns Outward Account and the suppliers' accounts, to which goods were returned, are debited with the respective amounts in the ledger book.

From the following transaction in the books of Bhalla Carpets, prepare purchase return book:

2009

April 3. Returned to Nirdosh Mills of Surat: 150 pieces 2'x 4' of skin shapes @Rs 400perpiece 80 pieces 5'x 8'of skin shapes @ Rs. 700 Per piece

April 7. ReturnedtoB.B.N.Chemicals,banaras:30 sceneries 3'x 5'@ Rs 920 per piece 40 full cut skins @ RS. 200 per pieces Trade discount 5%

April 12. Returned to Dilshad Carpets , Kolkata for cash : 50 scatters 1'.6" x 3'@ Rs. 700 per piece 60 wedges 1'.3 " x 4.6 " @ Rs. 1200 per piece Trade discount 8 %

April 14. Returned to Prem Bros, Bidhoi :25 half moons 1'.6" x 3' @ Rs. 600 per piece 64 foot mats 16" x 24" @ Rs 220 per piece Trade discount 10%

Solution Purchase Return Book

Date	Particulars	Debit Note No.	L.F	Details	Amount
2009				Rs.	Rs.
April 3	**M/s Nirdosh Mills , Surat**				
	150 pieces 2'x 4' of skin shapes @Rs 400			60,000	
	80 pieces 5'x 8'of skin shapes @ Rs. 700			56,000	1,16,000
April 7	**M/s B.B.N. Chemicals , Banaras**				
	30 sceneries 3'x 5'@ Rs 920 per piece			27,600	
	40 full cut skins @ RS. 200 per pieces			8,000	
				35,600	
	Less trade discount 5%			1,780	33,820
April 25	**M/s Prem Bros , Bidhoi**				
	25 half moons 1'.6" x 3' @ Rs. 600 per piece			15,000	
	64 foot mats 16" x 24" @ Rs 220 per piece			14,080	
				29,080	
	Less trade discount 10%			2,908	25,200
	Total				64,500

2.6 Sales Day Book:

This book is meant for recording credit sale of goods. Cash sale of goods and sale of articles other than goods are not recorded in this book. This book is also known as Sales Journal or Sold Day Book. When the trader sells goods on credit then he should keep record in sales book to know how much goods have been sold, when and to whom. At the end of a certain period, the total of Sales Book is posted to the credit side of Sales Account and the customers' accounts will be debited with the respective amounts in the ledger book.

Following is a sample example of Sales Day Book:

Column (1): In this column, date of the transactions is recorded. Column (2): In this column, the entire account name or the names of the purchasers of goods are recorded.

Column (3) : In this column, Outward Invoice No. is recorded which is meant for recording the serial no. of each outward invoice.

Column (4) : L.F is the Ledger Folio in which the page number of the ledger is shown Column (5) : In this column the net amount of the invoice is recorded.

From the following transactions, preapare Sales book of Morden Furnishing House for January 2007 and also prepare relevant ledger accounts;

Jan 5	Sold on credit to Amrit Banaspati , Rajpura20 Chairs @ Rs. 200 20 Tables @ Rs. 700[Trade discount 10%]
Jan 10	Sold on credit to Govt. College, Ludhiana 15 chairs @ Rs. 250 25 stools @ Rs. 150 [Trade discount 10%]
Jan 15	Sold on cash to Gopal Singh & sons 5 Tables @ Rs. 600 [Trade discount 10%]
Jan 20	Sold old type writer to Madan Mohan & Sons on credit for Rs. 12,000

Solution : **Sales Book of Morden Furnishing House**

Date	Particulars	Outward Invoice No.	L.F.	Details	Amount
2007				Rs.	Rs.
Jan. 5	Amitra Banaspati , Rajpura				
	20 Chairs @ Rs 200			4,000	
	20 tables @ Rs700			14,000	
				18,000	
	Less : Trade discount 10%			1,800	16,200
Jan 10	Govt. College , Ludhiana				
	15 chairs @ Rs. 250			3,750	
	@5 stools @ Rs. 150			3,750	
				7,500	
	Less: Trade discount 10%			750	6,750
	TOTAL				22,950

Ledger

Amrit Banaspati

Dr. **Cr.**

Date	Particulars	F.	Amount		Date	Particulars	F.	Amount
2007 Jan 5	To Sales		Rs. 16,200					

Govt. College, Ludhiana

Dr. **Cr.**

2007 Jan 10	To Sales		Rs. 6,750					

Sales Account

Dr. **Cr.**

					2007 Jan 15 Jan 31	By Cash account By Sundries		Rs. 2,700 22,950

Note: (1) Transaction dated Jan 20 will not be entered in the sales book because it relates to the sales of an asset.

(2) Entries have to be made at net price i.e. invoice price less trade discount.

(3) Transaction dated Jan 15 will not be entered in the sales book because it is a cash sale. It will be recorded in the cash book. Sales account will, however, receive the posting from cash book.

2.7 The difference between Sales book and Sales account

Sales Book:

1. Sales book is a part or sub-division of journal.

2. Sales book is a sub-division of journal and this book is not divided into debit and credit sides.

3. Sales book contains the information about the credit sales of goods only.

4. Total balance of sales book is transferred to the credit side of Sales Account.

Sales Account:

1. Sales account is a part of ledger.

2. Sales account is a part of ledger and is divided into two sides' viz. debit and credit.

3. Sales account contains the information about the total sales of goods, because in this book cash sales and total of credit sales from the sales book are recorded.

4. Balance of sales account is to be transferred to the credit side of trial balance and thereafter to the Trading Account

Difference between Sales Invoicing and Sales Accounting

Preparing details of goods despatched by the seller is called sales invoicing. Invoice is a kind of debit note which shows indebtedness of the buyer. Invoice is termed as a document relating to sale of goods to buyer indicating details of transaction. Preparing invoice is called sales invoicing.

An invoice contains: - name and addresses of the seller and buyer, date of invoice, reference number, quantity of goods supplied and any rebate or discount. On the basis of price, there are different types of invoices like Loco invoice, F.O.R. invoice, inland invoice, outward invoice and foreign invoice.

Recording in books of accounts all the sales transactions is called sales accounting. The entire process of using documents and books of accounts is termed as sales accounting. The books of accounts used in sales accounting are cash book, sales book, goods returned book and ledgers. The various documents used in sales accounting are challan, order invoice, receipts, debit note, and credit note. Cash sales are recorded in cash book and credit sales are in sales journal. For making entries in books of accounts invoice or cash memos are used.

2.8 Sales Return Book:

When goods sold on credit are returned by the customers, they are recorded in Sales Return Book or Returns Inward Book. At the end of a certain period, the total of this book is debited to Returns Inward Account and the customers' accounts, who have returned the goods, are credited with the respective amounts in the ledger book. The format of the Sales Return Book is given as:

Record the following transactions in the sales return Book of Yadav Stationers:

2009

Mar 1 Saira Stationers, Chandigarh returned: 100 Files covers @ Rs. 20 each 50 registers @ Rs. 45 each

Mar 8	Nazia Stationery Stores , Banglore returned 40 boxes of Gel Pens @ Rs. 70 per box.30 paper rims A4 size @ Rs. 150 per rim .[Trade discount 5%]
Mar 11	Rabia Stationery mart, patna returned : 180 pencil boxes @ Rs. 20 per box 50 staplers @ Rs. 40 each 160 boxes ball point pens @ Rs. 30 per box [Trade discount 8 %]
Mar 21	Sultana Stationers, Allahabad returned: 45 boxes of stapler pins @ Rs 16 per box 30 paper weight @ Rs.30 per piece [Trade discount 10 %]

Solution: Books of Yadav Stationers

Sales Return Book

Date	Particulars	Credit Note No.	L.F.	Details	Amount
2009				Rs.	Rs.
Mar. 1	**M/s Saira Stationers, Chadigarh**				
	100 Files covers @ Rs. 20 each			2,000	
	50 registers @ Rs. 45 each			2,250	4,250
Mar 8	**M/s Nazia Stationery Stores , Banglore**				
	40 boxes of Gel Pens @ Rs. 70 per box.			2,800	
	30 paper rims A4 size @ Rs. 150 per rim .			4,500	
				7,300	
	Less: Trade discount 5%			365	6,935
Mar 11	**M/s Rabia Stationery mart , Patna**				
	180 pencil boxes @ Rs. 20 per box			3,600	
	50 staplers @ Rs. 40 each			2,000	
	160 boxes ball point pens @ Rs. 30 per box			4,800	
				10,400	
	Less: Trade discount 8%			832	9,568
Mar 21	**M/s Sultana Stationers, Allahabad**				
	45 boxes of stapler pins @ Rs 16 per box			720	
	30 paper weight @ Rs.30 per piece			900	
				1,620	
	Less: Trade discount 10%			162	1,458
	TOTAL				22,211

2.9 Bills Receivable Book:

This book is used to record all promissory notes given and Bills of Exchange accepted by customers for the amounts due from them. A promissory note contains an unconditional promise in writing, to pay a certain sum of money only to a certain person on a specific future date.

2.10 Bills Payable Book:

This book is used to record all promissory notes given and Bills of Exchange accepted by the business for the amounts due to suppliers. A bill of exchange is an instrument in writing, containing an unconditional order to pay a certain sum of money only to a certain person on a specific future date.

In business, the bills may be drawn and accepted for the credit transaction. The bills are drawn by a creditor on a debtor and acceptance given by the debtor. In order to keep proper record of various bills drawn and accepted two separate books may be opened. The bills drawn and received back with acceptance of debtor are recorded in Bills Receivable Book by the creditor and the acceptance of debtors is recorded in his Bills Payable Book.

Comparison between two books:

Recoding the transactions in general journal is very convenient, if the transactions are a few. But where numerous bills are drawn and accepted by a business man, than it is advisable for him to record them in special journals (books) known as ***bills receivable book and bills payable book***. The bills drawn and received are recorded in bills receivable books and bills accepted are recorded in bills payable book.

The total of the bills receivable book shows the total amount of the bills drawn and received. This total will be posted to the debit side of bill receivable in ledger. The parties from whom the bills have been received will be credited with the amount shown against their names. In the same way, the total of the bills payable book will be posted to the credit side of bills payable account in ledger. The parties to whom acceptances have been given are debited.

When these two special books are maintained in a business, the general journal is used only for the following bills transactions:

1. When a bill is endorsed in favor of a creditor.
2. When a bill receivable and a bill payable are dishonored.
3. When a bill is renewed.

The following are the simplified forms of Bills Receivable Book and Bills payable Book:

Bills Receivable Book

Sl No.	Date of Bill	From whom Received	L.F.	Period	Due Date	Amount (Rs.)

Bills Payable Book

Sl No.	Date of Acceptance	By whom Drawn	L.F.	Period	Due Date	Amount (Rs.)

2.11 Journal Proper:

It is one of the important journals or subsidiary books. It is a subsidiary book in which not all but only a few types of transactions are recorded. There are certain types of transactions which are not recorded in other subsidiary books but are recorded in the journal proper. These transactions, for example, include the transactions relating to drawings, outstanding expenses, accrued incomes, reserves, provisions, and interest on capital, drawing of goods and assets by proprietor, loss of goods by some reasons, and credit purchase and sale of other assets such as land, buildings, machinery, and furniture. In journal proper book, the transactions are recorded by passing journal entries based on the rules of debit and credit. The difference between Special Journal and Journal Proper are:

Difference between General Journal and Special Journal:

General Journal (Journal Proper):

1. General journal is a book of original entry in which only those transactions are recorded that cannot be recorded in special journals.

2. All the entries are recorded in their respective ledger accounts.

3. Format of general journal is same as of journal.

4. In every type of business enterprise, general journal forms an integral and essential part of the accounting.

Special Journal (Subsidiary Books):

1. Subsidiary books are sub divisions of journal in which transactions related to special nature are recorded.

2. In the case of special journal, only periodic totals, say monthly totals, are transferred to their respective accounts.

3. Format of special journal depends on the need of the business enterprise

Use of journal proper:

(I) Opening Entry: An Opening Entry is entered in the journal to bring the balances of various assets, liabilities and capital that appear in the Balance of the previous year, in the books of the current accounting period.

(Ii) Closing Items: Closing entries are passed in the journal to close the nominal accounts, transferring them to the Trading and Profit and Loss Account. These are necessary at the end of the accounting year, when the final accounts are prepared.

(Iii) Transfer Entries: Transfer entries are passed in the journal to transfer an amount from one account to another account, that is, transfer of total drawings from the drawing account to the capital account.

(Iv) Adjusting entries: Adjustment entries are passed in the journal to include in the account books certain unregistered items such as closing shares, depreciation of fixed assets, outstanding items and paid in advance. These are necessary when preparing the final accounts.

(V) Rectification of entries: Rectification Entries are passed in the journal to rectify errors made during publication, total, balance, etc.

Vi) Miscellaneous items: Includes the following:

A) Capital contributed in kind. If the owner of the company contributes his capital contribution in kind and not in cash, that transaction can only be recorded in the appropriate Journal and not in the cash book, since this transaction does not involve any cash inflow.

(B) Acquisition of assets (other than shares in stock) on credit (for example, land, buildings, facilities and machinery, furniture and installation). Such transactions cannot be recorded in the purchase book (since no goods have been purchased) or registered in the cash book (since this transaction does not imply any cash outflow).

(C) Sales of Assets (other than Stock-in-Trade) that were sold on credit. This transaction cannot be registered in the Sales Book (since no goods have been sold) nor can it be registered in the Cash Book (since this transaction does not involve any cash inflow).

(D) Return of Assets (other than Stock-in-Trade) that were sold on credit. Such transactions cannot be registered in the securities return book because no goods have been returned.

(E) Return of Assets (other than Stock-in-Trade) that were purchased on credit. Such transactions cannot be recorded in the return book because no goods have been returned.

(F) Approval of draft bills receivable from a creditor.

(G) Infringement of invoices receivable (not discounted with the bank).

(H) Cancellation of invoices payable.

(I) Abnormal loss of Stock Shares / other assets for theft, accident, fire, etc.

(J) Elimination of bad debts

List the type of transactions entered in Journal proper.

The Journal proper is used to record following transactions:-

-**Opening Entries**: are the entries which are made at the starting of the financial year. -**Closing Entries**: At the close of the accounting period balances from the various accounts are transferred in order to balance the books of accounts. Thus, this process of transferring balances of the trading and profit and loss account at the end of year is called closing the books and entries passed at that time are called closing entries. -**Transfer Entries**: are the entries which are passed in order to transfer one account to another account.

- **Adjustment Entries**: are passed at the end of an accounting period in order to modify the accounts.

-**Rectification Entries**: are passed to rectify the error detected the books through an entry in journal proper.

-**Entries for rare transactions**: Journal proper is used for rare transactions. -**Entries for which there is no special journal**: When the transactions cannot be recorded in the above sub journals then the same are entered in the journal proper.

Examples of such transactions are: Distribution of goods as free sample, Goods destroyed by fire, etc

Sum Up:

The ledger accounts of a business are the main source of information used to prepare the financial statements. However, if a business were to update their ledgers each time a transaction occurred, the ledger accounts would quickly become cluttered and errors might be made. This would also be a very time consuming process. To avoid this complication, all transactions are initially recorded in a book of prime entry. Maintenance of subsidiary books gives us more scientific, practical, specialized, controlled, and easy approach to work. It provides us facility to divide the work among different departments like sale department, purchase department, cash department, bank department, etc. It makes each department more accountable and provides an easy way to audit and detect errors. In modern days, the latest computer technology has set its base all over the world. More and more competent accounts professionals are offering their services. Accuracy, quick results, and compliance of law are the key factors of any organization.

Key Words:

Opening Entries: are the entries which are made at the starting of the financial year.

Closing Entries: At the close of the accounting period balances from the various accounts are transferred in order to balance the books of accounts. Thus, this process of transferring balances of the trading and profit and loss account at the end of year is called closing the books and entries passed at that time are called closing entries.

Transfer Entries: are the entries which are passed in order to transfer one account to another account.

Adjustment Entries: are passed at the end of an accounting period in order to modify the accounts.

Rectification Entries: are passed to rectify the error detected the books through an entry in journal proper.

Bills Receivable Book: This book is used to record all promissory notes given and Bills of Exchange accepted by customers for the amounts due from them.

Promissory note: A promissory note contains an unconditional promise in writing, to pay a certain sum of money only to a certain person on a specific future date.

Bills Payable Book: This book is used to record all promissory notes given and Bills of Exchange accepted by the business for the amounts due to suppliers.

Bill of exchange: It is an instrument in writing, containing an unconditional order to pay a certain sum of money only to a certain person on a specific future date.

Purchase Day Book: In purchase book the transactions relating to credit purchase of goods are recorded. But cash purchases and purchase of fixed assets are not recorded in this book. This book is also known as Purchase Journal or Bought Day Book.

Purchase Return Book: The book which is used for recording goods return to the seller is called "Purchase Return Book". The transactions relating to return of goods to the supplier which were purchased on credit are recorded in Purchase Return Book.

Sales Return Book: When goods sold on credit are returned by the customers, they are recorded in Sales Return Book or Returns Inward Book

Self Assessment Questions:

Q1) what is meant by book of original entry?

Ans. ____

____

____

____

____

Q2) what is Journal Proper?

Ans. ______

Q3) Distinguish between Trade discount and Cash discount.

Ans. ______

Q4) Differentiate between Purchases Book and Purchase Journal.

Ans. ______

Q5) On Jan. 1, 2010, Mohan’s assets were:

Cash: Rs. 2,000

Due from Jeevan: Rs.1,000

Stores: Rs.3,000

Furniture: Rs. 500

Due to Kishore: Rs.2,000

Q6.Prepare a Sales Return Book from the following particulars:

2008 Feb 1 : Sold to Rishi & Co., Bangalore, 10 bags of rice at Rs. 220 per bag. " 7 : Sold to Kumar, Chennai, 10 bags of sugar at Rs. 350 per bag " 12 : Sold to Sashi & Sashi Co., Bombay, 10 bags of wheat at Rs. 70 per bag " 18 : Sold to Rakesh & Co., Kolkata, 10 bags of groundnut at Rs. 200 per bag " 25 : Sold to Chand & Co., Bangalore, 10 bags of wheat flour at Rs. 150 per bag

Model Questions :

Q1.Prepare a Sales Return Book from the following particulars:

2008 June 1: Ram & Co. returned goods worth Rs. 200 " 10 : Allowance granted to Kishore for breakage Rs. 150 " 15 : Allowance granted to Kumar for over charge Rs. 70 " 20 : Liliput & Co. returned goods worth Rs. 250

Q2 The following transactions took place:

Jan.2 Purchased furniture from Hitesh: Rs.200

Jan. 5 Received payment from Jeevan, discount allowed being 2%

Jan. 8 Sold to Mahendra 10 watches. Sent invoice at Rs. 30 per watch, allowed 10% trade discount.

Jan. 20 Settled Kishore's Account to the extent of Rs. 1,000 only, he allowed 2 ½ % discount.

Jan. 25 Purchased from Kishore goods of the list price of Rs. 1,500. He allowed 20% trade discount.

Jan. 28 Paid the amount due to Hitesh.

Jan. 31 Paid salaries Rs.200 and rent Rs. 100.

Prepare Mohan's subsidiary books.

Q3) From the following transactions of the month of April, 2001, prepare the Journal Proper of Jindal & Co., a saree dealer , who also maintains Purchases Book, Sales Book, Returns Books and cash book: Date Transaction

1 Purchased on credit from Goyal Mills, Surat 25 polyester sarees @ Rs. 60 each.

3 Purchased on credit from Bansal & Co., 2 typewriters @ Rs. 2,100 each.

5 Sold on credit to Goyal & Co., 5 polyester sarees @ Rs. 75 Each.

6 Returned one typewriter (being defective) @ Rs.2,100 to Bansal & Co.

8 Sold on credit two old typewriters to Murli @ Rs.300 each.

10 Sold for cash to Garg & Co., 20 Kota sarees @ Rs. 30 each.

12 Returned to Goyal mills, Surat 5 polyester sarees @ Rs. 60 each.

14 Murli returned one old typewriter @ Rs.300.

Q.4. Enter the following transactions in a appropriate Subsidiary Books of Ramesh for the month of January 2009:

Date	Transactions	Rs.
Jan.1	Sold goods to Ram	5,000
Jan.5.	Purchased goods from Hari Ram	2,000
Jan.15	Returned goods to Hari Ram	500
Jan.25	Ram Returned Goods	800

Q5.Prepare a Purchase Book from the following particulars:

2008 Dec 1: Bought from J.N Stores, 100 bags of rice at Rs. 120 Dec 6 : Bought from Dhanan Sugar Mills 20 bags of sugar at Rs. 300 per bag Dec 10 : Bought from Raju Flour Mill, 10 bags of wheat flour at Rs. 200 per bag " 14 : Bought from Korangoni Tea Co. 10 cases of tea at Rs. 150 per case " 20 : Bought from Coca Coffee Ltd., 100 Kgs. of Coffee t Rs. 30 per Kg

Q6.Prepare a Purchase Return Book from the following particulars:

2008 Oct 1 : Returned goods worth Rs. 300 to Rahul and Co., Chennai " 9 : Returned goods worth Rs. 100 to Raju, Kolkata " 15 : Allowance claimed from Ashok and Co., for shortage Rs. 150

Further Readings:

1. Financial Accounting, Ashis Bhattacharya, Prentice hall of India Pvt. Ltd, New Delhi.
2. Financial Accounting, S. N. Maheshwari, Vikash Publishing House Pvt. Ltd., New Delhi.
3. Theory and Practice of Financial Accounting, B. B Dam and H C Gautam, Capital Publishing Company, Guwahati

4. Advance Accountancy, R. L. Gupta and M. Radhaswamy, Sultan Chand & Sons, New Delhi.

5. Jain & Narang, Accounting Theory and Management Accounting, Kalayani Publishers.

Unit – III
Bank Reconciliation Statement

Learning Objectives:

After studying this lesson, you will be able to know:

Meaning of Bank Reconciliation Statement, features of Bank Reconciliation Statement, objective of Bank Reconciliation Statement., Advantages and Disadvantages of Bank Reconciliation Statement, Need and Importance of Bank Reconciliation Statement, Reasons for disagreement between cash and pass book. Objectives of Bank Reconciliation Statement. Procedure of preparing Bank Reconciliation Statement, Purposes Bank Reconciliation Statement, Factors to remember for preparation of. Bank Reconciliation Statement.

Structure :

3.1Introduction:

3.2 Meaning of Bank Reconciliation Statement.

3.3 Features of Bank Reconciliation Statement.

3.4 Advantages for Bank Reconciliation Statement.

3.5 Disadvantages of Bank Reconciliation Statement.

3.6 Need and Importance of Bank Reconciliation Statement.

3.7 Reasons for disagreement between cash book and pass book

3.8 Objectives of Bank Reconciliation Statement.

3.9 Procedure of preparing Bank Reconciliation Statement.

3.10 Purpose of Bank Reconciliation Statement.

3.11 Factors to remember for preparation of Bank Reconciliation Statement.

3.1 Introduction:

A modern business performs its transactions through bank. It generally receives cash through bank deposits and makes cash payments by issuing cheques. In order to keep records of its transactions, it maintains a cash book with bank columns. It is in fact the bank account in the books of the business. On the other hand, bank also maintains the customer's account in its books. Whenever the business opens an account in the bank by depositing some amount, the bank provides it with a cheque book to facilitate the withdrawal or payment of cash, and a pass book which shows the detailed statement of the customer's account in the bank.

Any transaction that takes place through bank is supposed to be simultaneously recorded in the books. For example, if cash is deposited in the customer's account, it is debited in the bank column of the cash book, while it is credited in the pass book. Similarly, if cash is withdrawn from bank or payment is made through bank, the bank column of the cash book is credited and pass book is debited. As a result, it is supposed that the cash balance at bank shown by both cash book and pass book is always the same. However, the balance shown by the pass book hardly equals the balance shown by the bank column of the cash book.

The disagreement between the balance shown by the pass book and cash book occurs due to some transactions or errors that appear only in the cash book but not in the pass book, or only in the pass book but not in the cash book. However, it is essential to reconcile the difference in the balances shown by the pass book and the cash book for ensuring their accuracy. In order to reconcile the balances shown by them, a statement is prepared which is called bank reconciliation statement.

3.2 Meaning of Bank Reconciliation Statement:

A bank reconciliation statement(BRS) is the statement which is prepared to reconcile the balances shown by the pass book maintained by the bank and cash book (Bank Column) maintained by the trader and finding the causes of difference between the two balances. Bank reconciliation is the balancing of a company's cash account balance to its bank account balance

3.3 Features of Bank Reconciliation Statement:

Following are the main characteristics/features of Bank Reconciliation Statement:

(1) It is prepared by the customer (trader), i.e., holder of the account.

(2)It Contains a complete and satisfactory explanation of the difference in balances as per the Cash Book and Pass book (Bank Statement).

(3) Normally it is prepared on closing date of accounts, i.e., Dec. 31^{st}, March31st .

(4) Sometimes it is prepared at the end of the every month after preparing Cash Book or regularly after certain interval to check the accuracy of Cash Book.

(5) It is neither journal nor a Ledger.

(6) It is prepared: in a statement form with the...vertical presentation of facts.

(7) It starts with a given balance of any book and ends with balance of other book, e.g., if it starts with Balance as per Cash Book, then ends with Balance as per Pass Book.

(8) For arithmetical calculations all the reasons are grouped in 'ADD' and: LESS' categories respectively.

(9) It shows causes of disagreement and amount thereof.

(10) It is not legally compulsory to prepare Bank Reconciliation Statement.

(11) It shows the bank balance as per Cash Book or Pass Book (Bank Statement) at the end of the period.

3.4 Advantages of Bank Reconciliation:

In bank reconciliation, the bank statement balance is reconciled, with the book bank account balance in the client's books of accounts, resulting to the tallying of the two balances, where the calculated adjusted bank balance should be equal to the figure of the adjusted book bank balance. It involves a structured process of preparation, where forms, which contain pre-printed items, should leave out omission errors and are found on the back side of the hard copies of your monthly bank statement, making the entire process easier. However, this process also has its own set of drawbacks that should be looked into. Here are the advantages and disadvantages of bank reconciliation:

List of Advantages of Bank Reconciliation

1. It makes accounts to be in good standing.

Keeping your account in good standing through bank reconciliation means that, when you are aware about the amount that you can spend in your account, you are less likely to overdraw the account, which means withdrawing or attempting to withdraw more money than what your account have. Keep in mind that overdrawing will negatively affect your credit score and can prompt the bank to charge you fees..

2. It prevents theft.

As you are going to compare your bank book's transactions with the bank's financial transactions, you will be able to spot transactions that are recorded by the institution, but are not in your records. As you can see, recording bank fees is a standard practice as you process your reconciliation, though it might a transaction that you have overlooked to record. By examining further the available original documents, these discrepancies will be revealed. Most importantly, this will reveal bank transactions that were initiated by unauthorized individuals who try to steal money from your account.

3. It will keep mistakes at bay.

You will know that a bank is reliable when it implements procedures to avoid making mistakes in your account, but unfortunately, mistakes do happen sometimes, with the most common being a simple entry error. Nevertheless, banks will be able to correct these mistakes when you point them out after you complete your reconciliation.

4. It helps you detect accounting errors.

By reconciliation, you will be able to detect accounting errors that commonly occurs in business, such as double payments, addition and subtraction errors, missed payments and lost checks. For example, if you have mistakenly recorded an invoice as "paid" on your ledger, bank reconciliation can reveal that you have forgotten to write the check. There are also cases where your bank committed an error in your favor, so you will be liable to return that money, even if you have already spent it.

5. It achieves accurate balance.

A bank reconciliation will reveal which cash transactions have been cleared with the bank and which of those are still outstanding. While a check is the most common form of transaction that would remain open at the end of the statement period, the bank may not clear it as of the ending date of the statement if you made a deposit at the end of the month.

3.5 Disadvantages of Bank Reconciliation

1. It can create checks that clear the bank after being voided.

As you may have noticed when making check transactions with your bank, if a check has remained "un-cleared" for a long period of time, you might have to void it and issue one for a replacement. Now, if a payee has cashed the original check that you have voided with the bank, the institution should reject it when the payee presents it. However, if you failed to void it, then it must be recorded with a credit to your cash account and a debit that indicates the reason for the payment, such as a decrease in a liability account, an increase in a cash account or an expense account. In a general sense, you should avoid such an un-cleared check with the bank at ounce if the payee has not yet cashed the replacement check, or you will be making a double payment that will require you to pursue repayment with the payee for the second check.

2. It can issue un-cleared checks that continue not to be presented.

As stated above, bank reconciliation creates un-cleared checks, which are residual checks that are not presented for payment for a long period of time or are never presented for payment at all. That is why you should treat them similarly as other un-cleared checks even if it is just in a short term, with you keeping them in the listing of un-cleared checks in your accounting to make them as ongoing reconciling items. In the long term, you should ask the payee if he/she ever received the checks to decide whether you need to void them and issue new ones.

3. It risks changes in the dates covered by the bank statement.

Another drawback with bank reconciliation that can cause problems is that bank statement dates can be altered in order to include or exclude some items. This situation can arise when someone at your company requests the bank to change the closing date for your bank account, which can lead to fraud.

4. It makes possible that deposited checks will be returned.

In some cases, your bank would refuse to deposit your check for reasons like you have drawn it on a foreign bank account. This means that you need to reverse the original entry on that deposit, which will become a credit to your cash account to reduce cash balance. Remember that this comes with a corresponding increase in your accounts receivable account.

5. It risks having missing transactions.

Bank reconciliations can have missing transactions. This can be caused by transactions that have been modified while reconciliation is still on process or transactions that have been reconciled in another method of reconciliation.

Basically, bank reconciliation is carried to introduce transparency and efficiency into a business's accounting system, but it does have some drawbacks that you should be aware of. By doing so, you will be able to avoid problems along the way

3.6 Needs and Importance of Bank Reconciliation Statement

Bank reconciliation statement is an important technique by which the accuracy of the bank balance shown by the pass book and cash book is ensured. The need and importance of bank reconciliation statement can be summarized in the following points.

* Bank reconciliation statement ensures the accuracy of the balances shown by the pass book and cash book.

* Bank reconciliation statement provides a check on the accuracy of entries made in both the books.

* Bank reconciliation statement helps to detect and rectify any error committed in both the books.

* Bank reconciliation statement helps to update the cash book by discovering some entries not yet recorded.

* Bank reconciliation statement indicates any undue delay in the collection and clearance of some cheques.

More over it has the diverse role to play for the betterment of the organization:

1. Pin pointing mistakes in the Cash Book and Pass Book.

Bank Reconciliation statement is prepared by comparing the information of the cash book with the information of the pass book. The comparison discloses and identifies the entries which have been made in the cash book but omitted or wrongly entered in the pass book and vice versa.

2. Identifying delay in the clearance of cheques.

The comparison of cash book with the Pass book or Rank statement issued by the bank reveals the date of depositing the cheque into the bank and the date of the clearance. In case there is substantial delay, causes for delay may be investigated and remedial measures can be applied.

3. Checking on embezzlement.

The continuous comparison of the cash book with the pass book keeps check on employees trying to indulge in embezzlement and misappropriation of funds. As the balances of cash book and pass book are checked, compared and tallied while preparing

Bank Reconciliation statement on monthly, weekly or even daily basis, misappropriation and embezzlement of funds becomes very difficult.

4. Checking the accuracy of Cash Book.

The comparison of the Cash Book with the Pass Book satisfies the management, that the Cash Book is being. maintained properly. If there is any inaccuracy in the posting the mistake is identified and rectified.

5. Technique of Control. The preparation of Bank Reconciliation statement is an important technique of control. It prevents misappropriation in cheques, bank drafts and other transactions with the bank. The malpractices of dishonest employees dealing with cash and bank are controlled and effective measures are employed to plug the loopholes, if any.

3.7 Reasons for Disagreement between Cash Book and Pass Book Balances

Contents:

- Checks issued or drawn to creditors but not paid by bank
- Checks deposited for collection but not yet collected and credited by the bank
- Amount deposited directly into the bank by debtors
- Income collected by the bank
- Interest on deposits
- Expenses paid by the bank directly
- The bank charges
- Errors and omissions

Checks Issued or Drawn to Creditors But Not Paid by Bank:

When a check is issued to a creditor, it is recorded on the credit side of the cash book in bank column. The bank will record it on the date when it is paid. In most of the cases a check cannot be presented for the payment by the creditor on the date on which it is drawn. So long the check is not presented to the bank, the cash book balance and the pass book balance will differ.

Checks Deposited for Collection But Not Yet Collected and Credited by the Bank:

When a check is received from a debtor, it is recorded in the cash book on the date when it is deposited with the bank for collection. But the bank will record it in depositor's account on the date when it is actually collected by the bank from the concerned bank. So long the bank cannot collect the amount; the cash book balance and pass book balance will disagree.

Amount Deposited Directly into the Bank by Debtors:

Sometimes the debtors deposit the amount directly to our bank a/c instead of paying cash to us. In such a case the bank will transfer the amount to our account and sends us an intimation of this transaction. But usually, there is some delay in receiving this information from the bank. So long the intimation is not received by us, the cash book balance and the pass book balance will disagree. For this, the cash book will show less balance and the pass book will show more balance.

Income Collected by the Bank:

Sometimes the bank collects and credits our account with dividend on shares, interest on govt. securities etc. as per our instructions and sends intimation to us. But it takes a few days to receive this intimation from the bank and we record it in cash book on the date of receipt of this intimation. For this, the cash book will show less balance and the pass book will show more balance.

Interest on Deposits:

The bank allows us interest on our deposits and credits the amount of interest to our account and sends intimation to us on receipt of the intimation, we record it in the cash book. So long the information is not received by us, the cash book balance and the pass book balance will not agree. For this, the cash book will show less balance and pass book will show more balance.

Expenses Paid by the Bank directly:

Sometimes the bank pays insurance premium, factory rent, interest on debentures, trade subscription etc. on our behalf as per standing order. The bank debits our accounts and sends intimation to us. On receipt of intimation for the bank, we record it in our cash book. For this, there will be a disagreement between cash book and pass book.

The Bank Charges:

Our account is debited with bank charges and interest on overdraft and intimation is sent to us by the bank. On receiving the intimation from the bank, we record them in the cash book. For this the cash book will show more balance and the pass book will show less balance.

Errors and Omissions:

In business, errors and omissions are very common. Someone may forget to record something or record it but in a wrong way. The cash book balance and the pass book balance can also disagree if there is an error or mistake in the cash book or in the pass book.

3.8 Objectives of Bank Reconciliation:

a. To validate that there are no unrecorded

1. checks that cleared the bank

2. deposits that showed in the bank
3. bank debits or credits
4. recorded deposits cleared the bank or in-transit; and cleared in correct amounts
5. cash deposits are recorded intact the following day
6. checks that cleared the bank are valid in amounts
7. other adjustments in the book are valid or need to be adjusted in the books
8. any bank errors or adjustments from previous period are corrected by the bank this month

b. To ascertain the followings:

1. recorded deposits cleared the bank or in-transit; and cleared in correct amounts
2. cash deposits are recorded intact the following day
3. checks that cleared the bank are valid in amounts
4. other adjustments in the book are valid or need to be adjusted in the books
5. any bank errors or adjustments from previous period are corrected by the bank this month

c. To verify the following:

1. outstanding checks in the bank
2. deposits-in-transit in the bank
3. sweep investment balance, if any

3.9 Preparation of Bank Reconciliation Statement

The following procedures are followed while preparing the bank reconciliation statement:

* Compare cash book and pass book items.

* Give sign to all the items of cash book and pass book which are matched with each other.

* Make a list of unmatched items found in cash book and pass book.
* Prepare bank reconciliation statement taking balance either from cash book or pass book as a basis.

* Adjust the items which cause the disagreement in the balances. Add the items which have decreased the balance on the book with which reconciliation is to be made. On the contrary subtract the amount of those items which have increased the balance.

These procedures should be followed only when the cash book and pass book are to be compared. But if causes of differences are already given, the above procedures need not be followed.

If the causes of disagreement between the cash book and pass book balances are given, the bank reconciliation statement can be prepared either by taking the balance of cash book or pass book. The bank reconciliation statement can be prepared by using either of the following bases.

* Debit balance shown by cash book

* Credit balance shown by cash book (bank overdraft)

* Credit balance shown by pass book

* Debit balance shown by pass book (bank overdraft)

3.10 Purpose of Bank Reconciliation Statement:

Bank Reconciliation is used to compare your records to those of your bank, to see if there are any differences between these two sets of records for your cash transactions. The ending balance of your version of the cash records is known as the book balance, while the bank's version is called the bank balance. It is extremely common for there to be differences between the two balances, which you should track down and adjust in your own records. If you were to ignore these differences, there would eventually be substantial variances between the amount of cash that you think you have and the amount the bank says you actually have in an account. The result could be an overdrawn bank account, bounced checks, and overdraft fees. In some cases, the bank may even elect to shut down your bank account.

It is also useful to complete a bank reconciliation to see if any customer checks have bounced, or if any checks you issued were altered or even stolen and cashed without your knowledge. Thus, fraud detection is a key reason for completing bank reconciliation. When there is an ongoing search for fraudulent transactions, it may be necessary to reconcile a bank account on a daily basis, in order to obtain early warning of a problem.

When it comes time for the annual audit, the auditors will always examine the company's ending bank reconciliation as part of their testing procedures, so this is yet another reason to complete reconciliation.

Here are some of the areas in which your records could vary from the bank records:

- *Fees*. The bank has charged fees for its services, such as a monthly account fee.
- *NSF checks*. The bank may have rejected some of your deposited checks, because the person or business issuing the checks did not have sufficient funds in their account(s) to remit to your bank. These are known as NSF (not sufficient funds) checks.

- *Recording errors*. Either you or the bank may have recorded a check or a deposit incorrectly.

Some organizations consider the bank reconciliation to be so important that they conduct one every day, which they accomplish by accessing the latest updates to the bank's records on the bank's secure website. This is of particular importance if a company is operating with minimal cash reserves, and needs to ensure that its recorded cash balance is correct. A daily reconciliation may also be necessary if you suspect that someone is fraudulently withdrawing cash from the bank account.

Purpose:

Bank reconciliation statement is statement which is prepared after reconciling the accounts as per company records to that of bank records. In others word it done to ensure the entries shown in company's bank statement to that of company owns book record are same. This statement is prepared by your accountant or the book keeper in order to understand any differences between the balance in bank statement and the balance in accounting records.

- It confirms the accuracy of the balances shown in the company's books and bank records.
- It provides a check on the accuracy of entries made in both the books and bank records.
- It detects and rectifies any error committed in records
- It gives indication to update the books if some entries not recorded.
- It helps to check undue delay in the collection and clearance of some cheques.

3.11 Facts to Remember While Preparing Bank Reconciliation Statement

(1) **To check the total and balance :** The total of the bank column of the Cash Book should be checked to find out whether there is any mistake in totaling or balancing.

(2) **Comparison of amounts:** Each amount of Cash Book must be compared with the concerned amount recorded in Pass Book. If there is any difference, then this difference should be noted down separately.

(3) **Specified Date*:*** Items of Cash Book must be compared with the items of Pass Book only up to that date on which Bank Reconciliation Statement is prepared.

(4**) Memorandum *Book*** if any memorandum book has been kept for keeping record on incoming cheques and outgoing cheques, it must be seen thoroughly.

(5) **Starting and Ending Point*:*** A Bank Reconciliation Statement is prepared by taking the balance either as per Cash Book or as per Pass Book as starting point.

(i) If the statement is started with the balance as per bank column of the Cash Book, the answer arrived at the end will be the balance as per Pass Book.

(ii) Alternately, if the statement is started with the balance as per Pass Book, the answer arrived at the end will be the balance as per Cash Book.

(6) *Balance as per Cash Book:* Balance as per Cash Book is also known as Cash Book balance. This balance is really the bank column of Cash Book maintained by the customer.

(i) When total of debit column is more than total of credit column of bank column (account) in the cash book it is known as debit balance. In other words, Debit balance of Cash Book means the amounts are lying with the bank or deposited with the bank. It is also known as favorable balance or credit balance as per Pass Book.

(ii) When credit balance of cash book is given it is treated as overdraft as per Cash Book i.e., withdrawals are in excess of deposits. It is also known as unfavorable balance or overdraft balance as per Cash Book or Pass Book.

(7) Balance as per Pass Book*:* Bank keeps an account for each customer. The amounts which are deposited by the customer are recorded in the credit column of his account in Bank's ledger and the amount withdrawn by him are recorded in the debit column of his account in Bank's ledger. Many other amounts are recorded both in the debit and credit column of his account as per instruction of the customer.

(i) When credit balance is more than debit balances, it is called credit balance as per Pass Book or only Pass Book balance. This indicates that the customer has so much balance of deposit at the bank. It is also known as favorable balance.

(ii) When debit balance is more than credit balance, it is called debit balance as per Pass Book or overdraft as per Pass Book. This indicates that the amount has been withdrawn in excess of the deposit. It is also known as unfavorable balance.

(8) Effect of Debit or Credit: (i) If Cash Book is debited it means increase in the balance of Cash Book whereas if it is credited then it decreases the balance of Cash Book. (ii) If Pass Book is debited, it means decrease in the balance of Pass Book or increase in the overdraft balance where credit increases the balance or decreases the overdraft balance.

Problem and solutions:

On 31st December, 2016 the Cash Book of Madhab showed a debit balance of Rs 1,850 . On comparing the cash book with the pass book, the following discrepancies were noted:

(a) Cheques issued Rs 6000 were not presented at Bank by 31-12-2016
(b) Cheques for Rs. 8,000 were deposited in Bank but were not cleared
(c) A cheque for Rs. 200 received from Dhanban and deposited in bank was dishonored No advice for non-payment was received from bank till 1.1.2017

(d) A cheque for Rs. 510was paid into Bank but credited the amount with Rs. 501 by mistake

(e) Bank received interest on Debentures on behalf of Madhab amounting to Rs. 250

(f) A cheque for Rs. 500 entered into cash book was omitted to be banked. Prepare a Bank Reconciliation Statement and show the balance as per pass book.

Solution

BANK RECONCILIATION STATEMENT

As on 31st Dec. 2016

Particulars	Details (Rs.)	Amount (Rs.)
Balance as per cash book (Dr.)		1,850
Add : (i) Cheques issued but not yet presented	6,000	
(ii) Interest on debenture collected by bank	250	6250
		8100
Less : (i) Cheques deposited but not yet collected	8000	
(ii) Cheque deposited but dishonored	200	
(iii) Amount less credited by bank	9	
(iv) cheques entered in cash book but omitted to be banked	500	8709
Balance as per pass book (Dr.)		609

From the following particulars prepare a Bank Reconciliation Statement of Goutam on 31st Dec. 2016.

Balance as per pass book on 31st December 2016is Rs.18,500. Cheques for Rs. 7,200 were issued. during the month of December but of these cheques for Rs. 2,200 were presented in the month of January , 2017 and one cheque for Rs. 500 was not presented for payment. Cheques and cash amounting to Rs.6, 800 were deposited in bank during December but Credit was given for Rs. 5,820 only. A Customer had deposited Rs. 1,200 into the Bank directly . The bank has credited the merchants for Rs. 200 as interest and has debited him for Rs. 60 as bank charges, for which there are no corresponding entries in the cash book.

Solution

BANK RECONCILIATION STATEMENT

as on 31st Dec. 2016

Particulars	Details (Rs.)	Amount (Rs.)

Balance as per pass book (Dr.)		18,500
Add : (i) Cheques paid into bank but not yet collected	980	
(ii) Bank charges debited by bank	60	1,040
		19,540
Less : (i) Cheques issued but not yet presented for payment (Rs. 2200 + Rs. 500)	2,700	
(ii) Direct deposited made by customer into bank	1,200	
(iii) Interest credited by bank	200	4,100
Balance as per cash book (Dr.)		15,440

Sum Up:

The disagreement between the balance shown by the pass book and cash book occurs due to some transactions or errors that appear only in the cash book but not in the pass book, or only in the pass book but not in the cash book. However, it is essential to reconcile the difference in the balances shown by the pass book and the cash book for ensuring their accuracy. In order to reconcile the balances shown by them, a statement is prepared which is called bank reconciliation statement. It confirms the accuracy of the balances shown in the company's books and bank records. It provides a check on the accuracy of entries made in both the books and bank records. It detects and rectifies any error committed in records it gives indication to update the books if some entries not recorded. It helps to check undue delay in the collection and clearance of some cheques.

Key Words:

Bank reconciliation: A **bank reconciliation** is the balancing of a company's cash account balance to its bank account balance

Fees. The bank has charged fees for its services, such as a monthly account fee.

NSF checks. The bank may have rejected some of your deposited checks, because the person or business issuing the checks did not have sufficient funds in their account(s) to remit to your bank. These are known as NSF (not sufficient funds) checks.

Recording errors. Either you or the bank may have recorded a check or a deposit incorrectly.

Self Assessment Questions:

1.What do you mean by bank reconciliation statement? Why is it prepared?

Ans. ____

2. What are the different causes of disagreement between the balance as per cash book and balance as per pass book.

Ans.

3. Discuss the importance of bank reconciliation statement.

Ans.

4. what are advantages and disadvantages of bank reconciliation statement?

Ans.

Model Questions:

Q1.The cash book of J.Jones showed a balance at the bank of $570 in hand on 31 January 19X1. At the same date, the bank statement balance of J.Jones' account was $446 overdrawn. The difference was accounted for as follows:

1) Cheques for $1 555 sent to creditors on 30 January were not paid by the bank until 8 February.
2) Cheques amounting to $2 520 paid into the bank on 31 January were not credited by the bank until 1 February.
3) A standing order for a charitable subscription of $60 had been paid by the bank on 21 January but no entry had been made in the cash book.
4) A cheque paid by J.Jones for rent on 15 January for $345 had been entered in his cash book as $354.

Prepare the bank reconciliation statement.

Q2.Prepare a Bank Reconciliation Statement as on 31.12.2006

1. Debit balance as per Cash Book Rs.12,000

2. Cheques paid into bank Rs.8,000, but out of these only cheques of Rs.6,500 were credited by bank up to 31.12.06.

3. Cheques drawn of Rs.9, 200 but out of these only cheques of Rs.7,200 were presented for payment up to 31.12.06.

4. The receipt column of the cash book has been under cast byRs.200.

5. Interest on investment credited in pass book only Rs.330.

6. Cheques amounting to Rs.7,200 issued on 28th Dec, of which one cheque of Rs.1,300was presented in the bank on 4th Jan.

7. Life Insurance Premium of Rs.750 paid by bank as per customer's standing instruction.

8. Bank charges debited by bank Rs.25.

9. Cheques deposited into bank for Rs.10, 000, but of these cheques of Rs.4,000 were credited in January.

10. A customer directly paid into bank Rs.2, 000.

11. A cheque of Rs.1, 100 was returned dishonoured by bank, but advice of it received on 3rd January.

12. Amount wrongly credited by bank Rs.1, 400.

13. A bill of Rs.2, 000 was retired by the bank under a rebate of Rs.30 but the full amount of the bill was credited in the bank column of the cash book.

14. A cheque of Rs.1, 200 has been debited in the cash book, but it was not sent to bank at all.

15. A bill receivable of Rs.600 discounted with bank dishonored on 31st Dec, but not yet recorded in the cash book.

16. One outgoing cheque of Rs.900 was recorded twice in the cash book;

17. Incidental charges debited by pass book, not recorded in the cash book Rs.80.

18. The bank erroneously debited customer account for a cheque of Rs.1, 700.

19. Bank charges of Rs.200 were entered twice in cash book.

20. Payment side of the cash book has been under cast by Rs.300.

Further Readings:

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