

Unit 7

SUBSIDIARY BOOKS - II

CASH BOOK



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Points to recall

The following points are to be recalled before learning Subsidiary books-II cash book:

- Golden rules of accounting
- Journal entries
- Ledger account
- Subsidiary books



Learning Objectives

To enable the students to

- Understand the meaning and importance for cash book
- Apply the rules of double entry system in the preparation of various types of cash book
- Understand the meaning and types of petty cash book
- Prepare petty cash book

Key terms to know

- Cash book
- Petty cash book
- Bank overdraft
- Cheque

7.1 Introduction



Student activity

Think: A stationery shop keeper maintains only one register to record all her business transactions. She finds it difficult to know and check her shop's cash balance at the end of the day. Is there any way to help her? She needs your suggestion.

In any business, many transactions take place every day involving cash such as cash sales, receipts from debtors, cash purchases, payment to creditors and payment towards different expenses. It is therefore necessary, that all the cash transactions are recorded in a separate book, i.e., cash book. Cash book is the most important subsidiary book, because it keeps the initial record of cash transactions of the business. Cash book is maintained by every business, whether small or large in size. It is simply because every business is very cautious about its cash management, i.e., cash receipts and cash payments. The cash book presents the true position of cash transactions. Cash book also serves as a documentary evidence for the available cash balance.

7.2 Meaning of cash book

Cash book is the book in which only cash transactions are recorded in the chronological order. The cash book is the book of original entry or prime entry as cash transactions are recorded for the first time in it. Cash transactions here may include bank transactions also. Cash receipts are recorded on the debit side while cash payments are recorded on the credit side.

7.3 Cash Book – A subsidiary book and principal book of accounts

All the cash transactions are recorded first in the cash book. It is therefore a subsidiary book. When cash book is maintained, there is no need for preparing cash account and bank account in the ledger because in the cash book cash receipts and cash payments are compared and the cash and bank balances at the end are arrived at. Thus, it serves as a ledger account also. Hence, the cash book, unlike any other subsidiary book, is both a subsidiary book and a principal book.

7.4 Importance of cash book

Importance of cash book is discussed below:

(i) Serves as both journal and ledger

When cash book is maintained, it is not necessary to open a separate cash account in the ledger. Thus, cash book serves the purpose of a journal and a ledger.

(ii) Saves time and labour

When cash transactions are recorded through journal entries, a lot of time and labour will be involved. To avoid this, all cash transactions are straightaway recorded in the cash book, which saves time and labour.

(iii) Shows the cash and bank balance

It helps to know the cash and bank balance at any point of time by comparing the total cash receipts and cash payments.

(iv) **Benefit of division of labour**

As cash book is a separate subsidiary book, an independent person can maintain it. Hence, business can get the benefit of division of labour.

(v) **Effective cash management**

Cash book provides all information regarding total receipts and payments of the business concern during a particular period. It helps in formulating effective policy for cash management.

(vi) **Prevents errors and frauds**

Balance as per cash book and the balance in the cash box can be compared daily. If there is any deficit or surplus, it can be found easily. It helps in preventing any fraud or error in cash dealings.

7.5 Types of cash book

The main cash book may be of various types and following are the three most common types.

- (i) Simple or single column cash book (only cash column)
- (ii) Cash book with cash and discount column (double column cash book)
- (iii) Cash book with cash, discount and bank columns (three column cash book).

Apart from the main cash book, petty cash book may also be prepared to enter the petty expenses, i.e., expenses involving small amount.

7.6 Single column cash book

Single column cash book or simple cash book, like a ledger account has only one amount column, i.e., cash column on each side. Only cash transactions are recorded in this book. All cash receipts and payments are recorded systematically in this book. The format of simple cash book is given as under:

Dr.					Simple Cash Book					Cr.
Date	Receipts	R.N.	L.F.	Amount ₹	Date	Payments	V.N.	L.F.	Amount ₹	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	

The format of simple cash book shows that it has been divided into two parts. The left hand side is 'Debit' which represents all cash receipts and the right hand side is 'Credit', showing all cash payments.

Columns (1) and (6) – Date: Date of receiving cash is recorded in the debit side and date of paying cash is recorded in the credit side.

Column (2) Receipts: Receipts column shows name of persons or parties from whom cash has been received, income received, sale of asset like plant, cash sales and other receipts.

Column (3) Receipt Number (R.N.): This column contains the serial numbers of the cash receipts.

Columns (4) and (9) – Ledger Folio (L.F.): This column is provided both on the debit and credit side of the cash book. It is used for reference. The Ledger page number of every account in the cash book is recorded in this column. This column facilitates vouching and verification of transactions recorded.



Columns (5) and (10) – Amount: This is the last column of the cash book on both the debit and credit sides. In case of cash receipt, the amount of actual cash receipts and in case of payments, the amount of actual cash payment is recorded. The opening balance of cash is recorded on the debit side and the closing balance is the balancing figure on the credit side. Opening balance or capital contributed by cash in case of new business is the first item on the debit side and the closing balance is the last item on the credit side.

The word 'To' is conventionally used before different accounts at the debit side of cash book in particulars column. The word 'By' is used before the different accounts at the credit side of the cash book in particulars column.

Column (7) Payments: The accounts to which payments are made are recorded here such as names of persons to whom payment has been made, expenses paid, assets purchased, cash purchases, etc.

Column (8) Voucher Number (V.N.): This column contains the serial number of the voucher towards which payment is made.



Student activity

Think: Credit transactions are not recorded in the cash book. Where will they be recorded?

7.6.1 Balancing of single column cash book

Since the cash book serves as cash account, it must be balanced regularly. The balancing procedure is the same like any other ledger account. It must be remembered that one cannot pay more cash than what one has received. Therefore, the total of receipts is always more than (or at least equal to, but never less than) the credit total (payments) and the cash book always shows a debit balance (or nil balance, but never credit balance).

Illustration 1

Enter the following transactions in a simple cash book of Kunal:

2017		
Jan.		₹
1	Cash in hand	11,200
5	Received from Ramesh	300
7	Paid rent	30
8	Sold goods for cash	300
10	Paid Mohan	700
27	Purchased furniture for cash	200
31	Paid salaries	100

Solution

In the books of Kunal							
Dr.				Cr.			
Cash Book (Single column)							
Date	Receipts	L.F.	Amount ₹	Date	Payments	L.F.	Amount ₹
2017				2017			
Jan 1	To Balance b/d		11,200	Jan 7	By Rent A/c		30
5	To Ramesh A/c		300	10	By Mohan A/c		700
8	To Sales A/c		300	27	By Furniture A/c		200
				31	By Salaries A/c		100
				31	By Balance c/d		10,770
			11,800				11,800
Feb 1	To Balance b/d		10,770				

Explanation

Jan 1: Cash in hand is the opening balance with the firm. This would have been the closing balance on 31st December, 2017. Cash account always has debit balance so it has been shown in the debit side of the cash book.

Jan 5: It is a receipt from Ramesh, so it has been recorded in receipt side (debit side) of the cash book.

Jan 7: Payment of rent will decrease cash, so it has been recorded in payment side (credit side) of the cash book.

Jan 8: Cash sales of goods will bring cash and increases the cash balance, so it has been recorded in the debit side of the cash book.

Jan 10: Payment to Mohan decreases cash, so it has been recorded in the credit side.

Jan 27: Purchase of furniture for cash reduces cash, so it has been recorded in credit side.

Jan 31: Payment of salaries in cash reduces cash, so it has been recorded in the credit side of cash book.



Student activity

Think: In cash book, receipts are entered on the debit side and payments are entered on the credit side. Why?

Illustration 2

Enter the following transactions in a single column cash book of Pradeep for April, 2017

April	₹
1 Commenced business with cash	27,000
5 Bought goods for cash	6,000
10 Goods sold for cash	11,000

13	Paid into bank	5,000
14	Goods sold to Sangeetha for cash	9,000
17	Goods purchased from Preethi on credit	13,000
21	Purchased stationery by cash	200
25	Paid Murugan by cash	14,000
26	Commission paid by cash	700
29	Drew from bank for office use	4,000
30	Rent paid by cheque	3,000

Solution

In the books of Pradeep							
Dr.	Cash Book (Single column)						Cr.
Date	Receipts	L.F.	Amount ₹	Date	Payments	L.F.	Amount ₹
2017				2017			
April 1	To Pradeep's capital A/c		27,000	April 5	By Purchases A/c		6,000
10	To Sales A/c		11,000	13	By Bank A/c		5,000
14	To Sales A/c		9,000	21	By Stationery A/c		200
29	To Bank A/c		4,000	25	By Murugan A/c		14,000
				26	By Commission A/c		700
				30	By Balance c/d		25,100
			51,000				51,000
May 1	To Balance b/d		25,100				

Note: The transaction dated April 17th will not be recorded in the cash book as it is a credit transaction. The transaction on 30th is not recorded as the payment is made through bank which does not involve cash.

7.6.2 Posting from single column cash book

Since cash book serves as 'journal' as well as 'ledger account', there is no need for preparing separate cash account and posting thereto. But entering cash transactions in cash book means recording only cash aspect of each transaction. The other aspect of the transaction remains to be posted. When the related accounts are posted, the double entry will be completed. The procedure for posting is:

- Credit the accounts mentioned on the receipts (or) debit side by entering 'By Cash account' and
- Debit the accounts mentioned on the payment (or) credit side by entering 'To Cash account'.

For example, for illustration 2, posting is made to sales account and purchases account as follows:

Dr. Sales				Cr.			
Date	Particulars	L.F.	Amount ₹	Date	Particulars	L.F.	Amount ₹
2017 April				2017 April 10	By Cash A/c		11,000
				14	By Cash A/c		9,000

Dr. Purchases A/c				Cr.			
Date	Particulars	L.F.	Amount ₹	Date	Particulars	L.F.	Amount ₹
2017 April 5	To Cash A/c		6,000	2017 April			

7.7 Cash discount and trade discount

a) Cash discount

Cash discount is allowed to the parties making prompt payment within the stipulated period of time or early payment. It is discount allowed (loss) for the creditor and discount received (gain) for the debtor who makes payment. The discount is allowed when payment is received or made and hence, the entry for discount is also passed with the entry of payment. The earlier the payment, the more may be the discount. Cash discount motivates the debtor to make the payment at an earlier date to avail discount facility. For example, the terms may be.

“5% discount will be allowed if the payment is made within one month.

3% discount will be allowed if the payment is made within two months”.

Discount allowed account will be shown on the debit side of profit and loss account and discount received account will be shown on the credit side of profit and loss account. When cash discount is allowed in respect of sale of goods or services, the seller allows cash discount to the buyer when payment is made.

b) 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).

7.7.1 Differences between cash discount and trade discount

Following are the difference between cash discount and trade discount:

Basis	Cash discount	Trade discount
1. Purpose	Cash discount is allowed to encourage the buyers of goods to make payment at an early date.	Trade discount is allowed to encourage buyers to buy goods in large quantities.
2. Time of allowance	Cash discount is allowed by the seller or creditor to the buyer or debtor at the time of making payment.	Trade discount is allowed by the seller to the buyer when goods are sold.

3. Amount of discount	Cash discount is related to time. The earlier the payment, the more will be the cash discount.	Trade discount is generally related to the quantity of purchase or sale. The more the purchases, the more will be the rate and amount of discount.
4. Recording in books of accounts	Cash discount is recorded in the books of account. Cash discount allowed is shown on the debit side of cash book. Cash discount received is shown on the credit side of the cash book.	Trade discount is not recorded in the books of account. No journal entry is made for the same. Details are just shown in the purchases or sales book.
5. Deduction from invoice value	Cash discount is not deducted from the invoice value of goods.	Trade discount is deducted from the list price of the goods.

7.8 Double column cash book (Cash book with cash and discount column)

It is a cash book with cash and discount columns. As there are two columns, i.e., discount and cash columns, both on debit and credit sides, this cash book is known as 'double column cash book'.

The double column cash book is prepared on the lines of simple cash book. It has only one additional column, i.e., discount column on each side. Discount column represents discount allowed on the debit side and discount received on the credit side.

In the discount columns, cash discount, i.e., cash discount allowed and cash discount received are recorded. The net amount received is entered in the amount column on the debit side and the net amount paid is entered in the amount column on the credit side. For the seller who allows cash discount, it is a loss and hence it is debited and shown on the debit side of the cash book. For the person making payment, discount received is a gain because less payment is made and it is credited and shown on the credit side of the cash book.

The cash columns are balanced. Discount columns are not balanced, since debit represents discount allowed and credit represents discount received. They are totalled, separately.

The format of double column cash book is given below:

Dr.						Cr.					
Cash book with cash and discount columns											
Date	Receipts	R.N	L.F	Amount ₹		Date	Payments	R.N	L.F	Amount ₹	
				Discount	Cash					Discount	Cash



Student activity

Think: Cash account cannot have a credit balance. Why?

7.8.1 Balancing the double column cash book

The cash columns should be balanced as usual and the balance should be carried forward to the next date or period.

However, discount columns are not to be balanced. They are to be totalled on the debit side and credit side separately. The total of discount column on the debit side represents total discount allowed to customers and is debited to discount allowed account. Total of discount column on the credit side represents total discount received and is credited to discount received account. The periodical totals of discount columns are posted as under:

- (i) Debit Discount allowed account as 'To Sundry Accounts as per Cash book', with the periodical total of the discount allowed column.
- (ii) Credit Discount received account as 'By Sundry Accounts as per Cash Book' with the periodical total of the discount received column.

Illustration 3

Enter the following transactions in a cash book with cash and discount columns:

2017		₹
Jan 1	Cash in hand	11,500
Jan 5	Paid to Ramanathan by depositing in cash deposit machine	300
	Discount allowed by him	10
Jan 8	Purchased goods for cash	400
Jan 10	Cash received from Rajagopal	980
	Discount allowed	20
Jan 15	Sold goods for cash	400
Jan 21	Paid cash to Shanthi	295
	Discount received	5
Jan 25	Paid wages by cash	50
Jan 31	Paid to Sanjeev ₹ 390 in full settlement of his account	400

Solution

Dr. **Cash book with cash and discount columns** **Cr.**

Date	Receipts	L.F.	Amount ₹		Date	Payments	L.F.	Amount ₹	
			Discount	Cash				Discount	Cash
2017					2017				
Jan 1	To Balance b/d			11,500	Jan 5	By Ramanathan A/c		10	300
10	To Rajagopal A/c		20	980	8	By Purchases A/c			400
15	To Sales A/c			400	21	By Shanthi A/c		5	295
					25	By Wages A/c			50
					31	By Sanjeev A/c		10	390
					31	By Balance c/d			11,445
			20	12,880				25	12,880
Feb 1	To Balance b/d			11,445					

Note: Discount column is not to be balanced.

7.8.2 Posting from double column cash book

Following is the procedure for posting entries from double column cash book:

- (a) **Cash columns:** Debit the accounts mentioned on the credit side and the credit is to Cash A/c with the amount mentioned in cash column; credit the accounts mentioned on the debit side and the debit is for Cash A/c with the amount mentioned in cash column.
- (b) **Discount columns:** Debit the concerned personal account mentioned on the credit side and the credit is to Discount received A/c with the amount mentioned in the discount received column. Credit the concerned personal account mentioned on the debit side and the debit is for Discount allowed A/c with the amount entered in the discount allowed column.

7.9 Three column cash book (Cash book with cash, discount and bank column)



Student activity

Think: Is it safe and convenient to carry on the business transactions only in cash?

A three column cash book includes three amount columns on both sides, i.e., cash, bank and discount. This cash book is prepared in the same way as simple and double column cash books are prepared. The transactions which increase the cash and bank balance are recorded on the debit side of the cash and bank columns respectively. Opening balance of cash and favourable bank balance appear as the first item on the debit side of the three column cash book in case of existing business. If the business is a new one, capital contributed in cash and/or bank deposit appear as the first item on the debit side.

All the transactions which decrease the cash and bank balance are recorded in the cash and bank columns on the credit side. The balancing figures will be the closing balances of cash and bank. Cash will always have debit balance. Bank balance may be debit or credit depending on whether the balance is favourable or unfavourable respectively. If there is any discount allowed it is entered in the discount column on the debit side against the particular account. Similarly, if there is any discount received, it is entered in the discount column on the credit side.

7.9.1 Format

Format of three column cash book is as follows:

Dr. **Cash book with cash, discount and bank columns or three column cash book** Cr.

Date	Receipts	L.F.	Amount ₹			Date	Payments	L.F.	Amount ₹		
			Discount	Cash	Bank				Discount	Cash	Bank

Tutorial note

- (i) If a business entity has more than one bank account, columns may be provided in the cash book for each bank account separately.
- (ii) **Treatment of cheques:** In addition to cash dealings every business may use cheques as a means of payment. For the purpose of accounting, cheques received are treated as cash received. When cheques received are banked on the same day the amount is to be directly debited to the bank account. When payments is made by cheque, the bank account is credited.

7.9.2 Contra entry

When the two accounts involved in a transaction are cash account and bank account, then both the aspects are entered in cash book itself. As both the debit and credit aspects of a transaction are recorded in the cash book, such entries are called contra entries.

Example

- (i) When cash is paid into bank, it is recorded in the bank column on the debit side and in the cash column on the credit side of the cash book.
- (ii) When cash is drawn from bank for office use, it is entered in cash column on the debit side and in the bank column on the credit side of the cash book.

To denote that there are contra entries, the alphabet 'C' is written in L.F. column on both sides. Contra means that particular entry is posted on the other side (contra) of the same book, because Cash account and Bank account are there in the cash book only and there are no separate ledger accounts needed for this purpose. The alphabet 'C' indicates that no further posting is required and the relevant account is posted on the opposite side.

Illustration 4

Prepare three column cash book in the books of Thiru Durairaj.

2017		₹
March 1	Cash in hand	12,000
	Cash at bank	15,000
2	Cash paid into bank	11,000
3	Goods sold ₹ 18,500. Half of it is received in cash and half of it is received by cheque which is immediately deposited in the bank	
4	Sold on credit to Jayaraj for	7,000
8	Jayaraj sent a cheque in full settlement	6,900
12	Jayaraj's cheque was sent to bank	
14	Bought goods from Iqbal and issued a cheque to him immediately	8,500
15	Bought goods from Murali on credit	4,000
19	Received a cheque from Kannappan in full settlement of his account of ₹ 2,000	1,975
20	Drew cash ₹ 3,000 and by cheque ₹ 5,000 for personal use	
25	Paid Vinod by cheque in full settlement of his account of ₹ 2,000	1,850

Solution

In the books of Durairaj

Three-column cash book

Cr.

Dr.

Date	Receipts	R.N	L.F	Amount ₹			Date	Payments	V.N	L.F.	Amount ₹		
				Discount Allowed	Cash	Bank					Discount Received	Cash	Bank
2017							2017						
Mar 1	To Balance b/d				12,000	15,000	Mar 2	By Bank A/c		C		11,000	
2	To Cash A/c		C			11,000	12	By Bank A/c		C		6,900	
3	To Sales				9,250	9,250	14	By Purchases A/c					8,500
8	To Jayaraj A/c			100	6,900		20	By Drawings A/c				3,000	5,000
12	To Cash A/c		C			6,900	25	By Vinod A/c			150		1,850
19	To Kannappan A/c			25	1,975		31	By Balance c/d				9,225	26,800
				125	30,125	42,150					150	30,125	42,150
Apr 1	To Balance b/d				9,225	26,800							

Illustration 5

Record the following transactions in three column cash book of Gunasekaran.

2017

Jan		₹
1	Cash in hand	50,000
1	Cash at bank	90,000
2	Goods sold on credit to Rohini	15,000
5	Cheque received from Rohini in full settlement and deposited into bank	14,500
6	Cash deposited into bank through cash deposit machine	18,000
7	Goods sold to Sridhar for ₹ 12,000. He made the payment of ₹ 11,800 by debit card in full settlement by availing a cash discount of ₹ 200	
10	Money withdrawn from bank for office use	2,000
12	Purchased goods from Raja for ₹ 10,000 and paid through credit card in full settlement by availing a cash discount of ₹ 200	9,800
14	Nathiya who owed money made the payment through NEFT	18,000
27	Cheque of Rohini dishonoured	

(See the solution in the next page)

7.10 Petty cash book



Student activity

Think: A cashier finds it difficult to maintain record of large volume of cash payments, ranging from ₹ 5 to ₹ 10,00,000. Can you suggest a way to reduce his work burden?

Business entities have to pay various small expenses like taxi fare, bus fare, postage, carriage, stationery, refreshment and other sundry items. These are small payments and repetitive in nature. If all these small payments are recorded in the main cash book, it will be loaded with lot of entries. Hence, all petty payments of the business may be recorded in a separate book, which is called as petty cash book and the person who maintains the petty cash book is called the petty cashier. Thus business concerns may maintain main cash book and petty cash book separately.

All the small payments must be supported by vouchers, that is, documentary evidences. The vouchers must be numbered and filed in order. Petty cashier makes only cash payments. He must not be allowed to receive any cash except for reimbursement. Petty cashier has to make payments only within the specified limit. Payments involving large amounts must be made only by main cashier. At the end of the relevant period, petty cash book is balanced. Balancing of petty cash book is similar to the balancing of simple cash book.

Solution for illustration 5

In the books of Gunasekaran

Dr. C.r
Three column cash book

Date	Receipts	R.N.	L.F.	Amount ₹			Date	Payments	V.N.	L.F.	Amount ₹		
				Discount Allowed	Cash	Bank					Discount Received	Cash	Bank
2017							2017						
Jan. 1	To Balance b/d			-	50,000	90,000	Jan. 6	By Bank A/c		C	-	18,000	-
5	To Rohini A/c			500	-	14,500	10	By Cash A/c			-	-	2,000
6	To Cash A/c		C	-	-	18,000	12	By Purchases A/c			200	-	9,800
7	To Sales A/c			200	-	11,800	27	By Rohini A/c			-	-	14,500
10	To Bank A/c			-	2,000	-	31	By Balance c/d			-	34,000	1,26,000
14	To Nathiya A/c			-	-	18,000							
				700	52,000	1,52,300					200	52,000	1,52,300
Feb. 1	To Balance b/d				34,000	1,26,000							



Student activity

Think: The main cashier thinks that the petty cashier spends too much on everyday business activities. Is there any way to have a control on such expenses?

7.10.1 Imprest system of petty cash

Under this system, a fixed amount necessary or sufficient to meet petty payments determined on the basis of past experience is paid to the petty cashier on the first day of the period. (It may be a week or fortnight or month). The amount given to the petty cashier in advance is known as “Imprest Money”. The word imprest means payment in advance. The petty cashier makes payments from this amount and records them in petty cash book. At the end of a particular period, the petty cashier submits the petty cash book to the head cashier. The head cashier scrutinises the petty payments and gives amount equal to the amount spent by petty cashier so that the total amount with the petty cashier is now equal to the amount he had received in the beginning as advance. Under the system, the total cash with the petty cashier never exceeds the imprest at any time during the period. This method thus provides an effective control over petty payments.

For example, On 1st June, 2017, ₹ 1,000 was given to the petty cashier. He had spent ₹ 940 during the month. He will be paid ₹ 940 on 30th June by the cashier so that he may again have ₹ 1,000 for the next month i.e., July, 2017.

7.10.2 Advantages of maintaining petty cash book

Following are the advantages of maintaining petty cash book:

- (i) There can be better control over petty payments.
- (ii) There is saving of time of the main cashier.
- (iii) Cash book is not loaded with many petty payments.
- (iv) Posting of entries from main cash book and petty cash book is comparatively easy.

7.10.3 Types of petty cash book

There are two types of petty cash books. They are:

- (i) Simple petty cash book
- (ii) Analytical petty cash book

(i) Simple petty cash book

A simple petty cash book resembles the single column cash book. But the columns are different. On the debit side, only the advance received from the head cashier is recorded. On the credit side, all payments are recorded in only one column. This is known as simple petty cash book.

(ii) Analytical petty cash book

In analytical petty cash book, a separate column is provided for different heads of payments and one column for total payments. When the petty expenses are recorded in the total payment column, same amount is also recorded in the appropriate expense column. This is known as analytical petty cash book.

Dr.

Format of analytical petty cash book

Cr.

Receipts ₹	C.B.F.N	Date	Particulars	V.N.	Total payments ₹	Postage ₹	Stationery ₹	Carriage ₹	Travelling expenses ₹	Refreshments ₹	Sundries ₹	Personal accounts ₹	L.F.
			Total expenses		xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
			Balance c/d		xxx								
xxx					xxx								
xxx			Balance b/d										
xxx			Cash a/c										

Details entered in the various columns of the petty cash book are as follows:

1) Receipts

This is the first column of the petty cash book. The amount received by the petty cashier for meeting petty expenses is recorded in this column. Generally, amount is received once on the first day of every week or month. The opening balance of petty cash is recorded in this column as the first item. This column shows the total amount available with the petty cashier.

2) Cash Book Folio Number (C.B.F.N.)

In this column, the page number of the cash book in which the entry is made is recorded.

3) Date

In this column, the date of receipt of petty cash and payment of every petty expense is recorded.

4) Particulars

The details of transactions are entered in this column. Cash received in the beginning is recorded as 'To Cash A/c' and all the petty expenses are recorded as 'By Concerned Expense A/c' (name of the expense).

5) Voucher Number (V.N.)

Every transaction in accounting must be supported by documentary evidence. All the payments must have vouchers which must be arranged in the chronological order of payment and serially numbered. Voucher number of every payment is written in this column.

6) Total

The amount of every petty expense is recorded in this column. At the end of the week or month expenses are totalled. The total expenses of the week or the month is compared with the total of the receipts column and balance is obtained.

7) Postage

Postal expenses incurred for post card, envelope, inland letter, postage stamps, registered letter, parcel, etc. are recorded in this column.

8) Stationery

It includes expenses incurred for purchasing materials such as paper, ink, pencil, eraser, carbon paper and other similar stationery items.

9) Carriage

It includes amount paid as wages, transport charges and other expenses.

10) Travelling or conveyance expenses

In this column fare for auto rickshaw, taxi, bus, train, etc., are recorded.

11) Refreshments

Amount spent for tea, coffee, snacks, etc., is recorded.

12) Sundries

There may be certain expenses which are infrequent for which specific columns are not provided. These are recorded in this column.

13) Personal accounts

Small amount of money paid to individuals are entered in this column.

14) Ledger Folio (L.F.)

This refers to the page number of the ledger where the respective account is recorded.

7.10.4 Balancing petty cash book

At the end of the period, i.e., week or month the total of the total column, individual expenses columns and sundries columns, is obtained. The total of the individual petty expenses column must be equal to the total in the total column. The sum of the total column is compared with the total of receipts column and the balance is obtained. The closing balance is shown as 'By Balance c/d'. The closing balance is carried forward to the next week or month. It is shown as 'To Balance b/d'. Cash received from the main cashier at the beginning of the next period is entered as 'To Cash A/c' and the amount is recorded in the Receipts column.

Illustration 6

Prepare a analytical petty cash book from the following information on the imprest system:

2017		₹
Jan. 1	Received for petty cash	500
Jan. 2	Paid rickshaw charges	5
	Paid cartage	12
Jan. 3	Paid for postage	15
	Paid wages to casual labourer	66
Jan. 4	Paid for stationery	134
	Paid for auto charges	18
Jan. 5	Paid for repairs	65
	Paid for bus fare	11
	Paid for cartage	24

Solution

Dr. Analytical petty cash book (in ₹) Cr.

Receipts ₹	C.B F.N	Date	Particulars	V.N.	Total Payments ₹	Conveyance ₹	Cartage ₹	Stationery ₹	Postage ₹	Wages ₹	Sundries ₹	L.F.
500		2017 Jan. 1	To Cash									
		2	By Conveyance		5	5						
			By Cartage		12		12					
		3	By Postage		15				15			
			By Wages		66					66		
		4	By Stationery		134			134				
			By Conveyance		18	18						
		5	By Repairs		65						65	
			By Conveyance		11	11						
			By Cartage		24		24					
			Total expenses		350	34	36	134	15	66	65	
		6	By Balance c/d		150							
500					500							
150		Jan. 6	To Balance b/d									
350		Jan. 6	To Cash									

7.10.5 Posting of entries from petty cash book to ledger

1. When petty cash is advanced at the beginning:

A separate petty cash account is opened in the ledger. When advance is received by the petty cashier, petty cash account is debited and cash account is credited.

2. When individual expenses columns are periodically totalled:

The total of various petty expenses are debited and the petty cash account is credited with the total of the payments made.

The petty cash account will show the balance of petty cash. This balance will be shown in the balance sheet as part of cash balance.

Tutorial note

Instead of debiting the total of each petty expense directly, a separate journal entry may also be made and then credited to petty cash account. The journal entries are:

- (a) **For receiving petty cash:**

Petty cash A/c	Dr.	xxx	
To Cash A/c			xxx

- (b) **For expenses paid:**

Respective expense A/c	Dr.	xxx	
To Petty cash A/c			xxx



Student activity

- 1) Interview a banker or invite a banker to your class to know the procedure for opening various types of bank accounts.
- 2) Imagine you have got a cash gift of ₹ 5,000. Come up with a small business plan. [Example: creating birthday cards on your own and selling them, buying and selling stationery items, etc.] Prepare cash book using imaginary transactions relevant to your chosen business.

Points to remember

- Three column cash book contains columns for discount, cash and bank on either side.
- Contra entry appears on both sides of a three column cash book. A contra entry occurs when cash is withdrawn from the bank or cash is deposited into the bank.
- A petty cash book is maintained to record small cash payments.



Self-examination questions

I Multiple choice questions

Choose the correct answer



1. Cash book is a
 - (a) Subsidiary book
 - (b) Principal book
 - (c) Journal proper
 - (d) Both subsidiary book and principal book
2. The cash book records
 - (a) All cash receipts
 - (b) All cash payments
 - (c) Both (a) and (b)
 - (d) All credit transactions
3. When a firm maintains a simple cash book, it need not maintain
 - (a) Sales account in the ledger
 - (b) Purchases account in the ledger
 - (c) Capital account in the ledger
 - (d) Cash account in the ledger
4. A cash book with discount, cash and bank column is called
 - (a) Simple cash book
 - (b) Double column cash book
 - (c) Three column cash book
 - (d) Petty cash book
5. In Triple column cash book, the balance of bank overdraft brought forward will appear in
 - (a) Cash column debit side
 - (b) Cash column credit side
 - (c) Bank column debit side
 - (d) Bank column credit side
6. Which of the following is recorded as contra entry?
 - (a) Withdrew cash from bank for personal use
 - (b) Withdrew cash from bank for office use
 - (c) Direct payment by the customer in the bank account of the business
 - (d) When bank charges interest
7. If the debit and credit aspects of a transaction are recorded in the cash book, it is
 - (a) Contra entry
 - (b) Compound entry
 - (c) Single entry
 - (d) Simple entry
8. The balance in the petty cash book is
 - (a) An expense
 - (b) A profit
 - (c) An asset
 - (d) A liability
9. Petty cash may be used to pay
 - (a) The expenses relating to postage and conveyance
 - (b) Salary to the Manager
 - (c) Purchase of furniture and fixtures
 - (d) Purchase of raw materials

10. Small payments are recorded in a book called
- (a) Cash book (b) Purchase book
- (c) Bills payable book (d) Petty cash book

Answer

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

- What is cash book?
- What are the different types of cash book?
- What is simple cash book?
- Give the format of 'Single column cash book'.
- What is double column cash book?
- Give the format of 'Double column cash book'.
- What is three column cash book?
- What is cash discount?
- What is trade discount?
- What is a petty cash book?

III Short answer questions

- Explain the meaning of imprest system of petty cash book.
- Bring out the differences between cash discount and trade discount.
- Write the advantages of maintaining petty cash book.
- Write a brief note on accounting treatment of discount in cash book.
- Briefly explain about contra entry with examples.

IV Exercises

Single Column Cash Book

- Enter the following transactions in a single column cash book of Seshadri for May, 2017.

May	₹
1 Cash in hand	40,000
5 Cash received from Swathi	4,000
7 Paid wages in cash	2,000
10 Purchased goods from Sasikala for cash	6,000
15 Sold goods for cash	9,000
18 Purchased computer	15,000
22 Cash paid to Sabapathi	5,000
28 paid salary	2,500
30 Interest received	500

(Answer: Cash Balance ₹ 23,000)

2. Enter the following transactions in a single column cash book of Ramalingam for month of July, 2017.

July	₹
1 Cash in hand	32,000
5 Received from Keerthana	5,000
6 Paid packing charges in cash	300
7 Cash purchases	12,400
8 Sold goods for cash	2,600
10 Paid salary to manager in cash	7,000
11 Paid to Bala	3,000
12 Purchased goods from Bose	2,500
24 Cash deposited into bank through CDM	4,000
27 Withdraw cash from bank	2,000
31 Paid office rent in cash	6,000

(Answer: Cash Balance ₹ 8,900)

Double column cash book

3. Enter the following transactions in Ahamed's cash book with discount and cash columns.

2017

Oct	₹
1 Cash balance	37,500
3 Cash Sales	33,000
7 Paid to Velan Rs. 15,850 and Discount allowed by him	150
13 Sold goods to Perumal on credit	19,200
15 Cash withdrawn for personal expenses	4,800
16 Purchased goods from Subramanian	14,300
22 Paid to Bank	22,700
25 Cash received from Perumal in full settlement	19,000
26 Draw a cheque for office use	17,500
27 Paid cash to Gopalakrishnan	2,950
Discount received from him	50
28 Paid cash to Subramanian and settled his account	14,200
29 Cash purchases	13,500
30 Cash paid for advertising	1,500

(Answer: Cash Balance ₹ 31,500)

4. Enter the following transactions in cash book with discount and cash column of Anand

2017

Dec.		₹
1	Cash in hand	19,500
4	Sold goods for cash	32,000
5	Credit purchases from Gandhi	20,000
9	Received from Gopu	11,800
	Discount allowed to him	200
15	Cash paid for Electricity charges	12,500
17	Bought computer and its accessories by cash	16,800
25	Paid cash to Gandhi ₹ 19,700 in full settlement of his account	
28	Received cash from Thiruvengadam	8,900
	Discount allowed to him	100
30	Paid trade expenses in cash	3,500

(Answer: Cash balance ₹ 19,700)

Three column cash book

5. Enter the following transactions in the three column cash book of Kalyana Sundaram

2017

Jan.		₹
1	Balance in hand	42,500
	Balance at bank	35,000
3	Received for cash sales	15,700
4	Cash paid into bank	11,500
6	Cash purchases	14,300
9	Received dividend directly by the bank through ECS	2,000
10	Pongal advance to staff paid through bank	17,000
12	Received cash from Nagarajan	11,850
	and allowed him discount	150
17	Paid Magesh in full settlement of his account ₹ 20,000	19,700
20	Cash withdrawn for personal expenses	20,000
30	Withdrawn cash from ATM for office use	1,500

(Answer: Cash Balance ₹ 6,050, Bank Balance ₹ 30,000)

6. Record the following transactions in the three column cash book of John.

2017

Dec.		₹
1	Cash balance brought forward	12,600
1	Bank overdraft brought forward	36,000
1	Advance paid to petty cashier by cheque	3,000
5	Goods sold for cash	12,000
7	Dividend on shares collected by the banker	1,000
13	Cash paid into Bank	10,000
14	Interest charged by the bank for bank overdraft	1,500
18	Cheque issued to Siddique	8,000
	Discount received from him	200
24	Insurance claim received by cheque and deposited into bank	17,000
28	Cash received from Baskar	15,000
	Discount allowed to him	150
31	Deposited into Bank all cash excess of ₹18,600	

(Answer: Cash Balance: ₹ 18,600, Bank Balance: ₹ 9,500 (Cr.),

Excess cash deposited into Bank (Cr.) 11,000)

7. Prepare a triple column cash book of Rahim from the following transactions:

2017

Feb.		₹
1	Cash in hand	25,000
	Cash at bank	10,000
5	Water purifier purchased for office use by cheque	8,000
6	Purchased goods for cash	9,000
8	Received cash from Daniel	9,900
	Discount allowed to him	100
10	Cheque received for goods sold and deposited in the bank	40,000
12	Paid to Amala by cheque	14,500
	Discount received from her	500
13	Paid transport charges by cash	5,000
14	Withdrawn cash from bank for office use	20,000
24	Cheque received from Kumar and deposited into the bank	15,000
28	Kumar's cheque dishonoured	

(Answer: Cash Balance: ₹ 40,900, Bank Balance: ₹ 7,500)

Petty cash book

8. Prepare analytical petty cash book from the following particulars under imprest system:

	2017 July	₹
1	Received advance form cashier	2,000
7	Paid for writing pads and registers	100
8	Purchased white papers	50
10	Paid auto charges	200
15	Paid wages	300
18	Postal charges	100
21	Purchased stationery	450
23	Tea expenses	60
25	Paid for speed post	150
27	Refreshment expenses	250
31	Paid for carriage	150

(Answer: ₹ 190)

CASE STUDY

Vetri is a sole trader selling food products. He maintains a simple cash book. He sells and purchases goods both on cash and credit. He maintains the cash book by himself. He allows discount and receives discount. He has his personal bank account. He also has so many petty expenses. Now, he wants to establish his business. But he wants to maintain the cash book all by himself.

Now, discuss on the following points:

- What could be the reason that Vetri maintains the cash book by himself?
- Is it convenient for him to record all the cash transactions in the simple cash book?
- Will his personal bank account serve the purpose of his business transactions?
- Suggest him some better ways of maintaining the cash transactions.
- When his business becomes large, what other books will he be maintaining?

To explore further

When our country is moving towards cashless economy, will there be any change in the existing system of maintaining cash book?

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