

Unit 6

SUBSIDIARY BOOKS - I

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Points to recall

The following points are to be recalled before learning subsidiary books:

- Goods
- Cash purchases
- Credit purchases
- Cash sales
- Credit sales
- Purchases returns
- Sales returns
- Assets
- Ledger account



Learning Objectives

To enable the students to

- Understand the meaning and kinds of subsidiary books
- Apply the knowledge of accounting process in the preparation of subsidiary books
- Understand the method of recording of bill transactions
- Post entries from subsidiary books to ledger accounts

Key terms to know

- Purchases book
- Sales book
- Purchases returns book
- Sales returns book
- Debit note
- Credit note
- Bill of exchange
- Bills receivable book
- Bills payable book
- Journal proper

6.1 Introduction

Business entities carry on transactions of different nature. The types of transactions depend on the nature of business and the management policy. Many transactions may be of repetitive type, that is, similar nature of transactions take place repeatedly in a business entity. Therefore, transactions can be classified and grouped conveniently according to their nature. Generally, transactions are of two types: cash and non cash transactions (credit). Cash receipts and payments can be grouped in one category and credit transactions in another category. Thus, in practice, for easy, convenient, speedy and appropriate maintenance of accounts, the main journal may be sub-divided in such a way that a separate book is used for each category or group of transactions which are repetitive and sufficiently large in number. Each subdivision of the books is a special journal and a book of primary record or a book of primary entry or subsidiary book.

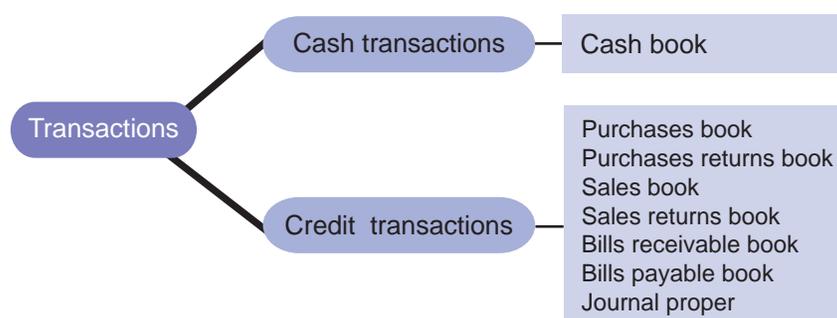
Journal entries are not passed when records are made in subsidiary books. When journal is the only book of prime entry it is possible for only one book-keeper to enter transaction in it at a time. In case of business entities having large volume of transactions, one person cannot do all the recording work by himself. There is a need for sub-division of the book-keeping work leading to the sub-division of the journal into parts or subsidiary journals.

6.2 Meaning of subsidiary books

Subsidiary books are sub-divisions of journal in each of which transactions of similar nature are recorded. These are the books of prime entry. Instead of recording in one journal, the transactions are recorded in a number of prescribed books.

6.3 Types of subsidiary books

The number of subsidiary books may vary according to the requirements of each business. Based on the nature of business and the volume of transactions, the following subsidiary books are maintained:



- (i) Subsidiary book for entering cash transactions - Cash book
- (ii) Subsidiary books (special journal) for entering non-cash transactions:
 - (a) Purchases book or purchases journal – for recording only credit purchase of goods in which the trader deals.
 - (b) Sales book or sales journal–for recording only credit sale of goods dealt in by the trader.
 - (c) Purchases returns or returns outward book – for recording return of goods purchased by the trader, for which no cash is immediately received.
 - (d) Sales returns or returns inward book – for recording the goods returned (out of previous sale) by customers for which no cash is immediately paid.

- (e) Bills receivable book – to record bills drawn or promissory notes received.
- (f) Bills payable book – to record bills accepted or promissory notes given.
- (iii) Journal proper – The general journal or all purpose journal to record transactions which do not find a place in the above seven subsidiary books.

6.4 Advantages of subsidiary books

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

(i) **Proper and systematic record of business transactions**

All the business transactions are classified and grouped conveniently as cash and non cash transactions, which are further classified as credit purchases, credit sales, returns, etc. As separate books are used for each type of transactions, individual transactions are properly and systematically recorded in the subsidiary books.

(ii) **Convenient posting**

All the transactions of a particular nature are recorded at one place, i.e., in one of the subsidiary books. For example, all credit purchases of goods are recorded in the purchases book and all credit sales of goods are recorded in the sales book. It facilitates posting to purchases account, sales account and concerned personal accounts.

(iii) **Division of work**

As journal is sub-divided, the work will be sub-divided and different persons can work on different books at the same time and the work can be speedily completed.

(iv) **Efficiency**

The sub-division of work gives the advantage of specialisation. When the same work is done by a person repeatedly the person becomes efficient in handling it. Thus, specialisation leads to efficiency in accounting work.

(v) **Helpful in decision making**

Subsidiary books provide complete details about every type of transactions separately. Hence, the management can use the information as the basis for deciding its future actions. For example, information regarding sales returns from the sales returns book will enable the management to analyse the causes for sales returns and to adopt effective measures to remove deficiencies.

(vi) **Prevents errors and frauds**

Internal check becomes more effective as the work can be divided in such a manner that the work of one person is automatically checked by another person. With the use of internal check, the possibility of occurrence of errors or fraud may be avoided or minimised.

(vii) **Availability of requisite information at a glance**

When all transactions are entered in one journal, it is difficult to locate information about a particular item. When subsidiary books are maintained, details about a particular type of transaction can be obtained from subsidiary books. The maintenance of subsidiary books helps in obtaining the necessary information at a glance.

(viii) **Detailed information available**

As all transactions relating to a particular item are entered in a subsidiary book, it gives detailed information. It is easy to arrive at monthly or quarterly totals.

(ix) **Saving in time**

As there are many subsidiary books, work of entering can be done simultaneously by many persons. Thus, it saves time and accounting work can be completed quickly.

(x) **Labour of posting is reduced**

Labour of posting is reduced as posting is made in periodical totals to the impersonal account, for example, Purchases account.



Student activity

Think: Visit some business units in your area. Find out the books maintained by them. Do they maintain special subsidiary books? If not, discuss with them the need and guide them on maintaining the special subsidiary books.

6.5 Purchases book

Purchases book is a subsidiary book in which only credit purchases of goods are recorded. When business wants to know the information about the credit purchases of goods at a glance, the information can be made available if purchases of goods on credit are separately recorded. Goods here mean the items in which the business entity is dealing. In other words, it is the item which is purchased for regular sales. For example, furniture will be treated as goods in the case of the firm dealing in furniture. For other firms, which are not dealing in furniture it will be an asset. Hence, while recording transactions in the purchases book, it must be ascertained whether the credit purchase is related to the item in which the firm is dealing. Purchases of assets and purchase of goods for cash are not entered in purchases book.

Format of purchases book / purchases journal

Date	Particulars (Name of the suppliers and details of goods purchased)	Invoice No.	L.F.	Amount ₹	
				Details	Total
(i)	(ii)	(iii)	(iv)	(v)	(vi)
	Purchase A/c Dr.				

(i) **Date**

In the date column, the date of purchases of goods on credit is recorded.

(ii) **Particulars**

In this column the name of the supplier from whom goods have been purchased and details of goods purchased are given. It contains the name, quantity, quality and rate of goods purchased, trade discount and any other specification and specialties of the goods are recorded in this column.

(iii) **Invoice number**

Invoice is the statement prepared by the seller of goods. It contains details about the goods, its price and other expenses incurred. The invoice number is entered in this column.

(iv) **Ledger Folio (L.F.)**

The page number of the ledger in which the supplier's account appears is recorded in this column. Purchases of goods must be posted to the personal accounts of suppliers. Purchases book contains the page number of supplier's account in the ledger. It helps in posting and also in checking the records.

(v) **Amount column (Details)**

Amount column is divided into two parts, i.e., details and total. The details column is used to record the amount of various individual items purchased from a particular supplier. The amount of trade discount allowed is deducted. This column is used for adjustment of additions and subtractions.

(vi) **Total amount column (Total)**

The net amount payable to the supplier of goods is recorded in the total amount column.

6.5.1 Invoice

Entries in the purchases day book are made from invoices which are popularly known as bills. Invoice is a business document or bill or statement, prepared and sent by the seller to the buyer giving the details of goods sold, such as quantity, quality, price, total value, etc. Thus, the invoice is a source document of prime entry both for the buyer and the seller.

6.5.2 Trade discount

Trade discount is a deduction given by the supplier to the buyer on the list price or catalogue price of the goods. It is given as a trade practice or when goods are purchased in large quantities. It is shown as a deduction in the invoice. Trade discount is not recorded in the books of accounts. Only the net amount is recorded. Example: Suppose the sale of goods for ₹10,000 was made and 10% was allowed as trade discount, the entry regarding sales will be made for ₹ 9,000 (10,000 – 10 per cent of 10,000). In the same way, purchaser of goods will also record purchases as ₹ 9,000).



Student activity

Think: Is trade discount the same as cash discount?

Illustration 1

Record the following transactions in the purchases book of Shanthi Furniture Mart:

2017

- | | |
|----------|---|
| March 1 | Purchased from Mohan Furniture Mart, Madurai
20 chairs @ ₹ 450 each
2 tables @ ₹ 1,000 each
Less: Trade discount @ 10% |
| March 6 | Purchased for cash from Welcome Furniture, Vellore
2 almirahs @ ₹ 2,000 each |
| March 7 | Bought from Ramesh & Co., Royapettah
2 stools @ ₹ 500 each
10 rolling chairs @ ₹ 200 each
Delivery charges and cartage ₹ 150 |
| March 20 | Purchased 2 computers for office use from Anandan & Co., Adyar
on credit for ₹15,550 each |
| March 21 | Purchased from Kamal & Co., Karaikkal
10 chairs @ ₹ 750 each
15 steel cabinets @ ₹ 1,500 each
Packing and delivery charges ₹ 250
Less: Trade discount @ 10% |

March 25 Purchased from Jemini & Sons, Chennai
2 typewriters @ ₹ 7,750 for office use

Solution

**In the books of Shanthi Furniture Mart
Purchases book / Purchases journal**

Date	Particulars	Invoice No.	L.F.	Amount ₹	
				Details	Total
2017	Mohan Furniture Mart, Madurai				
March 1	20 chairs @ ₹ 450 each			9,000	
	2 tables @ ₹ 1,000 each			2,000	
				11,000	
	Less: Trade discount @ 10%			1,100	9,900
March 7	Ramesh & Co., Royapettah				
	2 stools @ ₹ 500 each			1,000	
	10 rolling chairs @ ₹ 200 each			2,000	
				3,000	
	Add: Delivery charges and cartage			150	3,150
March 21	Kamal & Co., Karaikal				
	10 chairs @ ₹ 750 each			7,500	
	15 steel cabinets @ ₹ 1,500 each			22,500	
				30,000	
	Less: Trade discount @ 10%			3,000	
				27,000	
	Add: Packing and delivery charges			250	27,250
	Purchases A/c	Dr.			40,300

Tutorial note

1. Trade discount is allowed on the purchase price of goods excluding delivery charges and cartage.
2. Delivery charges and cartage are direct expenses, chargeable from purchaser, so they are added to the amount payable.
3. Purchases on 6th March, 2017 will not be recorded in the purchases book, because it is cash purchases.
4. Purchases of computers on 20th March, 2017 and typewriter purchased on March 25th will not be recorded in the purchases book, because they are assets for the firm dealing in furniture and are for office use.



Student activity

Think: Why the purchase of typewriter is not recorded? How do you record this transaction?

6.5.3 Posting from purchases book

After the transactions are recorded in the purchases book, posting them to ledger involves two steps:

Step 1: Posting to personal accounts of creditors: Every day, each entry is posted to the

credit side of the respective personal account of the creditor by entering the words 'By Purchases account'.

Step 2: Posting to purchases account: Generally, at the end of the month, the purchases book is totalled. The monthly total of purchases is posted to the debit side of purchases account by writing the words 'To Sundry creditors A/c'.

Illustration 2

From the following transactions of Ram Home Appliances for July, 2017 prepare purchases book and ledger accounts connected with this book:

- 2017 July 5 Purchased on credit from Kannan & Co.
 50 iron boxes @ ₹ 500 each
 10 grinders @ ₹ 3,000 each
- July 6 Purchased for cash from Siva & Bros.
 25 fans @ ₹ 1,250 each
- July 10 Purchased from Balan & Co. on credit
 20 grinders @ ₹ 2,500 each
 10 mixies @ ₹ 3,000 each
 Trade discount 10%
 Delivery charges ₹ 1,000
- July 20 Purchased on credit, one copier machine from Kumar for ₹ 35,000

Solution

In the books of Ram Home Appliances Purchases book

Date	Particulars	Invoice No.	L.F.	Amount ₹	
				Details	Total
2017					
July 5	Kannan & Co. 50 iron boxes @ ₹ 500 10 grinders @ ₹ 3,000			25,000 30,000	55,000
July 10	Balan & Co. 20 grinders @ ₹ 2,500 10 Mixies @ ₹ 3,000			50,000 30,000	
	Less: Trade discount 10%			80,000 8,000	
	Add: Delivery charges			72,000 1,000	73,000
	Purchases A/c Dr.				1,28,000

Ledger Accounts

Dr.				Cr.			
Purchases A/c							
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017							
July 31	To Sundry creditors		1,28,000				

Dr. Kannan & Co. Account				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017 July 5	By Purchases A/c		55,000

Dr. Balan & Co. Account				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017 July 10	By Purchases A/c		73,000

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

6.6 Purchases returns book

After purchases of goods, the business unit may find that some of the goods are not upto the satisfactory level because of the following reasons:

- Goods may be defective.
- They might have been damaged in transit.
- Quantities delivered may not agree with the invoice.
- They might have been received quite late (off-season).
- They might not be as per the samples or specifications.
- There may be a breach of agreement.

Therefore, the buyer may return them to the suppliers.

Purchases returns book is a subsidiary book in which transactions relating to return of previously purchased goods to the suppliers, for which cash is not immediately received are recorded. Since goods are going out to the suppliers, they are also known as returns outward and the book is called as 'returns outward book or returns outward journal'. This book is prepared like purchases book and details are entered as mentioned in the format given below:

Format

Purchases returns book

Date	Particulars	L.F.	Debit Note No.	Amount ₹		Remarks
				Details	Total	
Date of return	Names of persons to whom goods are returned and the details of goods returned Purchases Returns A/c Cr.	Posting reference		Detailed calculations		

6.6.1 Posting from the purchases returns book

After the transactions are recorded in the purchases returns book, posting them to ledger involves two steps:

Step 1: Posting to personal accounts of creditors: Every day, each entry in purchases returns book is posted to the debit side of the respective personal account of the creditor by writing the words 'To Purchases Returns account'.

Step 2: Posting to Purchases returns account: At the end of the month, the aggregate of the purchases returns is ascertained. It is the total purchases returns for the month and is posted to the credit side of purchases returns account by debiting 'Sundry creditors account'.

6.6.2 Debit note – the source document for returns outward

A 'debit note' is a document, bill or statement sent to the person to whom goods are returned. This statement informs that the supplier's account is debited to the extent of the value of goods returned. It contains the description and details of goods returned, name of the party to whom goods are returned and net value of the goods so returned with reason for return.



Student activity

Think: Do you think the supplier will accept the debit note sent by the customer, as it is? If not, why will he not accept?

Illustration 3

Enter the following transactions in the purchases returns book of Hari who is dealing in automobiles and post them into the ledger.

2017

Jan. 5 Returned to Anand 5 clutch plates @ ₹ 200 each, not in accordance with order.

Jan. 14 Returned to Chandran 4 brake shoes @ ₹ 200 each and 10 rear view mirrors @ ₹ 350 each, due to inferior quality.

Solution

In the books of Hari Purchases returns book

Date	Particulars	Debit Note No.	L.F.	Amount		Remarks
				Details	Total	
2017						
Jan 5	Anand 5 clutch plates @ ₹ 200 each				1,000	Not in accordance with order
Jan 14	Chandran 4 brake shoes @ ₹ 200 each 10 rear view mirrors @ ₹ 350 each			800		Due to inferior quality
				3,500	4,300	
	Purchases Returns A/c Cr.				5,300	

Ledger Accounts

Dr. Purchases returns A/c Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017	By Sundry		
				Jan 31	creditors A/c		5,300

Dr. Anand Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017	To Purchases						
Jan 5	returns A/c		1,000				

Dr.

Chandran Account

Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 Jan 14	To Purchases returns A/c		4,300				

6.7 Sales book

Sales book is a subsidiary book maintained to record credit sale of goods. Goods mean the items in which the business is dealing. These are meant for regular sale. Cash sale of goods and sale of property and assets whether for cash or on credit are not recorded in the sales book. This book is also named as sales day book, sold day book, sales journal or sale register.

The preparation of the sales book is similar to that of purchases book. The entries are made in the sales book on the basis of copies of the invoice sent to the buyer.

Format

Sales Book

Date	Particulars	L.F.	Invoice No.	Amount ₹	
				Details	Total
Date of sale	Name of the customers and the details of goods sold	Posting reference		Detailed calculations	Net amount of the invoice
	Sales A/c Cr.				

In the date column of the sales book, the date of credit sales is recorded. Particulars column contains the name of party purchasing goods or the party to whom goods have been sold. It also shows the details of goods as regards its quantity, quality, other descriptions and the rate of trade discount allowed. In Ledger Folio (L.F.) column the page number of debtors account in the ledger is recorded for reference. The amount of various items of the goods sold is entered in the details column. Adjustments for trade discount, packing charges, etc., are made in the details column. In the total column, the net amount payable by individual customer is recorded. The total of the amount column is the total credit sales during the period.

6.7.1 Posting from sales book

After the transactions are recorded in the sales book, posting them to ledger involves two steps:

Step 1: Posting to personal accounts of debtors: Every day, each entry is posted to the debit side of the respective personal account of the debtor.

Step 2: Posting to Sales account: At the end of the month, the aggregate of the sales is posted to the credit side of sales account by writing the words 'By Sundry debtors A/c'.

Illustration 4

From the transactions given below, prepare the sales book of Kumar Stationery for July 2017.

2017

July 5 Sold on credit to Saravana Traders of Sayalkudi
 10 packs of A4 sheets @ ₹ 250 per pack
 10 dozens of writing pads @ ₹ 850 per dozen
 Less : 10% trade discount for both

July 8	Sold to Raja for cash 15 packs of A4 sheets @ ₹ 250 per pack
July 20	Sold to Mohan & Co. of Mudukulathur 5 white boards @ ₹ 2,200 each 10 dozens of writing pads @ ₹ 850 per dozen
July 23	Sold on credit to Narayanan old motor car for ₹ 5,000
July 28	Sold to Kumaran for cash 15 packets of marker pens @ ₹ 250 per packet

Solution

In the books of Kumar Stationery Sales book

Date	Particulars	Invoice No.	L.F.	Amount	
				Details ₹	Total ₹
2017	Saravana Traders, Sayalkudi				
July 5	10 packs of A4 Sheets @ ₹ 250 per pack			2,500	
	10 dozens writing pads @ ₹ 850 per dozen			8,500	
				11,000	
	Less: 10% Trade discount			1,100	9,900
July 20	Mohan & Co., Mudukulathur				
	5 white boards @ ₹ 2,200 each			11,000	
	10 dozens writing pads @ ₹ 850 per dozen			8,500	19,500
	Sales A/c		Cr.		29,400

Ledger Accounts

Dr. **Sales A/c** Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017	By Sundry		
				July 31	debtors A/c		29,400

Dr. **Saravana traders A/c** Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017							
July 5	To Sales A/c		9,900				

Dr. **Mohan & Co. A/c** Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017							
July 20	To Sales A/c		19,500				

Note:

- Sales on 8th July and 28th July will not be recorded in the sales because they are cash sales.
- Sale of old motor car on 23rd July will not be recorded in the sales book, because motor car is an asset for the firm dealing in stationery.

6.8 Sales returns book

Sales returns book is a subsidiary book, in which, details of return of goods sold for which cash is not immediately paid are recorded. Just as goods may be returned to suppliers, goods may be returned by customers for the following reasons:

- (i) Defect in the goods
- (ii) Delay in the dispatch of goods to the customers
- (iii) Over-supply of goods
- (iv) Goods not being in accordance with the samples and specifications
- (v) Violation of the terms of the contract, etc.

Goods returned by the customers is known as 'returns inwards'.

This book is not concerned with the return of assets or return of goods for which cash is paid. This book is prepared just like the other day books.

6.8.1 Posting from sales returns book

After the transactions are recorded in the sales returns book, posting them to ledger involves two steps:

Step 1: Posting to personal accounts of debtors: Each entry in the sales returns book is posted to the credit side of the respective personal account of the debtor on daily basis by writing the words 'By Sales returns account'.

Step 2: Posting to Sales returns account: At the end of the month, the aggregate of the sales returns is posted to the debit side of sales returns account by writing the words 'To Sundry debtors A/c'.

6.8.2 Credit note – Source document for returns inward

A credit note is prepared by the seller and sent to the buyer when goods are returned indicating that the buyer's account is credited in respect of goods returned. Credit note is a statement prepared by a trader who receives back from his customer the goods sold. It contains details such as the description of goods returned by the buyer, quantity returned and also their value.

Format

Sales returns book

Date	Name of suppliers	L.F.	Credit Note No.	Amount ₹		Remarks
				Details	Total	
Date of return	Names of persons from whom goods are received back and details of goods returned	Posting reference		Detailed calculations	Net amount of the invoice	
	Sales returns A/c Dr.					

Illustration 5

Enter the following transactions in returns inward book of Magesh a textile dealer:

2017 April 6	Returned by Shankar 30 shirts each costing ₹ 150 due to inferior quality.
April 8	Amar Tailors returned 10 T-shirts, each costing ₹ 100, on account of being not in accordance with their order.
April 21	Prema Stores returned 12 Salwar sets each costing ₹ 200, being not in accordance with order.

Solution

In the books of Magesh Sales returns book

Date	Particulars	L.F.	Credit Note No.	Amount		Remarks
				Details ₹	Total ₹	
2017 April 6	Shankar 30 Shirts @ ₹ 150			4,500		Due to inferior quality Not in accordance with the order
April 8	Amar Tailors 10 T-Shirts @ ₹ 100			1,000		
April 21	Prema Stores 12 Salwar sets @ ₹200			2,400	7,900	
	Sales Returns A/c Dr.				7,900	Not in accordance with the order

Ledger Accounts

Dr. **Sales returns A/c** Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 April 30	To Sundry debtors A/c		7,900				

Dr. **Shankar A/c** Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017 April 6	By Sales returns A/c		4,500

Dr. **Amar Tailors A/c** Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017 April 8	By Sales returns A/c		1,000

Dr. **Prema Stores A/c** Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2017 April 21	By Sales returns A/c		2,400



Student activity

Think: Visit a stationery shop nearby. Observe its business activities for a week. After having discussed with the shop keeper, prepare a list of purchased and sold items by the shop. Record them in the appropriate books.

Illustration 6

Record the following transactions of Vijay Electrical & Co., in the purchases book, purchases returns book, sales book and sales returns book.

2017

- Jan 1 Purchased on credit from Preethi & Co.,
25 table fans @ ₹ 1,400 each
10 fans @ ₹ 2,000 each
Add: Auto charges @ ₹ 100
- Jan 5 Sold on credit to Sheela & co.,
10 electric iron box @ ₹ 1,250 each
20 electric stoves @ ₹ 450 each
Less: 10% Trade discount
- Jan 10 Purchased for cash from Brinda & Co.,
10 electric stoves @ ₹ 1,300 each
- Jan 18 Returned to Preethi & Co.,
5 table fans being defective for which cash is not received
- Jan 20 Purchased from Sathya & Co.,
10 fans @ ₹ 1,200 each
Less: Trade discount 5%
- Jan 21 Sheela & Co., returned 3 electric iron boxes as defective for which cash is not paid
- Jan 23 Purchased from Elizabeth & Co., 10 water purifiers @ ₹ 4,700 each on credit
- Jan 25 Sold on credit to M/s. Bhavani & Co., 7 fans @ ₹ 1,450 each
- Jan 27 Returned to Sathya & Co., 2 damaged fans for which cash is not received

Solution

In the books of Vijay Electrical & Co. Purchases Book

Date	Particulars	Invoice No.	L.F.	Amount ₹	
				Details	Total
2017					
Jan. 1	Preethi & Co. 25 table fans @ ₹ 1400 each 10 fans @ ₹ 2,000 each			35,000 20,000 55,000	
	Add: Auto charges			100	55,100
Jan. 20	Sathya & Co. 10 fans @ ₹ 1,200 each Less: Trade discount (5%)			12,000 600	11,400
Jan. 23	Elizabeth & Co 10 water purifiers @ ₹ 4,700 each				47,000
	Purchases A/c	Dr.			1,13,500

Sales Book

Date	Particulars	Invoice No.	L.F.	Amount ₹	
				Details	Total
2017					
Jan. 5	Sheela & Co. 10 electric iron boxes @ ₹ 1,250 each 20 electric stoves @ ₹ 450 each			12,500 9,000 21,500	
Jan. 25	Less: Trade discount (10%) M/s. Bhavani & Co. 7 fans @ ₹ 1,450 each Sales A/c			2,150	19,350 10,150
	Cr.				29,500

Purchases Returns Book

Date	Particulars	Debit Note No.	L.F.	Amount ₹		Remarks
				Details	Total	
2017						
Jan. 18	Preethi & Co. 5 table fans @ ₹ 1,400 each				7,000	Being defective
Jan. 27	Sathya & Co. 2 fans @ ₹ 1,140 each (List Price – Trade discount) (1,200 – 60) Purchase Returns A/c				2,280	Damaged fans
	Cr.				9,280	

Sales Returns Book

Date	Particulars	Credit Note No.	L.F.	Amount ₹		Remarks
				Details	Total	
2017						
Jan. 21	Sheela & Co. 3 electric Iron boxes @ ₹ 1,125 each (List Price – Trade discount) (1,250 – 125) Sales Returns A/c				3,375	Being defective
	Dr.				3,375	



Student activity

Think: Prepare a flow chart/mind map to show how entries are posted from subsidiary books to ledger?

6.9 Bills of exchange

6.9.1 Introduction

To increase the sales, a seller sells the goods on credit to his customers. If sale is made on credit, cash will not be received immediately. The seller may draw a bill on the customer for the amount due from him. If the customer accepts it, the seller can get the same discounted with the bank and get cash immediately.

6.9.2 Definition of bill of exchange

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

6.9.3 Features of bills of exchange

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

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

6.9.4 Specimen of bill of exchange

Bill of exchange

Stamp	328, Bazaar Street, Saidapet, Chennai-15 01.06.2017
₹ 10,000/-	
Three months after date pay to me or to my order the sum of Rupees Ten Thousand only for value received	
To Thiru. Jothi Kumar, 430, Mint Street, Chennai- 1.	Ramesh Babu

6.9.5 Important terms

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

(i) Drawing of a bill

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

(ii) Parties

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

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

In the above specimen, drawer and payee is Ramesh Babu. Jothi Kumar is the drawee.

(iii) Acceptance

In a bill, drawee gives his/her acceptance by writing the word 'accepted' and signs the same with the date. Now the bill becomes a legal document enforceable in the court of law.

(iv) Due date and days of grace

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

Example:

Date of bill	Period of bill	Days of grace	Due date
1st March	2 months	3	4th May
12th July	1 month	3	14th August, since 15th August (being Independence day) is a public holiday.
1st October	30 days	3	3rd November



If the maturity date falls on an emergency holiday, succeeding day will be the due date for payment.

(v) Endorsement

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

(vi) Discounting

When the holder of a bill is in need of money before the due date of a bill, cash can be received by discounting the bill with the banker. This process is referred to as the discounting of bill. The banker deducts a small amount of the bill which is called discount and pays the balance in cash immediately to the holder of the bill.

(vii) Retiring of bill

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

(viii) Renewal

When the acceptor of a bill knows in advance that he/she will not be able to meet the bill on its due date, he/she may request the drawer for extension of time for payment. The drawer of the bill may agree to cancel the original bill and draw a new bill for the amount due with interest thereon. This is referred to as renewal.

(ix) Dishonour

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

6.10 Bills receivable book

Bills receivable refers to bills drawn, the payment for which has to be received. In case of credit sales of goods, the entity may draw a bill on the buyer (debtor), for a certain period. This is called bills receivable for the business entity and bills payable for the debtor who has accepted the bill. Where number of bills receivable is large, then a separate bills receivable book may be maintained by a business entity to record the details of bills receivable. Such bills are drawn on debtor for a specified amount payable at sight on or after specified period. Bills receivable book contains the details of bills drawn and its disposal. The format of the bills receivable book is given below:

Format

Bills receivable book

Date of receipt of bill	From whom bill is received	Term of the bill	Due date of the bill	L.F.	Amount of the Bill ₹	Remark
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)

- (i) **Date:** In this column, the date of the acceptance of the bill is recorded.
- (ii) **From whom received:** In this column, the name of the debtor, who has accepted the bill and promised to make its payment, is recorded. The bill legally comes into existence after its acceptance.
- (iii) **Term or period:** The bill is drawn for a specified period. This period may be one month, two months, three months, etc. or even 60 days, 90 days, 120 days, etc. Period of the bill for which the bill has been drawn is mentioned here.
- (iv) **Due date:** Due date is the date on which the payment of the bill is actually due. It is also known as date of maturity. In order to calculate the due date, three days of grace is added to the term of the bill.
- (v) **Ledger Folio (L.F.):** This column contains the page number of the ledger in which the account of the acceptor of the bill appears.
- (vi) **Amount of the bill:** The actual amount of the bill is recorded in this column.
- (vii) **Remark:** This column contains the details of disposal of the bill, whether the bill has been discounted or endorsed, honoured or dishonoured etc.

6.11 Bills payable book

Details recorded in the bills payable book are the names of the parties whose bills are accepted, date of the bills payable, due date, amount, etc. The individual accounts of the parties whose bills are accepted will be debited with the corresponding amount in the bills payable book. The specimen of bills payable book is given below:

Format

Bills payable book

Date of acceptance of the bill	To whom acceptance is given	Term of the bill	Due date of the bill	L.F.	Amount of the bill ₹	Remark
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)

These columns record almost the same particulars which are recorded in the bills receivable book. When there is credit purchases of goods, the business entity may accept a bill drawn by the supplier or creditor. It is called bills payable for the business entity. Where there are large number of such bills payable, a separate bills payable book may be maintained. Thus, bills payable book is a subsidiary book maintained to record the details of bills payable.

The preparation of the bills receivable and bills payable book is explained through the following example:

2017 July 1	Acceptance received from Nirmala for ₹ 5,000 payable after 3 months.
July 20	Acceptance given to Shailaja's bill for ₹ 3,000 payable after 3 months.
July 31	Acceptance received from Faisal for ₹ 1,000 payable after 60 days.
Aug. 5	Farid's bill for ₹ 1,000 payable after 6 months accepted.
Aug.11	Mohan's acceptance for ₹ 700 payable after 90 days received.

The bills receivable and bills payable books are prepared as follows:

Bills Receivable Book

Date	From whom received	Term	Due date	L.F.	Amount ₹	Remark
2017 July 1	Nirmala	3 months	2017 October 4		5,000	
July 31	Faisal	60 days	October 1		1,000	
Aug 11	Mohan	90 days	November 12		700	
	Total				6,700	

Note: On 31st July, for Faisal bill, due date is 1st October, since 2nd October, (being Gandhi Jayanthi) is a public holiday.

Bills Payable Book

Date	To whom accepted	Term	Due date	L.F.	Amount ₹	Remark
2017 July 20	Shylaja	3 months	2017 October 23		3,000	
Aug 5	Farid	6 months	2018 February 8		1,000	
	Total				4,000	

6.12 Journal proper

Journal proper is a residuary book which contains record of transactions, which do not find a place in the subsidiary books such as cash book, purchases book, sales book, purchases returns book, sales returns book, bills receivable book and bills payable book. Thus, journal proper or

general journal is a book in which the residual transactions which cannot be entered in any of the sub divisions of journal are entered. The usual entries that are passed through this journal are given below:

- | | |
|---------------------------|----------------------------|
| (i) Opening journal entry | (ii) Closing journal entry |
| (iii) Adjusting entries | (iv) Transfer entries |
| (v) Rectifying entries | (vi) Miscellaneous entries |

(i) Opening journal entry

At the end of the accounting year, all nominal accounts are closed but the business has to be carried on with previous year's assets and liabilities. Hence, these accounts are to be brought into the accounts of the current year. Journal entry made in the beginning of the current year with the balances of assets and liabilities of the previous year is opening journal entry. In this entry, asset accounts are debited, liabilities and capital accounts are credited.

Example

Ramnath carried forward the following items. Make the opening entry in journal proper as on 1st January, 2017.

Cash	₹ 30,000	Stock	₹ 15,000
Furniture	₹ 3,000	Sundry Creditors	₹ 10,000

Opening Entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017 Jan 1	Cash A/c Dr.		30,000	
	Stock A/c Dr.		15,000	
	Furniture A/c Dr.		3,000	
	To Sundry creditors A/c			10,000
	To Capital A/c			38,000
	(Balance of assets and liabilities brought forward)			

(ii) Closing journal entry

At the end of the accounting period, all the ledger accounts relating to purchases, sales, purchases returns, sales returns, stock and other accounts concerning expenses, losses, incomes and gains are closed by transfer to trading and profit and loss account so that financial statements can be prepared. It should be noted that closing entries are made for nominal accounts only.

Example: Salaries account ₹ 10,000. The closing entry as on 31st December, 2017 is:

Closing Entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017 December 31	Profit and Loss A/c Dr.		10,000	
	To Salaries A/c			10,000
	(Salaries A/c transferred to Profit and Loss A/c)			

iii) Adjusting entries

After preparing the trial balance, but before preparing the final accounts, if any adjustment is required in the accounts for items or transactions left out, adjusting entries are made.

Example

Book value of the machinery as on 1st January, 2017 ₹ 1,00,000. Rate of depreciation is 10% p.a. Adjusting entry as on 31st December, 2017 is:

Adjusting Entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017 Dec 31	Depreciation A/c (1,00,000 × 10%) To Machinery A/c (Depreciation written off)	Dr.	10,000	10,000

(iv) Transfer entries

Transfer entries are passed in the journal proper for transferring an item entered in one account to another account. For example, transferring net profit of ₹ 5,000 to capital account, the following entry is passed:

Transfer Entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Profit and Loss A/c To Capital A/c (Net profit transferred to capital account)	Dr.	5,000	5,000

(v) Rectifying entries

Rectifying entries are passed for rectifying errors which are committed in the books of accounts.

Example

Purchase of furniture by a stationery dealer for ₹ 10,000 was debited to purchases account. Pass rectifying entry on December 31, 2017.

Rectifying Entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017 Dec 31	Furniture A/c To Purchases A/c (Wrong debit to purchases account rectified)	Dr.	10,000	10,000

(vi) Miscellaneous entries

These are entries which do not occur frequently such as:

- (i) Credit purchases and credit sale of assets which cannot be recorded through purchases or sales book.
- (ii) Endorsement, renewal and dishonor of bill of exchange which cannot be recorded through bills book.
- (iii) Other adjustments like interest on capital, bad debts, reserves, etc.
- (iv) Goods withdrawn by the owner for personal use.
- (v) Goods distributed as samples for sales promotion.
- (vi) Loss of goods by fire, theft and spoilage.



Points to remember

- Business transactions are entered in the subsidiary books before they are posted to the ledger.
- Sales book is meant for recording sales of goods on credit.
- Sales book is prepared with the help of invoices sent to the customers.
- Sales returns book is prepared based on the credit notes issued to the customers.
- Purchases book is meant for recording purchases of goods on credit.
- Purchases returns book is prepared based on the credit notes received from the suppliers.
- At the end of each month, totals of the sales, purchases, and returns b are transferred to the sales, purchases, and returns accounts respectively.

Self-examination questions



I Multiple choice questions

Choose the correct answer

1. Purchases book is used to record
 - (a) all purchases of goods
 - (b) all credit purchases of assets
 - (c) all credit purchases of goods
 - (d) all purchases of assets
2. A periodic total of the purchases book is posted to the
 - (a) debit side of the purchases account
 - (b) debit side of the sales account
 - (c) credit side of the purchases account
 - (d) credit side of the sales account
3. Sales book is used to record
 - (a) all sales of goods
 - (b) all credit sales of assets
 - (c) all credit sales of goods
 - (d) all sales of assets and goods
4. The total of the sales book is posted periodically to the credit of
 - (a) Sales account
 - (b) Cash account
 - (c) Purchases account
 - (d) Journal proper
5. Purchase returns book is used to record
 - (a) returns of goods to the supplier for which cash is not received immediately
 - (b) returns of assets to the supplier for which cash is not received immediately
 - (c) returns of assets to the supplier for which cash is received immediately
 - (d) None of the above
6. Sales return book is used to record
 - (a) Returns of goods by the customer for which cash is paid immediately
 - (b) Returns of goods by the customer for which cash is not paid immediately
 - (c) Returns of assets by the customer for which cash is not paid immediately
 - (d) Returns of assets by the customer for which cash is paid immediately

7. Purchases of fixed assets on credit basis is recorded in
 (a) Purchases book (b) Sales book
 (c) Purchases returns book (d) Journal proper
8. The source document or voucher used for recording entries in sales book is
 (a) Debit note (b) Credit note
 (c) Invoice (d) Cash receipt
9. Which of the following statements is not true?
 (a) Cash discount is recorded in the books of accounts
 (b) Assets purchased on credit are recorded in journal proper
 (c) Trade discount is recorded in the books of accounts
 (d) 3 grace days are added while determining the due date of the bill
10. Closing entries are recorded in
 (a) Cash book (b) Ledger
 (c) Journal proper (d) Purchases book

Answer

1. (c)	2. (a)	3. (c)	4. (a)	5. (a)	6. (b)	7. (d)	8. (c)	9. (c)	10. (c)
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II Very short answer questions

- Mention four types of subsidiary books.
- What is purchases book?
- What is purchases returns book?
- What is sales book?
- What is sales returns book?
- What is debit note?
- What is credit note?
- What is journal proper?
- Define bill of exchange.
- What is an opening entry?
- What is an invoice?

III Short answer questions

- Give the format of purchases book.
- Mention the subsidiary books in which the following transactions are recorded.
 - Sale of goods for cash
 - Sale of goods on credit
 - Purchases of goods on credit
 - When the proprietor takes goods for personal use
 - Goods returned to suppliers for which cash is not received immediately
 - Asset purchased as credit.
- What are the advantages of subsidiary books?

4. Write short notes on:
(a) Endorsement of a bill and
(b) Discounting of a bill

IV Exercises

1. Enter the following transactions in the Purchases book of M/s. Subhashree Electric Co., which deals in electric goods.

2017

- April 5 Purchased from Karthik Electric Co., on credit
10 Electric iron box @ ₹ 2,500 each
5 electric stoves @ ₹ 2,000 each
- April 19 Purchased on credit from Khaitan Electric Co.,
3 electric heaters @ ₹ 6,000 each
- April 25 Purchased from Polar Electric Co., on credit
10 Fans @ ₹ 2,000 each
- April 29 Purchased from M & Co. for cash
10 electric stoves @ ₹ 3,000 each

(Answer: Purchases A/c. (Dr.) ₹ 73,000)

2. From the following transactions write up the Sales day book of M/s. Ram & Co., a stationery merchant.

2017

- Jan. 1 Sold to Anbu & Co., on credit 20 reams of white paper @ ₹ 150 per ream
- Jan. 2 Sold to Jagadish & Sons on credit 6 dozen pens @ ₹ 360 per dozen
- Jan. 10 Sold old newspapers for cash @ ₹ 620
- Jan. 15 Sold on credit M/s. Elango & Co., 10 drawing boards @ ₹ 170 per piece
- Jan. 20 Sold to Kani & Co., 4 writing tables at ₹ 1,520 per table for cash

(Answer: Sales A/c (Cr.) ₹ 6,860)

3. Prepare Purchases book and Sales book in the books of Santhosh Textiles Ltd., from the following transactions given for April, 2017.

2017

- April 1 Purchased goods from Prasad, Kancheepuram on credit
100 meters Silk @ ₹ 450 per meter
75 meters Velvet @ ₹ 180 per meter
- April 10 Sold goods to Rathinam, Chennai on credit
60 meters Silk @ ₹ 490 per meter
50 meters Velvet @ ₹ 210 per meter
- April 18 Nathan & Sons purchased from us on credit
100 meters Silk @ ₹ 510 per meter



April 20 Purchased goods from Hari Ram & Sons, Madurai on credit
50 rolls kada cloth @ ₹ 730 per roll
80 rolls cotton cloth @ ₹ 650 per roll

April 24 Purchased from Mohan, Karur for cash
Shirting cloth @ ₹ 7,000
Sarees @ ₹ 25,000

(Answer: Purchases A/c (Dr.): ₹ 1,47,000 & Sales A/c (Cr.) ₹ 90,900)

4. From the following information, prepare purchase day book and purchases returns book for the month of June, 2017 and post them into ledger accounts in the books of Robert Furniture Mart.

2017

June 1 Purchased from Balu Traders 20 chairs @ ₹ 150 each on credit

June 13 Bought from Subash @ Co., on credit
2 Almirah @ ₹ 3,100 each
10 tables @ ₹ 1,500 each
15 chairs @ ₹ 200 each

Less: 10 % Trade discount on all items

Add: Freight charges ₹ 220

June 21 Returned 2 damaged chairs to Balu Traders and cash not received

June 24 Purchased from Sunrise Furniture Mart on credit
25 Almirahs @ ₹ 1,300 each

June 27 Purchased from Mouli Traders on credit
10 executive tables @ ₹ 3,275 each

June 29 Returned 3 Almirahs to Sunrise Furniture Mart and cash not received

(Answer: Purchases A/c(Dr.): ₹ 90,250 Purchases Returns A/c (Cr.) ₹ 4,200)

5. Record the following transactions in the sales book and sales returns book of M/s. Ponni & Co., and post them to ledger.

2017

Aug 1 Sold goods to Senthil as per Invoice No. 68 for ₹ 20,500 on credit

Aug 4 Sold goods to Madhavan as per Invoice No. 74 for ₹ 12,800 on credit

Aug 7 Sold goods to Kanagasabai as per Invoice No. 78 for ₹ 7,500 on credit

Aug 15 Returns inward by Senthil as per Credit Note no. 7 for ₹ 1,500 for which cash is not paid

Aug 20 Sold goods to Selvam for ₹ 13,300 for cash

Aug 25 Sales returns of ₹ 1,800 by Madhavan as per Credit Note No. 11 for which cash is not paid

(Answer: Sales A/c (Cr.) ₹ 40,800; Sales Returns A/c (Dr.) ₹ 3,300;
Senthil A/c (Dr.) ₹ 19,000; Madhavan A/c (Dr.) ₹ 11,000
& Kanagasabai A/c (Dr.) ₹ 7,500)





6. From the following information, prepare the necessary subsidiary books for Nalanda Book Stores.

2017

- Dec. 1 Bought from M/s. Umadevi on credit
100 copies Business Statistics Book @ ₹ 80 each
100 copies Accountancy Book @ ₹ 150 each
- Dec. 7 Sold to Sridevi & Co., on credit
240 copies Business Statistics @ ₹ 90 each
250 copies Accountancy books @ ₹ 170 each
- Dec. 10 Bought from Subha & Co.,
40 Copies Economics books @ ₹ 80 each
Less: 15% Trade Discount
- Dec. 15 Returned to M/s. Uma Devi 10 copies of damaged Accountancy book for which cash is not received
- Dec. 18 Sold to Gupta Bros., on credit
200 copies of Economics book @ ₹ 95 each
- Dec. 26 Returned 6 copies of Economics books to Subha & Co.,

(Answer: Purchases A/c (Dr.) ₹ 25,720, Sales A/c (Cr.) ₹ 83,100,
Purchases Returns A/c (Cr.) ₹ 1,908)

7. Prepare necessary subsidiary books in the books of Niranjan and also Sachin account and Mukil account from the following transactions for the month of February, 2017.

2017		₹
Feb. 1	Purchased goods from Mukil Traders on credit	12,480
Feb. 4	Goods sold to Sachin Traders on credit	15,000
Feb. 6	Sold goods to Manish Traders on credit	12,100
Feb. 7	Sachin Traders returned goods for which cash is not paid	1,200
Feb. 9	Returned goods to Mukil Traders for which cash is not received	1,500
Feb. 10	Sold goods to Manish & Co., on credit	13,300
Feb. 14	Purchased from Mukil Traders on credit	15,200

(Answer: Purchases A/c (Dr.) ₹ 27,680; Sales A/c (Cr.) ₹ 40,400,
Purchases Returns A/c (Cr.) ₹ 1,500, Sales Returns A/c (Dr.) ₹ 1,200;
Mukil A/c (Cr.) ₹ 26,180; Sachin A/c (Dr.) ₹ 13,800)



**CASE STUDY**

Mr. Joseph started a trading business of selling readymade clothes. In the earlier period, he dealt only with cash, because he felt that would be risk-free. But, later on, he had to give credit period for his regular customers in order to retain them. For some customers, when they made bulk purchase, he offered them some discount. That brought him even more customers. But, some of his customers are not prompt in making the payment.

He expanded his business and employed few staff. As the credit transactions were numerous, he found it difficult to maintain properly. One of his friends, who is a Chartered Accountant advised him to maintain subsidiary books.

Discuss on the following points.

- What could be the reason for Joseph's feeling that dealing in cash is risk free?
- What type of discount is offered by Joseph?
- Suggest some ways to Joseph for making his customers to pay on time.
- Do you think that maintaining the subsidiary books will be useful to Joseph?
- What business documents are needed to maintain the subsidiary books?

To explore further

How do you make sure that the subsidiary books are maintained without any error?

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