

Study Unit 4: The Cash Book

Learning objectives

By the time you have finished this unit, you should be able to;

1. Understand the different types of cash books.
2. Enter up and balance off the cash book.
3. Understand the various columnar formats of a cash book.
4. Writeup and keep petty cashbook under imprest system.

The single most important book which every economic entity irrespective of its size and volume of transactions must maintain is the Cash Book. This book only records transactions relating to cash. The object of cash book is to maintain daily record of all cash receipts and cash payments irrespective of the future of transactions. Whether the cash is received from the proprietor as his capital or from sale of goods or from the sale of fixed assets or from a debtor on account; either relating to the current year or previous year or for the following year- as long as it is a cash and received in the current accounting year, it must be recorded in the cash book. Similarly, all cash payments irrespective of its nature, source and period for which the payment is made, is recorded in the cash book. If all transactions were journalized, it would be a tremendous job. Thus it becomes necessary to have a book to deal with only cash transactions for convenience and efficiency in accounting process.

The Cash Book is a book of prime (original) entry as well as a book of final entry. It is both a journal and a ledger. The cash book summarizes and classifies all cash transactions; the cash book and the cash account being the same, there is no need of opening a separate Cash Account in the ledger. At the same time, the Accounts which are affected by cash payments and cash receipts are posted to the ledger to complete double entry.

The following are the different types of cash books maintained in a business firm:

- | | |
|-------------------------------|---|
| 1. Simple Cash Book | <i>with cash column only</i> |
| 2. Double Column Cash Book | <i>with cash and bank columns</i> |
| 3. Three Column Cash Book | <i>with discounts, cash and bank columns</i> |
| 4. Analytical Petty Cash Book | <i>with multiple columns for petty expenses</i> |

Simple cash book

This type of cash book records all the receipts and payments of cash-coins, notes, cheques, bank draft, postal address etc. the following is a specimen of simple cash book;

Dr.					Cash Book					Cr		
Date	Receipts	Rt. No.	L.F	Amount shs,	Date	Payment	Vr. No.	L.F	Amount shs.			

Rt. = Receipt.

Vr. = Voucher

A simple cash book is exactly like a ledger. When cash is received, it is entered on the debit side of the book and similarly cash payment is entered on the credit. When cash is received by a cashier, he normally issues a receipt in acknowledgement of the amount and he records the Receipt No. in the appropriate column. Similarly, the cashier makes cash payment only against a proper voucher and he records the Voucher No. the appropriate column. The difference between the total cash received and total cash paid represents the balance i.e., cash in hand. The cash book should always show a debit balance because total cash paid never exceed the total cash received together with the opening balance in hand. This is the most import characteristic of a Cash Book with cash column.

Illustration

From the following information, enter the relevant transactions in a simple cash book:

19x8		shs.
Apr.	1. Opening balance of cash in hand	2,000
	2. Paid for cash purchases .	1,500,.
	3. Cash sales at the counter	3,000
	4. Goods sold on credit to Musa	7,000
	8. Paid for transport	1,400
	10. Received cash from Musa	5,000
	12. Deposited to bank	6,000
	14. Cash sales	9,500
	18. Paid wages	3,700

20. Bought goods on credit from Isa	6,000
22. Bought equipment for cash	8,600
25. Received cash from Kamau	7,500
26. Cash sales	900
27. Bought goods for cash	4,000
30. Paid rent	5,000
30. Paid salaries	3,600

Straight Approach:

Cash Book

Date 19x8	Receipts	Rt. No	LF	Amount shs	Date 19x8	Payments	Vr. No	LF	Amount shs
Apr 1	Balance b/d			2,000	Apr.2	Purchases			1,500
3	Sales			3,000	8	Transport			1,400
10	Musa Account			5,000	12	Bank account			6,000
14	Sales			9,500	18	Wages			3,700
25	Kamau Account			7,500	22	Equipment			8,600
26	Sales			9,000	27	Purchases			4,000
					30	Rent			5,000
					30	Salaries			3,600
					30	Balance c/d			2,200
				36,000					36,000

Two Column Cash Book

In this type of Cash Book cash account and bank account are brought together in one book. Instead of the Cash Account and Bank Account being opened in different part of the book, the account columns are placed together, enabling the cash and bank balances to be found on the same page. To effect this further convenience, the Cash Book is ruled in a way where the debit column of the Cash Account placed alongside the debit column of the Bank Account, and the credit columns of the two accounts are similarly placed. The transactions affecting the two accounts are recorded chronologically.

Contra Entry

A financial transaction involves two accounts and there may be a transaction where both Cash Account and Bank Account are involved. Since in the ledger, there are no separate Cash Account and Bank Account, therefore, no posting

will be done from the Cash Book to the Ledger in case of such a transaction. The transaction will be recorded in both Cash Account and Bank Account whose columns are appearing on the same page of the Cash Book. For example, if cash is withdrawn from bank for the office use, the two accounts cash and bank are involved in this transaction. In the Cash Book, the amount will be recorded as debit in the Cash column and the amount will be recorded as credit in the Bank column. Such an accounting entry which is recorded on both debit side and credit side of the Cash Book is known as a Contra Entry. This is indicated by a contra sign (c) in the folio column.

Treatment of cheques

There may be three situations:

(a) A cheque may be received by a business and sent to the Bank on the same day for collection. In such a case, it will be better to record the amount in the debit side of the bank column as soon as it is received.

(b) In case a cheque is received by a business and sent to its bank at a later date, it will be better to record it as a receipt of cash and put it in the cash column of the Cash Book. On depositing the cheque on a later date for collection, the amount is recorded as a credit in the Cash column and debit in the Bank column.

Note: In the absence of a specific instructions in the question, the students are advised to assume that the: cheque received from a party was sent to the bank for collection on the same date. Because this is required by an efficient Internal Control System.

(c) A cheque received by a business may not be sent to its Bank for collection, but it may be endorsed in favour of a creditor of the business. In such a case, the cheque received will be taken as a receipt of cash and debited in the Cash column of the Cash Book and on endorsement, the amount will be credited in the Cash column of the Cash Book.

Dishonour of Cheques

The term 'dishonour of cheque' means non-payment of the cheque by the payee bank on its being presented for payment. There may be three situations:

(a) A cheque received by a business and sent to its bank for collection may be dishonoured on presentation for payment. In such a case, the party' from whom the cheque was received should be debited and the

(b) When a cheque received by the business from a customer is endorsed in favour of a creditor and dishonoured, the entries will be as follows:

On receipt of the cheque:

Debit Cash Account

Credit Customer Account

On endorsement of the cheque:

Debit Creditor Account

Credit Cash Account

On dishonour of the cheque:

Debit Customer Account

Credit Creditor Account

Note: You should note clearly that no entry is passed in the Cash Book for dishonor of a cheque which are endorsed to a creditor. Entries (i) and (ii) will be recorded in the Cash Bool while entry (iii) will be recorded in the General Journal.

(c) Cheques issued by the business itself in favour of its Creditors may be dishonoured by its bank. In case, the following entries will be passed in the Cash Book:

On issue of a cheque in favour of a creditor:

Debit Creditor Account

Credit Bank Account

On dishonour of the cheque by the Bank:

Debit Bank Account

Credit Creditor Account

Three Column Cash Book

In addition to Cash and Bank columns, a Cash Book may have a column for Discount on both debit side and credit side. Discounts allowed to individual debtors and received from individual creditors may be alongside the receipts and payments in the Cash Book. Discounts allowed are shown on the debit side. Discounts received on the credit. Such a Cash Book with Discount, Cash and Bank columns on each called a Three Column Cath Book.

The discount columns in the Cash Book are not, however, part of the double entry system. They are lists of discounts allowed to debtors and received

from creditors. One aspect of the double entry has been made in the personal accounts in the ledger. What is now required is the entry in the discounts a which is done in this case by transferring the total of discounts allowed column to Discounts I Account and the total of discounts received column to Discounts Received Account in the ledger specimen of a Three Column Cash Book is shown below:

Date	Receipts	Rt.	LF	Dis	Cash	Bank	Date	Payments	Vr.	LF	Dis	Cash	Bank

Discounts

In order to increase the volume of business, manufacturers and wholesalers often sell goods on credit terms. The Period of credit may be 30 or 60 days or more, but to encourage customers to pay their accounts promptly. a firm may offer to accept a less amount in full settlement provided the payment is made within a specified period of time. For example, the credit terms may be “2% 10 days, net 30 days.” It means that the authorized period is 30 days, but if the customer pays within 10 days, he will be allowed a reduction of % on his account. Such credit terms appear on the invoice as “2/10, n/30.” The ten day period within which he discount is available is called the discount period. This reduction of 2% on the account, which is an incentive to speedy payment is called Cash discount. This discount in the books of a creditor appears as *Discount Allowed*. The same discount appears in the books of the debtor as *Discount Received*.

Traders who buy goods in large quantities from manufacturers or wholesalers, are even a reduction off the catalogue price of the good. This is known as Trade discount. In some cases, manufacturers recommend a retail selling price, invoice the goods at that price and allow the retailer a trade discount to cover his expenses and a margin of profit.

The invoice is prepared at the catalogue price less trade discount and it is the net amount which appears in the books of accounts of both the seller and the buyer. The trade discount only appears on the invoice as a deduction from catalogue price of goods to arrive at the net amount payable by the buyer. It does not appear anywhere in any books of accounts.

Difference between Cash Discount and Trade Discount.

	Cash Discount	Trade Discount
1.	It appears in the books of accounts	It does not appear in any books of accounts except on invoice
2.	It is allowed by a creditor to a debtor	It is allowed by a manufacturer or a wholesaler to a retailer
3.	It is an incentive to prompt payment	It is an incentive to bulk purchases
4.	The question arises only in the settlement of an account.	It is shown as a deduction when the goods are returned

The following details relate to the business of Mr. Njoroge for the month of February, 19x9:

Feb. 1 Balances brought forward:

Cash in hand shs.380.

Bank Overdraft shs. 1,440.

2 Njoroge brought shs. 4,000 as an additional capital and deposited into bank.

3 Cash sales shs. 1,800.

4 Bought furniture by cheque shs.500.

5 Cash deposited to bank shs. 1,000.

6 The following amounts owed by debtors were paid by cheque, in each case deducting 5% discount.

Kamau shs.700.

Gitau shs. 500.

Kibe shs.900.

7 Bought goods and paid by cheque shs. 1,500.

8. Cash withdrawn from bank shs.900 for business use

10 Paid travelling expense in cash shs.200.

15 Cash sales paid direct to bank shs.400.

18 Njoroge withdrew shs.300 cash for personal use.

20 Paid the following amounts owed to creditors by cheque, in each case deducting 5% discount.

Adero shs.600.

Bosire shs.800.

Cephas shs.400.

25 Wages paid in cash shs.450.

28 Njoroge deposited all cash in the bank except shs.500 which he kept for cash in hand.

Required:

(a) Prepare a Three Column Cash Book for Mr. Njoroge and balance it off at the end of the month.

(b) Show the discount allowed and discount received accounts as they would appear in the general ledge and balance them. (BEE)

Straight Approach:

Mr. Njoroge

Cash Book

Date 19x9	Particulars	Dis Shs	Cash shs	Bank shs	Date 19x9	Particulars	Dis shs	Cash shs	Bank shs
Feb 1	Balance b/d		380		Feb 1	Balance b/d (overdraft)			1,440
2	Njoroge capital			4,000	4	Furniture			500
3	Sales		1,800		5	Bank (C)		1,000	
5	Cash (C)				7	Purchases			1,500
6	Kamau	35			8	Cash (C)			900
	Gitau	25							
	Kibe	45							
8	Bank (C)		900		10	Tracelling		200	
15	Sales			400	18	Drawing		300	
28	Cash (C)			630	20	Adero	30		570
						Bosire	40		760
						Cephas	20		- 380
					25	Wages		450	
					28	Bank (C)		630	
						Balances c/d		500	
		<u>105</u>	<u>3,080</u>	<u>8,025</u>			<u>90</u>	<u>3,080</u>	<u>8,025</u>

In the general ledger
Discounts Allowed Account

19x9	shs	19x9	shs
Feb. 28 total discounts allowed for the month	105	Feb. 28 Balance c/d	105
	<u>105</u>		<u>105</u>

Discounts Received Account

19x9	shs	19x9	shs
Feb. 28 balance c/d	90	Feb. 28 total discounts received for the month	90
	<u>90</u>		<u>90</u>

Petty Cash Book

In all large businesses there are numerous small expenses to be met by cash payments. If all these payments were entered in detail in the main Cash Book, which is usually maintained by a senior official, much of his valuable time would be wasted. To avoid this, a separate Cash Book, termed as a Petty Cash Book, is utilised in which all these petty expenses are recorded.

Imprest System

The conventional system for recording transactions in the petty cash book is known as the Imprest System, the main features of which are as follows:

At the beginning of an accounting period, the petty cashier is advanced with a round sum in cash, often termed a “float”. This amount is estimated in such a way that it should be sufficient to cover the stated period, e.g. a week or a month. The petty cashier makes a detailed analysis of petty payments and records under suitable columns for usual heads of expenses e.g. postage, stationery, motor expenses, carriage, cleaning etc. The petty cash book is similar to cash book. The amount received by the petty cashier from the chief cashier is debited in the petty cash book and all payments are credited in the respective columns. Periodic total of each column is posted to the respective nominal accounts in the ledger. The book may be considered as a book of original entry. At the end of the period, the petty cashier must ascertain the amount spent and submit the petty cash book to the chief cashier with vouchers. The chief cashier, after examining The accounts presented, will reimburse the actual amount spent and thereby the balance in hand with the petty cashier restored to the original starting figure.

At times a purchases ledger account is settled out of petty cash or a refund is made Out of petty cash to a customer who had overpaid his account. In such cases, a special column is opened in respect of ledger accounts, and the amount paid to a creditor must be inserted therein and posted to the debit of the respective accounts in the ledger. The total of the Ledger column will not be posted to any account since the items contained therein will have been posted individually to their separate accounts.

The recording of transactions in a petty cash book will be clear with the help of the following illustration.

Illustration

The following is a summary of the petty cash transactions of Eastern Ltd. for the month of January, 19x8:

	shs
Jan 1. Received from the chief cashier	30,000
3. Cleaning	1,000
4. Postage Stamps	500
6. Typewriter ribbon	600
8. Petrol for motor van	5,000
10. Dog food	3,000
12. Telegram	2,100
13. Typing paper and envelopes	1,800
15. Kamau - ledger account	2,000
17. Cleaning office	1,100
19. Telex charges	700
20. Soft drinks	800
22. Postage Stamps	300
24. Petrol	2,000
25. Okello - ledger account	4,000
27. Scrubbing brush (cleaning)	600
28. Licence for guard dog	1,000
29. Sundry expenses	700
29. Stationery	1,300

Required:

(a) Rule up a suitable petty cash book with analysis columns for expenses on cleaning, motor expenses stationery, postage, sundry expenses and ledger accounts.

(b) Enter the month's transactions.

(c) Enter the receipt of the amount necessary to restore the imprest and carry down the balance for the month.

(d) Show how the double entry for the expenses is completed.

Straight Approach:

Eastern Ltd **Petty Cash Book**

Receipts	Ref.	Date	Details	Vr. No.	Total	Cleaning	Motor expense	Stationery	Postage	Sundry exp.	Ref.	
Shs		Jan			shs	shs	shs	shs	shs	shs	shs	shs
30,000	CB	1	Cash									
		3	Cleaning	1	1,000	1,000						
		4	Postage	2	500				500			
		5	Ribbons	3	600			600				
			Petrol	4	5,000		5,000					
		10	Dog food	5	3,000					3,000		
		12	Telegram	6	2,100				2,100			
		13	Paper	7	1,800			1,800				
		15	Kamau	8	2,000							
		17	Cleaning	9	1,100	1,100					PL 11	
		19	Telex	10	700				700			
		20	Soft drink	11	800					800		
		22	Stamp	12	300				300			
		24	Petrol	13	2,000		2,000					
		25	Okello	14	4,000						PL 14	
		27	Brush	15	600	600						
		28	Licence	16	1,000		1,000					
		29	S/Exp	17	700					700		
		30	Stationery	18	1,300			1,300				
					28,500	2,700	8,000	3,700	3,600	4,500		
28,500	CB	30	Cash			GL 7	GL 8	GL 8	GL 4	GL 10	GL 20	
		31	Balance c/d		30,000							
58,500					58,500							
30,000		Feb 1	Balance b/d									

Entries in the General Ledger:

The most popular method of recording petty cash transactions is the double entry method which is as following;

1. When cash is advanced to the Petty Cashier: Debit: Petty Cash Account

Credit: Cash Account

Self review question -study unit 4

- a) State and describe the different types of cashbooks.
b) From the following transactions of Kibonge for the month of October, 2019, prepare his two column cashbook.

Oct	1	Kibonge started business with cash at bank amounting to UGX940,000
	2	Received cheque from G. W Kato worth UGX 115,000.
	4	Cash sales 102,000.
	6	Paid rent by cash 3,500.
	7	Banked 50,000 of the cash held by the firm.
	15	Cash sales paid direct into the Bank 40,000.
	23	Paid by cheque to s. forks 277,000.
	24	Credit sales to Musa 20,000.
	29	Withdraw cash from bank for business use 120,000.
	30	Paid wages in cash 118,000.

Self review answer -study unit 4

- a) Types of cashbooks
- Single column
 - Two column
 - Three column
 - Petty cashbook

(04marks)

- b) Kibonge's two column cashbook for the month of October 2019.

Date	Details	Cash	Bank	Date	Details	Cash	Bank
2019 Oct 1	Capital		940,000	Oct 6	Rent	35,000	
2	G.W Kato		115,000	7	Bank	50,000	
4	Sales	102,000		23	S.Forks		277,000
7	Cash		50,000	29	Cash		120,000
15	Sales		40,000	30	Wages	118,000	
29	Bank	120,000			Bal c/d	19,000	748,000
		<u>222,000</u>	<u>1,145,000</u>			<u>222,000</u>	<u>1,145,000</u>

(16marks)