



UNIT 3

CASH BOOK AND BANK RECONCILIATION

Structure

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Sub-division of Journal
- 3.3 Cash Book

3.3.1 Single Column Cash Book

3.3.2 Two Column Cash Book

3.3.3 Three Column Cash Book
- 3.4 Bank Reconciliation Statement

3.4.1 Causes of Difference

3.4.2 What is Bank Reconciliation Statement?

3.4.3 Preparation of Bank Reconciliation Statement

3.4.4 When there is M Overdraft?

3.4.5 Adjusting the Cash Book Balance

3.4.6 Advantages of Bank Reconciliation Statement
- 3.5 Petty Cash Book

3.5.1 Imprest System

3.5.2 Recording and Posting the Petty Cash Book
- 3.6 Let Us Sum UP
- 3.7 Key Words
- 3.8 Some Useful Books
- 3.9 Answers to Check Your Progress
- 3.10 Terminal Questions/Exercises

3.0 OBJECTIVES

- After studying this unit you should be able to :
- explain the need for sub-division of journal
 - prepare different types of cash books
 - post cash book entries into ledger
 - ascertain the causes of difference between the cash book and pass book balances
 - prepare a bank reconciliation statement
 - adjust the cash book balance
 - describe the importance of bank reconciliation statement
 - prepare petty cash book and post it into ledger.

3.1 INTRODUCTION

In Unit 2 you learnt that all business transactions are first recorded in the journal and then posted into ledger. In practice, the number of transactions is so large that it becomes difficult to record all of them in one book of prime entry. Hence, the journal is **sub-divided** into a number of special journals called Subsidiary Books. **Each** book is used for recording **transactions** of one category only. For example, Cash Book is used for recording all cash transactions, Purchases Book is used for recording all credit purchases of goods, Sales Book is used for recording all credit sales of goods, and so on. This enables us to divide **the** work among different persons and ensure prompt recording of transactions,

In this unit you will learn about the most important subsidiary **book** called Cash Book. We shall discuss various types of cash books and study how transactions are recorded in each type of cash book and posted from cash book to ledger. You will also **learn** about the banking transactions, their recording in Three Column Cash Book and the preparation of a **Bank** Reconciliation Statement.

3.2 SUB-DIVISION OF JOURNAL

As stated earlier, it is practically impossible to record all transactions in one book of prime entry. Hence, the journal is sub-divided into a **number** of subsidiary books. These are **also called** special journals. The sub-division is done in such a way that a separate book is used for each type of transactions which are repetitive in nature and are sufficiently large in number. In any large business the subsidiary books generally used are as follows :

- 1 **Cash Book**: It is used for recording all cash receipts and cash **payments** including cash purchases and cash sales.
- 2 **Purchases Journal**: It is used for recording all credit purchases of goods.
- 3 **Sales Journal**: It is used for recording all credit sale of goods.
- 4 **Purchases Returns Journal**: It is used for recording the returns of **goods** to suppliers. It is also known as 'Returns Outwards Book'.
- 5 **Sales Returns Journal**: It is used for recording the returns of goods by customers. It is also known as 'Returns Inwards Book'.
- 6 **Bills Receivable Journal**: This book is meant for recording transactions relating to bills of exchange and promissory notes received from debtors.
- 7 **Bills Payable Journal**: This book is meant for recording bills of exchange and promissory notes accepted by the business in favour of creditors.
- 8 **Journal Proper**: In this book only such transactions are recorded which are not covered by any of the above named subsidiary books, for example, credit purchases of fixed assets, opening entry, rectification entries, etc.

The advantages of having a number of subsidiary books as listed above are as follows :

- i) **Classification of transactions becomes automatic**: As there is a separate book for each type of transactions, the transactions of same nature are automatically brought at one place. For example, all credit purchases of goods are recorded in the Purchases Journal and all credit sales are **recorded** in the Sales Journal.
- ii) **Reference becomes easy**: If any reference is required, it can be traced easily by referring to the appropriate subsidiary book. You do not have to go through all the transactions recorded in the journal.
- iii) **Facilitate division of work**: Sub-division of journal into various subsidiary books facilitates division of work among many persons. This, in turn, facilitates prompt recording of transactions and saves a lot of time.
- iv) **More particulars**: **More details** about the **transactions** can be given in subsidiary books than would be possible in one book.
- v) **Responsibility can be fixed**: The work of maintaining a particular book can be entrusted to a particular person. He will be responsible for keeping it up-to-date and in order.
- vi) **Facilitates checking**: When the Trial Balance does not agree, the location of errors will be relatively easy.

3.3 CASH BOOK

You know that in any business there would be numerous transactions which involve either receipt or payment of cash. Cash sales, receipts of cash from debtors, cash purchases, payment of cash to creditors, payment of expenses such as salaries, rent, taxes, etc. are examples of cash transactions. All these transactions are recorded in a separate book called Cash Book. The ruling of cash book is similar to that of a ledger account. All cash receipts are recorded on the debit side and all cash payments on the credit side. Thus, it serves the function of a Cash Account. As a matter of fact, cash book plays a dual role. It is a book of prime entry as well as ledger account. Hence, when cash book is maintained there is no need to have a Cash Account in the ledger.

There are **different** types of cash books in use by the business. These are :

- i) **Simple or Single Column Cash Book**

- ## Cash Book and Bank Reconciliation

3.3.1 Single Column Cash Book

Figure 3.1 : Single Column Cash Book

As stated earlier, the debit side of the cash book is used for recording all cash receipts and the credit side for all cash payments. In particulars column we write the name of the account in respect of which the amount is received or paid. The ledger folio(**L.F.**) column is used for writing the page number of the account where the entry has been posted in the ledger.

- i). for all transactions entered on the debit side of the cash book, credit the concerned accounts in the ledger by writing 'By Cash **A/c**' in the particulars column, and
- ii) for all transactions entered on the credit side of the cash book, debit the concerned **accounts** in the ledger by writing 'To Cash **A/c**' in the particulars column.

Balancing the Cash Book: It is similar to the balancing of Cash Account. The cash book will always show a debit balance because cash payments can never exceed **the amount of** cash available. Hence, the total of the debit side in the cash book will always be more than the total of the credit side. The difference between the two indicates the cash in hand.

Illustration 1

1988			Rs.
Jan.	1	Commenced business with cash	3,000
"	2	Deposited in bank account	1,000
"	4	Bought goods for cash'	800
"	9	Cash sales	600
"	12	Cash received from Bhushan	500
"	15	Paid for wages	50
"	20	Cash paid to Narender	-200
"	25	Drew for personal use	300
"	30	Paid Rent	400

Samir Bros.

CASH BOOK

Dr.					Cr.			
Date		Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1988				Rs.	1988			Rs.
Jan. 1		To Capital A/c		3,000	Jan. 2	By Bank A/c		1,000
" 9		To Sales A/c		600	" 4	By Purchases A/c		800
" 12		To Bhushan		500	" 15	By Wages A/c		50
					" 20	By Narender		200
					" 25	By Drawings A/c		300
					" 30	By Rent A/c		400
					" 31	By Balance c/d		1,350
				4,100				4,100
Feb. 1		To Balance b/d		1,350				

LEDGER

Capital Account

Dr.				Cr.	
			1988		Rs.
			Jan. 1	By Cash A/c	3,000

Sales Account

			1988		Rs.
			Jan. 9	By Cash A/c	600

Bhushan's Account

			1988		Rs.
			Jan. 12	By Cash A/c	500

Bank Account

1988		Rs.			
Jan. 2	To Cash A/c	1,000			

Purchases Account

1988		Rs.			
Jan. 4	To Cash A/c	800			

Wages Account

1988		Rs.			
Jan. 15	To Cash A/c	50			

Narender's Account

1988		Rs.			
Jan. 20	To Cash A/c	200			

Drnwings Accountant					
Jan. 25	To Cash A/c	Rs. 300			

Rent Account					
1988 Jan. 30	To Cash A/c	Rs. 400			

3.3.2 Two Column Cash Book

As you know, when cash is received from a debtor some cash discount may be allowed to him. Similarly, when payment is made to a creditor he may also allow some cash discount. While recording such transactions in the journal you learnt that cash and discount would go together in the form of a compound entry. So, when receipts from debtors and payments to creditors are to be recorded in the cash book, it is considered desirable to record the cash discount also in the cash book. For this purpose, an additional amount column is provided on both sides of the Cash Book. The discount **allowed** to debtors is recorded on the debit side and the discount received from creditors on the credit side. Thus, you will have two amount columns on each side of the cash book, one for discount and the other for cash. That is why it is called Two Column Cash Book.

The procedure for posting the discount column of the cash book to the **ledger** is as follows :

- i) Post the **amounts** entered in the discount allowed column to the credit side of the concemed personal accounts of the debtors by writing 'By Discount **Allowed A/c**'.
- ii) **Post** the amounts entered in the discount received column to the debit side of the concerned personal accounts of the creditors by writing 'To Discount **Received A/c**'.
- iii) Open **Discount Allowed** Account and Discount Received Account in the ledger.
- iv) Total the discount allowed and discount received columns of the cash book.
- v) Post the total of the discount allowed column to the debit of the Discount Allowed Account by writing 'To Sundries as per Cash Book'.
- vi) Post the total of the **discount** received column to the credit of **Discount Received** Account by writing 'By Sundries as per Cash Book'.

You will observe that the posting of discount column is different from the posting of the cash column. In case of cash columns, the postings are to be made only to the respective personal accounts while in case of discount columns postings are to be made not only to the personal accounts but also to the discount accounts. The total of discount allowed colutnn is posted to the debit of Discount Allowed Account and the total of discount received column is posted to the credit of Discount Received Account. It is because the **cash** book does not serve the purpose of a discount account and the double entry is not complete until postings are also made to the discount accounts.

As for the balancing of Two Column Cash Book, you should note that **only** the cash columns are to be balanced. The discount columns are not balanced, they are simply totalled. It is because the two discount columns relate to the two different heads of account, the discount allowed and the discount received. By totalling the two discount columns **you** can find out the total amounts of ttie discount allowed and the discount received during a given period and complete their posting into the ledger.

Look at Illustration **2** and study how entries are made in the Two Column Cash Book, **how** they are posted to the concemed ledger accounts and how this cash book is balanced.

Illustration 2

From the following transactions of **M/s Raj Kumar & Sons**, prepare a Two Column Cash **Book** and show the concerned ledger accounts.

1988			Rs.
Jan,	1	Cash in hand	5,000
"	6	Purchased furniture for cash	500

1988

Rs.

Jan.	7	Bought goods for cash	2,000
"	10	Cash sales	3,000
	13	Cash received from Gopal	1,450
		Allowed him discount	30
"	15	Paid for wages	100
"	19	Paid cash to Ganga Ram	480
"		He allowed discount	20
"	20	Bought an old typewriter	2,000
"	22	Received cash from Motu Ram in full settlement of his debt of Rs. 1,000	980
"	24	Sold goods for cash to Manohar	400
"	27	Bought goods from Bansilal for cash	500
"	30	Paid salary	300
	30	Paid rent	800
"	30	Deposited into bank Account	3,000

Solution :

Raj Kumar & Sans

Cash Book (With Discount and Cash Columns)

Dr.					Cr.				
Date	Particulars	L.F.	Discount Allowed	Amount	Date	Particulars	L.F.	Discount Received	Amount
1988			Rs.	Rs.	1988			Rs.	Rs.
Jan. 1	To Balance b/d			5,000	Jan. 6	By Furniture A/c			500
Jan. 10	To Sales A/c			3,000	" 7	By Purchases A/c			2,000
" 13	To Gopal		30	1,450	" 15	By Wages A/c			100
" 22	To Motu Ram		20	980	" 19	By Ganga Ram		20	480
" 24	To Sales A/c			400	" 20	By Typewriter A/c			2,000
					" 27	By Purchases A/c			500
					" 30	By Salary A/c			300
					" 30	By Rent A/c			800
					" 30	By Bank A/c			3,000
					" 31	By Balance c/d			1,150
			50	10,830				20	10,830
Feb. 1	To Balance b/d			1,150					

LEDGER

Sales Account

Dr.					Cr.	
			1988		Rs.	
			Jan. 10	By Cash A/c	3,000	
			" 24	By Cash A/c	400	

Gopal's Account

			1988		Rs.
			Jan. 13	By Cash A/c	1,450
			" 13	By Discount Allowed A/c	30

Motu Ram's Account

			1988 Jan. 22 " 22	By Cash A/c By Discount Allowed A/c	Rs. 980 20
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Furniture Account

1988 Jan. 6	To Cash A/c	Rs. 500			
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Purchases Account

1988 Jan. 7 " 27	To Cash A/c To Cash A/c	Rs. 2,000 500			
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Wages Account

1988 Jan. 15	To Cash A/c	Rs. 100			
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Ganga Ram's Account

1988 Jan. 19 " 19	To Cash A/c To Discount, Received A/c	Rs. 480 20			
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Typewriter Account

1988 Jan. 20	To Cash A/c	Rs. 2,000			
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Salaries Account

1988 Jan. 30	To Cash A/c	Rs. 300			
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Rent Account

1988 Jan. 30	To Cash A/c	Rs. 800			
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Bonk Account

1988 Jan. 30	To Cash A/c	Rs. 3,000			
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Discount Allowed Account

1988 Jan. 31	To Sundries As per Cash Book	Rs. 50			
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			1988 Jan. 31	By Sundries as per Cash Book	Rs. 20

3.3.3 Three Column. Cash Book

While recording transactions in the Simple Cash Book you learnt that when cash is deposited into the bank, an entry is made on the credit side of the cash book and when cash is withdrawn from the bank it is entered on the debit side of the cash book. When these entries are posted into ledger we open a Bank Account and post all deposits into bank on its debit side and all withdrawals from the bank on its credit side. The difference between the debit and the credit reflects the balance with the bank.

Now-a-days bank plays a very important role in business and almost every firm has an account with a bank. The businessman generally retains a small amount of cash and deposits the rest in his bank account. Most of the receipts and payments are made through cheques. As such, bank transactions are more numerous than the cash transactions. They can also be recorded in the cash book by providing an additional column for bank on both sides of the cash book. All deposits made in the bank are to be recorded in the bank column on the debit side and all withdrawals from the bank in the bank column on the credit side. The bank column would thus serve the purpose of a Bank Account and there will be no need to open a Bank Account in the ledger.

The cash book containing a bank column, in addition to cash and discount columns, is called Three Column Cash Book. All receipts are recorded on the debit side of this cash book and all payments on the credit side. When the amount is received or paid in cash, it is recorded in cash column and when it is done by cheque, it is recorded in the bank column. If discount is also involved, it will be shown in the appropriate discount column.

Contra Entry: There are some transactions which affect Cash Account and Bank Account in such a manner that one is to be debited while the other is to be credited. This happens only when either cash is deposited in the bank or cash is withdrawn from the bank. When cash is deposited into the bank you have to debit the Bank Account and credit the Cash Account, and in case of withdrawal from the bank, you have to debit the Cash Account and credit the Bank Account. When these transactions are recorded in a Three Column Cash Book both aspects appear in the Cash Book itself. One aspect is recorded on the debit side and the other on the credit side. For example, when cash is deposited in the bank it is recorded (i) in bank column on the debit side of the cash book, and (ii) in cash column on the credit side of the cash book. Similarly, when cash is withdrawn from the bank it is recorded (i) in cash column on the debit side of the cash book, and (ii) in bank column on the credit side of the cash book. Thus, the double entry of the transaction is complete in the cash book itself. Such an accounting entry is known as 'Contra Entry'. The word 'contra' means 'the other side' or 'the opposite side'. Thus, contra entry implies that the corresponding aspect of the transaction is entered on the other side of the cash book. Contra entries are not to be posted in the ledger because you do not have Cash Account and Bank Account in the ledger and the double entry is completed in the cash book itself. The capital letter 'C' is written in the L.F. column on both sides of the cash book. This indicates that it is a contra entry. Look at the entries made on December 20 and 24 under Illustration 3.

Posting the Three Column Cash Book : All entries recorded in the Three Column Cash Book are to be posted to their respective ledger accounts, except the contra entries. For posting the entries recorded on the debit side of the cash book, credit the accounts concerned in the ledger by writing 'By Cash A/c' if the entry is in cash column, and 'By Bank A/c' if the entry is in bank column. If discount is also involved, credit the concerned personal account by writing 'By Discount Allowed A/c'. A similar procedure is followed for posting the entries on the credit side of the cash book. Totals of the discount allowed and discount received columns shall be posted to the respective discount accounts the same way as for the Two Column Cash Book.

Balancing the Three Column Cash Book : The cash and bank columns are balanced separately like any other ledger account. As stated earlier, the Cash Account always shows a debit balance. The Bank Account also normally shows a debit balance. But, sometimes it

may show a credit balance which indicates the overdraft. It reflects the amount withdrawn from the bank in excess of what is deposited in the bank. Of course, it is done with a prior arrangement with the bank and is a common practice in business. The procedure of recording the closing and opening balances is the same as in Two Column Cash Book. Note that the discount column are not to be balanced. They are simply totalled.

Special points regarding cheques received: When a **cheque** is received from a party, normally it is deposited in the bank on the same day and entered in the bank column on the debit side of the cash book. Sometimes, for some reason, the cheque may not be deposited in the bank on the day of receipt. In such a situation it is kept in the cash box and entered in the cash column on the debit side of the cash book. Later on, when the cheque is deposited in the bank, it is recorded in the cash book as cash deposit in the **form** of a contra entry. In other words, it will be entered in the bank column on the debit side of the cash book and **in** the cash column on the credit side of the cash book. Look at illustration 3 and see how entries are made for the cheque received from Harish on December 28 and deposited in the bank on December 29. Normally this procedure is avoided. The entry is made directly in the bank **column** on the day the cheque is deposited in the bank. In the absence of any specific instructions, it can be presumed that the cheque received from a party was sent to the bank for collection on the same day.

Sometimes, a cheque received from a party may not be deposited in the bank, but may be endorsed in favour of a creditor of the business. In that case the cheque received will be entered first in the cash column on the debit side of the cash book and then on its credit side in the cash column. This ensures entries in the personal accounts of (i) the party from whom it is received, and (ii) the party to whom it is endorsed (refer to entries in Illustration 3 for the cheque received from Vikas on December 26 which is endorsed in favour of Rakesh on December 27).

Sometimes a cheque sent to the bank for collection may be dishonoured which means that, for some reason, the bank on which cheque was drawn refused its payment. In such a situation, the party from whom the cheque was received is to be debited and the Bank Account is to be credited. Hence, entry for the dishonour will be recorded in the bank column on the credit side of the cash book. This would nullify the effect of the entry made at the time of receiving and depositing the cheque. Look at the entry made on December 31 under Illustration 3 in respect of the dishonoured cheque of Harish.

Study Illustration 3 carefully and you will be able to understand clearly the recording, posting and balancing of a Three Column Cash Book.

Illustration 3
From the following particulars, prepare a Three Column Cash Book and post it into ledger.

		Rs.
1987		
Dec.	11 Cash in hand	10,000
	11 Balance in bank account	40,000
"	13 Bought goods for cash	5,000
"	15 Bought furniture and paid by cheque	7,000
"	17 Cash sales	6,000
"	19 Bought goods and issued cheque	15,000
"	20 Deposited cash in bank	5,000
"	22 Received cash from Suresh	2,450
	Discount allowed	50
"	23 Paid sundry expenses	500
"	24 Cash withdrawn for office use	5,000
"	25 Paid for stationery	500
"	26 Received cheque from Vikas	540
	Allowed him discount	10
"	26 Cheque received from Satish and deposited in bank	2,000

1987

Dec.	27	Endorsed the cheque received from Vikas in favour of Rakesh	Rs. 540
"	27	Paid Roshan Lal by cheque	4,960
		Received discount	40
"	28	Cheque received from Harish	1,000
"	29	Cheque of Harish deposited in bank	1,000
"	30	Paid Rent by cheque	2,000
"	31	Paid Salary by cheque	5,000
"	31	Withdrew from bank for personal use	2,000
"	31	Cheque received from Harish dishonoured	1,000
"	31	Bought machinery from Singh & Co. for cash	10,000

Solution :

CASH BOOK
(With Cash, Discount and Bank Columns)

Dr.						Cr.					
Date	Particulars	L.F.	Discount Allowed	Cash	Bank	Date	Particulars	L.F.	Discount Received	Cash	Bank
1987			Rs.	Rs.	Rs.	1987			Rs.	Rs.	Rs.
Dec. 11	To Balance b/d			10,000	40,000	Dec. 13	By Purchases A/c			5,000	
" 17	To Sales A/c			6,000		" 15	By Furniture A/c				7,000
" 20	To Cash A/c	C			5,000	" 19	By Purchases A/c				15,000
" 22	To Suresh		50	2,450		" 20	By Bank A/c	C		5,000	
" 24	To Bank A/c	C		5,000		" 23	By Sundry Expenses			500	5,000
" 26	To Vikas		10	540		" 24	By Cash A/c	C			
" 26	To Satish				2,000	" 25	By Stationery A/c			500	
" 28	To Harish			1,000		" 27	By Rakesh			540	
" 29	To Cash A/c	C			1,000	" 27	By Roshan Lal		40		4,960
						" 29	By Bank A/c	C		1,000	
						" 30	By Rent A/c				2,000
						" 31	By Salary A/c				5,000
						" 31	By Drawings A/c				2,000
						" 31	By Harish				1,000
						" 31	By Machinery A/c			10,000	
						" 31	By Balance c/d			2,450	6,040
			60	24,990	48,000				40	24,990	48,000
1988											
Jan. 1	To Balance b/d			2,450	6,040						

Notes:

1 Transaction on December 20

Cash deposited in the bank has been entered on both sides, in bank column on the debit side and in cash column on the credit side. It is a contra entry, so 'C' has been written in L. F. column on both the sides. These entries have not been posted in the ledger.

2 Transaction on December 26

A cheque for Rs. 540 was received from Vikas on December 26. It had not been deposited in the bank but endorsed in favour of Rakesh on December 27. It has been entered first in the **cash column** on the debit side on December 26 against the name of Vikas, and then in the cash column on the credit side on December 27 against the name of Rakesh. In the **ledger**, Vikas's Account gets the credit and Rakesh's Account gets the debit.

3 Transaction on December 28

A cheque for Rs. 1,000 received from Harish on December 28 is deposited in the bank on December 29. Hence, it has been entered in the cash column on December 28 and then shown as a cash deposit on December 29 by way of a contra entry.

4 Transaction on December 31

Cheque for Rs. 1,000 received from Harish on December 28 and sent to bank for collection on December 29 is returned dishonoured. It is recorded on the credit side in the bank column and posted to the debit side of Harish's Account. This nullifies the credit given to him on December 28.

Cash Book and Bank Reconciliation

LEDGER

Sales Account

Dr.			Cr.		
			1987 Dec. 17	By Cash A/c	Rs. 6,000

Suresh's Account

			1987 Dec. 22 " 22	By Cash A/c By Discount Allowed A/c	Rs. 2,450 50
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Vikas's Amount

			1987 Dec. 26 " 26	By Cash A/c By Discount Allowed A/c	Rs. 540 10
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Satish's Account

			1987 Dec. 26	By Bank A/c	Rs. 2,000
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Harish's Account

1987 Dec. 31	To Bank A/c	Rs. 1,000	1987 Dec. 28	By Cash A/c	1,000
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Purchases Account

1987 Dec. 13 " 19	To Cash A/c To Bank A/c	Rs. 5,000 15,000			
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Furniture Account

1987 Dec. 15	To Bank A/c	Rs. 7,000			
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Sundry Expenses Account

1987 Dec. 23	To Cash A/c	Rs. 500			
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1987

			Rs.
Dec.	27	Endorsed the cheque received from Vikas in favour of Rakesh	540
"	27	Paid Roshan Lal by cheque	4,960
		Received discount	40
"	28	Cheque received from Harish	1,000
"	29	Cheque of Harish deposited in bank	1,000
"	30	Paid Rent by cheque	2,000
"	31	Paid Salary by cheque	5,000
"	31	Withdrew from bank for personal use	2,000
"	31	Cheque received from Harish dishonoured	1,000
"	31	Bought machinery from Singh & Co. for cash	10,000

Solution :

CASH BOOK

(With Cash, Discount and Bank Columns)

Dr.						Cr.					
Date	Particulars	L.F.	Discount Allowed	Cash	Bank	Date	Particulars	L.F.	Discount Received	Cash	Bank
1987			Rs.	Rs.	Rs.	1987			Rs.	Rs.	Rs.
Dec. 11	To Balance b/d			10,000	40,000	Dec. 13	By Purchases A/c			5,000	
" 17	To Sales A/c			6,000		" 15	By Furniture A/c				7,000
" 20	To Cash A/c	C			5,000	" 19	By Purchases A/c				15,000
" 22	To Suresh		50	2,450		" 20	By Bank A/c	C		5,000	
" 24	To Bank A/c	C		5,000		" 23	By Sundry Expenses			500	5,000
" 26	To Vikas		10	540		" 24	By Cash A/c	C			
" 26	To Setish				2,000	" 25	By Stationery A/c			500	
" 28	To Harish			1,000		" 27	By Rakesh			540	
" 29	To Cash A/c	C			1,000	" 27	By Roshan Lal		40		4,960
						" 29	By Bank A/c	C		1,000	
						" 30	By Rent A/c				2,000
						" 31	By Salary A/c				5,000
						" 31	By Drawings A/c				2,000
						" 31	By Harish				1,000
						" 31	By Machinery A/c			10,000	
						" 31	By Balance c/d			2,450	6,040
			60	24,990	48,000				40	24,990	48,000
1988											
Jan. 1	To Balance b/d			2,450	6,040						

Notes:

1 Transaction on December 20

Cash deposited in the bank has been entered on both sides, in bank column on the debit side and in cash column on the credit side. It is a contra entry, so 'C' has been written in L. F. column on both the sides. These entries have not been posted in the ledger.

2 Transaction on December 26

A cheque for Rs. 540 was received from Vikas on December 26. It had not been deposited in the bank but endorsed in favour of Rakesh on December 27. It has been entered first in the cash-column on the debit side on December 26 against the name of Vikas, and then in the cash column on the credit side on December 27 against the name of Rakesh. In the ledger, Vikas's Account gets the credit and Rakesh's Account gets the debit.

3 Transaction on December 28

A cheque for Rs. 1,000 received from Harish on December 28 is deposited in the bank on December 29. Hence, it has been entered in the cash column on December 28 and then shown as a cash deposit on December 29 by way of a contra entry.

4 Transaction on December 31

Cheque for Rs. 1,000 received from Harish on December 28 and sent to bank for collection on December 29 is returned dishonoured. It is recorded on the credit side in the bank column and posted to the debit side of Harish's Account. This nullifies the credit given to him on December 28.

LEDGER

Sales Account

Dr.			Cr.		
			1987 Dec. 17	By Cash A/c	Rs. 6,000

Suresh's Account

			1987 Dec. 22 " 22	By Cash A/c By Discount Allowed A/c	Rs. 2,450 50
--	--	--	-------------------------	-------------------------------------------	--------------------

Vikas's Account

			1987 Dec. 26 " 26	By Cash A/c By Discount Allowed A/c	Rs. 540 10
--	--	--	-------------------------	-------------------------------------------	------------------

Satish's Account

			1987 Dec. 26	By Bank A/c	Rs. 2,000
--	--	--	-----------------	-------------	--------------

Harish's Account

1987 Dec. 31	To Bank A/c	Rs. 1,000	1987 Dec. 28	By Cash A/c	Rs. 1,000
-----------------	-------------	--------------	-----------------	-------------	--------------

Purchases Account

1987 Dec. 13 " 19	To Cash A/c To Bank A/c	Rs. 5,000 15,000			
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Furniture Account

1987 Dec. 15	To Bank A/c	Rs. 7,000			
-----------------	-------------	--------------	--	--	--

Sundry Expenses Account

1987 Dec. 23	To Cash A/c	Rs. 500			
-----------------	-------------	------------	--	--	--

Stationery Account

1987		Rs.		
Dec. 25	To Cash A/c	500		

Rakesh's Account

1987		Rs.			
Dec. 27	To Cash A/c	540			

Roshan Lal's Account

1987			Rs.			
Dec.	27	To Bank A/c	4,960			
"	27	To Discount Received A/c	40			

Rent Account

1987 Dec. 30	To Bank A/c	Rs. 2,000			
-----------------	-------------	--------------	--	--	--

Salary Account

1987		Rs.			
Dec. 31	To Bank A/c	5,000			

Drawings Account

1987 Dec. 31	To Bank A/c	Rs. 2,000			
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Machinery Account

1987		Rs.			
Dec. 31	To Cash A/c	10,000			

Discount Allowed Account

1987		Rs.		
Dec., 31	To Sundries—as per			
	Cash Book	60		

Discount Received Account

		1987 Dec. 31	By Sundries — as per Cash Book	Rs. 40
--	--	-----------------	-----------------------------------	-----------

Check Your Progress A

1. Why is the journal sub-divided ?

[illegible]

2 Write the number of the correct alternative in the box.

- a) A separate journal is kept for

i) each transaction

ii) each type of transactions

iii) each type of transactions which are repetitive in nature and sufficiently large in number

☐

☐

☒
- b) Cash Book contains

i) all receipts and **payments** of cash

ii) all receipts only

iii) all payments only

☐

☐

☐
- c) Journal Proper is meant for recording

i) credit purchase of fixed assets only

ii) returns of goods

iii) all such transactions for which no special journal has been kept by the business

☐

☐

☐
- d) **Purchases Journal** is kept to record

i) all purchases of goods

ii) all credit purchases of goods

iii) all credit purchases

☐

☐

☐
- e) Sales **Journal** is used to record

i) cash sales

ii) credit sales

iii) credit sales of goods

☐

☐

☐

Fill in the blanks

- i) Cash Book also serves the purpose of a Account.

ii) Transactions entered on the debit side of the cash book are to be posted on the.....side of the concerned accounts in the **ledger**.

iii) Cash column of the cash book always shows balance.

iv) The total of a cash discount received column is posted to the side of the Discount Received Account.

v) If there is a **credit** balance in the bank column of the cash book it reflects an in the bank.

vi) If debit as well as credit aspects of a transaction **are** recorded in the cash book itself, it is called a

vii) When a cheque is returned **dishonoured**, it is recorded on theside of the Cash Book in the bank column.

viii) When a cheque received on a particular date is not deposited on the same day into the bank, it is entered incolumn on the debit side of the cash book.
- 4 Why discount columns in the cash book are not balanced?
-

.....

.....

.....

.....
- 3.4 BANK 'RECONCILIATION STATEMENT
- You learnt that the firm records all **transactions** relating to its bank account in a Three Column Cash Book. All deposits into the bank are recorded on the debit side of the cash
- 59

book and all withdrawals from the bank on the credit side. The bank also maintains the firm's account in its books. It credits customer's account with all deposits made by him and debits his account with all withdrawals made by him. The bank provides a copy of this account to the customer in the form of a bank statement or a pass book. The proforma of such a statement or the pass book is given in Figure 3.2.

Figure 3.2 : Proforma of Pass Book .

Date	Particulars	Dr. With- drawals	Cr. Deposits	Dr. or Cr.	Balance	Initials

When the businessman receives the bank statement or the pass book from the bank, he compares it with the cash book. Normally, entries in the cash book would tally with those in the pass book and the balances shown by both the books should also be the same. But in practice, they generally differ. This happens if there are some entries which have been recorded in the cash book but they do not appear in the pass book. Similarly, there may be some entries which have been recorded in the pass book but they do not appear in the cash book. The difference can also arise on account of errors committed either by the firm or by the bank in the recording of various transactions. Let us therefore understand clearly the exact causes of differences in the balances of these two books before we reconcile the balances of these two books.

3.4.1 Causes of Difference

The main causes that lead to disagreement in the balances of the cash book and the pass book are as follows :

- 1 Cheques issued but not yet presented for payment:** Whenever a payment is made by cheque, the businessmen immediately records it in his cash book. But, the bank debits the firm's account only when the cheque is presented for payment. You know that there is always a time lag between the issue of cheques and its presentation for payment and so the date on which it will be recorded by the bank will always be later than the date of its recording in the cash book. It is quite possible that on a particular date when the bank submits the statement of account, there may be some cheques which have been issued but not yet presented for payment and so not recorded by the bank. Consequently, the balance shown by the pass book will be higher than the balance shown by the cash book. For example, a firm issued a cheque for Rs. 3,000 in favour of a creditor on December 28, 1987 which is presented to the bank for payment on January 2, 1988. The firm would record it in the cash book on December 28, 1987 whereas the bank would record it on January 2, 1988. When the firm would receive the pass book completed up to December 31, 1987 they would find the balance shown by the pass book is different from the balance shown by the cash book. The pass book balance would be higher by Rs. 3,000.
- 2 Cheques deposited into the bank but not yet collected:** When a payment is received by cheque, the firm sends it to the bank for collection and records it immediately on the debit side of the cash book. This increases the bank balance as per cash book. But the bank will not credit the firm's account till the cheques is actually collected. So, the balance, in the pass book remains unaffected till the proceeds of the cheque are collected and credited. Thus, on a particular date, it is possible that certain cheques which were sent for collection might not have been collected by the bank and so not shown in the pass book. All such cheques pending collection would make the cash book balance different from the pass book balance. For example, the firm sends a cheque of Rs. 2,000 on June 28 to the bank for collection. The cheque is collected on July 6. Now, if the balances as on June 30 are compared, they will be different because the credit of Rs. 2,000 will not appear in the pass book.
- 3 Bank Charges:** The bank usually charges some amount from their customers for various services provided by them. They may charge for collection of outstation cheques, for making or collecting payments on standing instructions, and so on. The bank debits the customer's account for such charges from time to time. However, the firm will know about

these charges only when it goes through the pass book. So, on the date of reconciliation the pass book balance may differ from the balance as per cash book.

4 Interest allowed by the bank : The banks normally do not allow any interest on the current account balances. But if such interest is allowed, the bank credits it to the customer's account. This increases the balance in the pass book. The firm would pass the **corresponding** entry in the cash book only **when** it receives the intimation from the bank or **when** it notices it in the pass book. Hence, the cash book balance will be lower till such entry is made.

5 Interest on overdraft: When the **businessman** requires more funds he may request the bank for overdraft facility which means **permitting** him to draw **more** than the amount **available** in his account. When the businessman actually withdraws more than the available amount, he is said to have utilised the overdraft facility. The bank charges interest on the amount overdrawn and debits the same to his account periodically. The firm records the corresponding entry for interest on overdraft only when the pass book is received. Hence, the balance in the two books would differ till the entry is passed in the cash book.

6 Amount collected by bank on standing instructions: The businessman often issues standing instructions **authorising** his banker to collect on his behalf certain amounts due to him such as interest, dividends, etc. The bank credits the customer's account as and when it collects such amounts and sends the necessary intimation to him. The firm **will** pass the corresponding entry in the cash book when it receives such intimation or when it notices it in the pass book. Thus, as on the date of reconciliation, the balance as per cash book may be lower than the **balance** as per pass book.

7 Payment made by the bank as per the standing instructions: The businessman may also issue standing instructions to his banker to make certain payments on his behalf such as insurance premium, **rent**, etc. **When** the banker makes such payments, he would immediately debit the customer's account. So, the balance in **the** pass book would get reduced. If the corresponding entries for such payments have not been recorded in the cash book, the **balance** as per cash book would remain unchanged.

8 Direct payments into the bank made by firm's customers: Sometimes, a customer may directly deposit an amount into the firm's account. The firm shall record it in the cash book only when it learns about such deposit. But, **the** pass book would show the entry on the date of deposit itself. If, by the date of reconciliation, such entry has not been passed in the cash book, the balance shown by pass book will be higher than the balance as per cash book.

9 Dishonour of cheques or bills: As already **stated** when cheques are sent to the bank for **collection** they are entered in the **cash** book immediately. But no entry appears in the pass book till they are collected by the bank. **Sometimes**, for one reason or the other, the cheques are dishonoured. In **that** case the bank will not make any entry in its books and returns such cheques to the firm. The same thing applies to the bills receivable sent for collection to the bank. On receiving the dishonoured cheques or bills the **firm** has to pass a reverse entry in the cash book. But, till such entry is passed the balances shown by the cash book and the pass book would differ.

10 Errors: It is quite possible that while recording the transactions in the cash book some errors **might** have been committed by the **firm**. For example, a cheque deposited in the bank may not be recorded at all, or is recorded on the wrong side in **the** cash book. Similarly, the bank may also commit some errors while recording entries in the customer's account. For example, a cheque collected on behalf of a customer is entered in some other account. Such errors would also lead to the disagreement of the balances in the cash book and the pass book.

314.2 What is Bank Reconciliation Statement?

By comparing the entries in the cash book with those in the pass book you can easily ascertain the exact causes of difference **between** the balance as per cash book and the balance as per pass book. In order to reconcile these balances every firm prepares a statement showing all the causes of differences. This statement is called Bank Reconciliation Statement and is **prepared** periodically. The main objective of preparing such a statement is to account for the difference between the cash book and the pass book balances and pass the **necessary** correcting entries in the books of the **firm**.

Thus, Bank Reconciliation Statement can be defined as a statement which reconciles the balance as per cash book and the balance as per pass book showing all causes of difference between the two.

3.4.3 Preparation-of Bank Reconciliation Statement

The Bank Reconciliation Statement is prepared at the end of a quarter, half year or a year as the firm may consider desirable and convenient. It can be prepared in two ways :

- i) Take the balance as per cash book as the starting point, adjust the effect of each item causing the difference, and arrive at the balance as per pass book.
- ii) Take the balance as per pass book as the starting point, adjust the effect of each item causing the difference, and arrive at the balance as per cash book.

Whatever be the method, first of all you must analyse the effect of each item on the balance of the book which you are using as the starting point. In other words, whether it has led to a higher balance or a lower balance in that book. This helps you to decide whether a particular item is to be added to, or subtracted from, such a balance.

Suppose, you start with cash book balance as the base and the item causing the difference is the bank charges of Rs. 100. This item appears in the pass book but not in the cash book. The bank charges would appear in the withdrawals column of the pass book which means that the pass book balance had decreased by Rs. 100. Since it has not been shown in the cash book, the cash book balance remained unaffected, it did not decrease. Hence the cash book balance would be higher than the pass book balance by Rs. 100. If we now subtract this amount from the cash book balance it will reconcile with the pass book balance. Take another example. The bank collected Rs. 500 as interest on securities on behalf of the firm. But, the same had not been recorded in the cash book. This item would appear in the deposit column of the pass book which means the pass book balance had increased by Rs. 500. Since it had not been shown in the cash book, the cash book balance remained unaffected, it did not increase. Hence, the cash book balance would be lower than the pass book balance by Rs. 500. If we now add this amount to the cash book balance it will reconcile with the pass book balance.

If you were to start with pass book balance as the base you would do just the reverse of what you did when you started with cash book balance as the base. You will add Rs. 100 relating to the item of bank charges because it leads to a lower balance in the pass book and subtract Rs. 500 relating to interest on securities collected by the bank because it had increased the pass book balances.

Generally, the firms adopt the first method because the Bank Reconciliation Statement is prepared primarily for the verification of the bank balance as shown by the cash book.

From the above examples it should be clear to you that in case you start with cash book balance you should add all those items which have been responsible for lower balance in the cash book and subtract those which have been responsible for a higher balance. Let us, for convenience, list the items which would generally be added and subtracted when cash balance is used as the starting point.

To be added

- 1 Cheques issued but not yet presented
- 2 Interest allowed by the bank
- 3 Interest and dividends collected but not recorded in the cash book
- 4 Direct deposits by customers in the firm's bank account.

To be subtracted

- 1 Cheques deposited but not yet collected
- 2 Bank charges
- 3 Interest on overdraft
- 4 Amounts paid by the bank under standing instructions but not recorded in the cash book
- 5 Cheques dishonoured but no entry made in the cash book for the dishonour

If the pass book balance is taken as the starting point, just reverse the above process. Add those which are to be subtracted from the cash book balance as per the above list and subtract those which are to be added to the cash book balance as per the above list.

The above analysis will help you to prepare the Bank Reconciliation Statement correctly. Look at Illustration 4 and study how a Bank Reconciliation Statement is prepared with cash book balance as the starting point.

Illustration 4

From the following particulars, prepare a Bank Reconciliation Statement as on December 31, 1987:

On December 31, 1987 **Mohan's** cash book showed a debit balance of Rs. 7,800. The balance as per pass book was Rs. 10,300. On comparing the cash book with the pass book, the following discrepancies were found :

- 1 Two cheques for Rs. 1,600 and Rs. 2,000 **issued** on December 23 have not been presented to the bank for payment.
- 2 A cheque for Rs. 1,200 was deposited in the bank on December 29, but it was credited by the bank on January 5,1988.
- 3 There was a credit entry in the pass book for Rs. 520 in respect of dividend received **by** the bank on behalf of Mohan. This had not been recorded in the cash book.
- 4 Rs. 300 was deposited by a customer directly into the bank.
- 5 **The bank** charged Rs. 60 as their commission for collecting an outstanding cheque. **No** entry for this **appeared in** the cash book.
- 6 A cheque for Rs. 500 received from **Gopi** and deposited in the bank was **dishonoured**, but no entry was recorded in the **cash** book for the dishonour.
- 7 A cheque for Rs. 160 was entered in the cash book but it was not sent to the bank for collection.

Solution:

Bank Reconciliation Statement as on December 31,1987

	Rs.	
Balance as per Cash Book		Rs. 7,800
Add: Cheques issued but not yet presented for payment	3,600	
Dividends collected by bank but not yet recorded in the cash book	520	
Amount deposited by a customer directly in the bank	300	
		4,420
Less: Cheque deposited hut/not yet collected by bank	1,200	
Bank charges debited by bank but not yet recorded in the cash book	60	
Cheque dishonoured but no entry made in cash book for the dishonour	500	
Cheque received from a customer entered in the cnsh book but not sent to the bank for collection	160	
		1,920
Balance as per Puss Book		10,300

Note: The statement bears a heading 'Bank ReconciliationStatement' and mentions the **date for which** reconciliation is done. So, whenever you **prepare a Bank Reconciliation Statement, make sure that** it bears **this heading along** with the date of reconciliation.

The Bank Reconciliation Statement can also be prepared by 'plus and minus method'. **In** that case you will have two separate amount columns, one for additions and the other for subtractions. The first column is called 'plus column' and the **second column is called** 'minus column'. The Bank Reconciliation Statement prepared **according to this method** will appear as follows:

Bank Reconciliation Statement
as on December 31,1987

Particulars	Plus Column	Minus Column
Balance as per Cash Book	Rs. 7,800	Rs. 10,300
1 Cheques issued but not yet presented for payment	3,600	
2 Cheque deposited but not yet collected by bank		1,200

Particulars		Plus Column	Minus Column
3	Dividends collected by bank, not yet recorded in the cash book	520	
4	Amount deposited by a customer directly in the bank	300	
5	Bank charges debited by bank but not yet recorded in the cash book		60
6	Cheque dishonoured but no entry made in cash book for the dishonour		500
7	Cheque received from the customer entered in the cash book not sent to bank for collection		160
		12,220	1,920
Balance as per Pass Book (Rs. 12,220—Rs. 1,920)		10,300	

Now, look at Illustration 5 and study how a Bank Reconciliation Statement will be prepared with pass book balance as the starting point.

Illustration 5

From the following, prepare a Bank Reconciliation Statement of Radhey Lal as on March 31, 1988. Balance as per pass book as on March 31, 1988 was Rs. 22,000.

- 1 Cheques amounting to Rs. 9,000 were deposited in the bank during March, but credit was given only for Rs. 7,000.
- 2 The bank paid insurance premium of Rs. 300 on March 20, but it was not entered in the cash book.
- 3 A discounted bill receivable for Rs. 1,500 was returned dishonoured to the bank on March 27, but the corresponding entry in the cash book was made in April.
- 4 A cheque for Rs. 800 received on March 29 was entered in the cash book, but it was sent to the bank on April 3.
- 5 Of the cheques amounting to Rs. 3,000 issued to creditors, the cheques for Rs. 1,800 only were presented for payment.
- 6 The bank charges debited in the pass book amounted to Rs. 50.
- 7 Interest on securities collected and credited by the bank amounting to Rs. 1,000 was not entered in the cash book.

Solution:

Bank Reconciliation Statement
as on March 31, 1988

Particulars	Plus Column	Minus Column
Balance as per Pass Book	Rs. 22,000	Rs.
1 Cheques deposited but not yet collected	2,000	
2 Insurance premium paid by bank but not yet recorded in the cash book	300	
3 B/R dishonoured but not yet recorded in the cash book	1,500	
4 Cheque received from a customer entered in the cash book but not yet sent to the bank for collection	800	
5 Cheques issued but not yet presented for payment		1,200
6 Bank charges debited by bank not yet recorded in the cash book	50	
7 Interest on securities collected by bank but not yet recorded in the cash book		1,000
	26,650	2,200
Balance as per Cash Book (Rs. 26,650—Rs. 2,200)	24,450	

3.4.4 When there is an Overdraft ?

You know when a businessman withdraws from the bank more money than is available in his account, it is said that he has an overdraft (an unfavourable balance) in his bank account. It is one of the most commonly used method of borrowing money from the bank.

You have learnt the method of preparing a Bank Reconciliation Statement when the firm has a favourable balance in the bank. Let us now study how Bank Reconciliation Statement will be prepared when the firm has an unfavourable balance (an overdraft).

You know when the firm has a favourable balance the cash book shows a debit balance. But when the firm has an overdraft, it will show a credit balance because, in such a situation, the bank is a creditor for the firm. As for the pass book, when the firm has favourable balance it shows a credit balance and when the firm has an overdraft it will show a debit balance, because for the bank the firm is a debtor when there is an overdraft. In other words it can be stated that when cash book shows a credit balance or, when pass book shows a debit balance, the firm has an overdraft.

The preparation of the Bank Reconciliation Statement does not differ much whether there is a favourable balance or an overdraft, specially if you follow the 'plus and minus method'. You know when the firm has a favourable balance, it is shown in plus column of the Bank Reconciliation Statement. But, if there is an overdraft it will be shown in the minus column. This is the main point you have to remember while preparing a Bank Reconciliation Statement when there is an overdraft. The treatment with regard to items causing difference between the balances of the two books remains the same.

If, however, you do not follow the plus and minus method you will have to analyse first the effect of each discrepancy on the overdraft and then decide whether the amount involved is to be added or subtracted. When you make such analysis you will observe that the effect of each discrepancy on overdraft will be just the reverse of what it would be on a favourable balance. For example, if bank charges are found to be unrecorded in the cash book which shows a favourable balance, this omission is considered responsible for a higher balance in the cash book and so, while preparing Bank Reconciliation, it is subtracted from the balance. But in case of an overdraft omitting to record the bank charges would mean a lower amount of overdraft in the cash book and so, while preparing the Bank Reconciliation Statement it will have to be added. Thus, you will find that when you prepare a Bank Reconciliation Statement with an overdraft as per cash book as the starting point you will have to add all items which were subtracted when you started with a favourable balance as per cash book, and vice-versa. This makes the preparation of the Bank Reconciliation quite complicated. Hence, you are advised to follow plus and minus method. In that case by simply showing the overdraft in the minus column you will automatically have the desired effect of each item duly adjusted in the overdraft. Look at Illustration 6. It starts with an overdraft as per cash book. The overdraft is shown in the minus column of the Bank Reconciliation Statement but all other items have been treated in the same way as in Illustration 5.

Illustration 6
From the following particulars ascertain the balance as would appear in the bank pass book of Ram Prasad on January 31, 1988. The cash book showed a credit balance of Rs. 8,200.

	Rs.
1 Cheques issued but not cashed by January 31, 1988	2,300
2 Cheques paid into bank but not cleared by January 31, 1988	3,000
3 Interest charged on overdraft appeared in the pass book only	120
4 Bank charges debited by bank but not recorded in the cash book	50
5 Interest on debentures collected by bank but not recorded in the cash book	600
6 Bank paid insurance premium as per standing instructions	220
7 A customer paid into firm's bank account directly	1,000

Solution:

Bank Reconciliation Statement
as on January 31, 1988

Particulars	Plus Column	Minus Column
	Rs.	Rs.
Overdraft as per Cash Book		8,200
1 Cheques issued but not yet presented for payment	2,300	
2 Cheques deposited into bank but not yet credited		3,000
3 Interest on overdraft not yet recorded in the cash book		120
4 Bank charges not yet recorded in the cash book		50
5 Interest on debentures collected by bank not yet recorded in the cash book	600	
6 Insurance premium paid by bank but not yet recorded in the cash book		220
7 Amount deposited by a customer directly into bank	1,000	
	3,900	11,590
Overdraft as per Pass Book (Rs. 11,590 — Rs. 3,900)		7,690

In Illustration 6, the starting point was the overdraft as per cash book. Let us see how a Bank Reconciliation Statement is prepared if the starting point is overdraft as per pass book. Look at Illustration 7 and compare it with Illustration 5. You will find that the treatment of all items is the same. The difference lies only in showing the pass book balance. Since it is an overdraft, it has been shown in the minus column.

Illustration 7

From the following particulars, ascertain the bank balance as it would appear in cash book of Rati Ram on December 31, 1987. His Pass Book showed an overdraft of Rs. 7,500.

	Rs.
1 Cheques issued but not presented for payment till December 31, 1987	1,000
2 Cheques deposited in bank on December 29, 1987 but not credited till December 31, 1987	2,500
3 Bank charges recorded in pass book	40
4 Bank collected dividend on shares on behalf of Rati Ram	1,200

Solution:

Bank Reconciliation Statement
as on December 31, 1987

Particulars	Plus Column	Minus Column
	Rs.	Rs.
Overdraft as per Pass Book		7,500
1 Cheques issued but not yet presented for payment		1,000
2 Cheques deposited in bank but not yet collected	2,500	
3 Bank charges not yet recorded in the cash book	40	
4 Dividend collected by bank not yet recorded in the cash book		1,200
	2,540	9,700
Balance as per Cash Book (overdraft) (Rs. 9,700 — Rs. 2,540)		7,160

Illustration 8

The pass book of Roshan showed a credit balance of Rs. 12,000 on March 31, 1987, while the bank column of his cash book showed an overdraft of Rs. 9,000. Starting with the pass book balance, prepare the Bank Reconciliation Statement using the following information.

- Of the cheques amounting to Rs. 8,000 deposited in the bank up to March 31, 1987, a cheque of Rs. 1,800 was collected by the bank on April 3, 1987.
- Cheque of Rs. 2,500 issued to Harish was wrongly entered twice in the cash book.

- 3 Cheques issued during the month amounted to Rs. 8,000 of which cheques for Rs. 1,000 were not presented to the bank up to March 31, 1987.
- 4 The pass book showed a credit of Rs. 100 as interest for which there was no entry in the cash book.
- 5 The pass book showed a payment of Rs. 500 as life insurance premium for which no entry was made in the cash book.
- 6 The pass book showed a direct deposit of Rs. 10,000 from Mahesh on March 28, 1987. It was entered in the cash book only on April 2, 1987.
- 7 A cheque for Rs. 3,100 issued to a creditor was entered in the bank column of the cash book as Rs. 13,000.
- 8 The bank debited Roshan's account with a cheque for Rs. 200 received from Ajay which had been returned dishonoured. No entry for dishonour was passed in the cash book.

Solution:

Rank Reconciliation Statement
as on March 31,1987

Particulars	Plus Column	Minus Column
	Rs.	Rs.
Balance as per Pass Book	12,000	
1 Cheques deposited but not yet collected by the bank	1,800	
2 Cheque issued wrongly recorded twice in the cash book		2,500
3 Cheques issued but not yet presented fur payment		1,000
4 Interest allowed by bank not yet recorded in the cash book		100
5 Life insurance premium paid by bank not yet recorded in the cash book	500	
6 Direct deposit by a customer not yet recorded in the cash book		10,000
7 Excess amount recorded in the cash book by mistake for a cheque issued		9,900
8 Dishonoured cheque not yet recorded in the cash book	200	
	14,500	23,500
Overdraft as per Cash Book (Rs. 23,500— Rs. 14,500)		9,000

Note: In this illustration you find that the total of the minus column exceeds the total of the plus column. Hence the difference of Rs. 9,000 is treated as overdraft as per cash book.

3.45 Adjusting the Cash Book Balance

When you look at the various items that normally cause the difference between the cash book balance and the pass book balance, you will find a number of items which appear only in the pass book. Why not record such items in the cash book before preparing the Bank Reconciliation Statement? This shall reduce the number of items responsible for the difference. So, as soon as the pass book is received, the firm may record all those items in the cash book which appear only in pass book and work out a fresh balance of the cash book. This is called 'adjusted balance' or 'corrected balance' as per cash book. Similarly, it may also pass correcting entries for the errors committed in the cash book and adjust the cash book balance.

When you work out an adjusted balance of the cash book as above, the Bank Reconciliation Statement may be prepared with this adjusted balance, This would reduce the number of items shown in the Bank Reconciliation Statement. As a matter of fact, this is exactly what is done in practice.

The items which can usually be adjusted in the cash book are :

- 1 Interest allowed by bank
- 2 Amounts collected by bank as per standing instructions
- 3 Payments made by bank as per standing instructions
- 4 Bank charges
- 5 Interest on overdraft
- 6 Direct deposits by customers
- 7 Dishonoured cheques or bills receivable
- 8 Errors committed in the cash book

Look at the Illustration 4 again. You will find that out of the seven items causing the difference four items can be adjusted in the cash book as follows :

Cash Book (Bank Column only)					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
1987 Dec. 31	To balance bld	Rs. 7,800	Dec. 31	By Bank charges A/c	Rs. 60
" 31	To Interest on Securities	520	" 31	By Gopi (cheque dishonoured)	500
" 31	To Customer's A/c	300	" 31	By Balance c/d	8,060
		8,620			8,620
1988 Jan. 1	To balance bld	8,060			

The adjusted balance as per cash book is Rs. 8,060. Now, if we prepare the Bank Reconciliation Statement with the adjusted balance, it will appear as follows :

Bank Reconciliation Statement as on December 31,1987		
Particulars	Plus Column	Minus Column
Balance as per Cash Book	Rs. 8,060	Rs.
1 Cheques issued but not yet presented	3,600	
2 Cheques deposited but not yet collected by the bank		1,200
3 Cheques received from a customer but not yet sent to the bank for collection		160
	11,660	1,360
Balance as per Pass Book (Rs. 11,660 — Rs. 1,360)	10,300	

Thus, you observe that the Bank Reconciliation Statement prepared with the adjusted balance included only three items. These items could not be adjusted in the cash book because they had already been recorded in the cash book correctly. The difference arose only on account of the time lag.

It may however be emphasised that you should concentrate on preparing the Bank Reconciliation in the normal manner. The statement with an adjusted balance of the cash book is to be prepared only when it is specifically asked for.

3.4.6 Advantages of Bank Reconciliation Statement

The main purpose of preparing Bank Reconciliation Statement is to account for the difference between the cash book and the pass book **balances**. This would ensure the accuracy of entries **made** in the cash book as well as those in the pass book. Regular comparison of these two books is necessary for preparing the Bank Reconciliation Statement. This helps in the detection of errors and taking timely action to correct them. It is quite possible that the bank wrongly debits **firm's** account for cheques drawn by someone else. If reconciliation is not done, such mistakes will not be detected. Preparation of **Bank Reconciliation Statement** also helps in preventing frauds in banking transactions. The cashier, for example, may omit to deposit some bearer cheques in the bank and **encash** them himself. Such fraud is sure to be detected at the time of reconciliation when it is investigated as to why certain cheques remained uncollected. Thus, it acts as a **moral** check on the staff to refrain from indulging in such activities.

Bank Reconciliation Statement is also required for audit purposes. The auditor has to verify the bank balance before he would certify the accounts. For this he would insist on the Bank Reconciliation Statement and ensure that the bank balance shown in the cash book is correct.

Check Your Progress B**Cash Book and Bank
Reconciliation**

1 What is Bank Reconciliation Statement?

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2 Give two examples of items which are usually recorded first in the cash book and later in the pass book.

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3 Give two examples of items which are usually recorded first in the pass book and later in the cash book.

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4 Choose one of the alternatives and tick (✓) the correct answer.

a) Bank Reconciliation Statement is

- i) a part of the cash book
- ii) a statement showing the causes of difference between the cash book and the pass book balances
- iii) a ledger account

b) Bank Reconciliation Statement is prepared by

- i) business
- ii) bank
- iii) debtor

c) Debit balance in the cash book means

- i) overdraft
- ii) favourable balance
- iii) neither of the two

d) Debit balance in the pass book means

- i) overdraft
- ii) favourable balance
- iii) neither of the two

e) Overdraft as per cash book means

- i) debit balance in the cash book
- ii) credit balance in the cash book
- iii) nil balance in the cash book

- f) When balance as per cash book is the starting point, unpresented cheques are
 - i) added
 - ii) subtracted
 - iii) neither of the two
- g) When balance as per pass book is the starting point, uncollected cheques are
 - i) added
 - ii) subtracted
 - iii) neither of the two
- h). When balance as per pass book is the starting point, direct deposits by customers are
 - i) added
 - ii) subtracted
 - iii) neither of the two

5 What is an adjusted balance of cash book?

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3.5 PETTY CASH BOOK

You have so far learnt that all cash receipts and payments are recorded in the cash book. In practice you will find that almost in every business there are many small payments in cash such as stationery, postage, telegrams, cartage, conveyance, etc. If all these small payments are **also** recorded in cash book, the cash book will become bulky, and the cashier will also be overburdened with the work. In order to reduce the burden on the cashier, a separate book called 'Petty Cash Book' is maintained for recording all such small payments. A petty cashier is appointed for **this purpose**. He is paid a certain sum in advance. He keeps on making small payments out of this advance and records them in the Petty **Cash** Book. The amount of **money** given to petty cashier is called petty cash.

3.5.1 Imprest System

Generally, Petty Cash Book is maintained on **imprest** system. Under this system an estimate is **made** of the amount required for small payments for a certain period, say, a week or a month and this amount is paid to the petty cashier in advance. The petty cashier makes the small payments and records them in the Petty Cash Book. All such payments are supported by vouchers or receipts. At the end of the period, the petty cashier submits the account to the chief cashier. The chief cashier **examines** the account and pays to the petty cashier the amount spent by him so that **at** the beginning of the next period again he has the same amount as he had in the beginning. This system of advance is called the '**imprest** system' and the amount given to the petty cashier as advance is known as the '**imprest** money'. For example, on April 1, Rs. 300 is given as advance to the petty cashier. He spends Rs. 260 during the month and submits the account alongwith the vouchers to the chief cashier. After verifying the account, the chief cashier pays him Rs. 260. Thus, on May 1, the petty cashier again has Rs. 300 with him. **The** amount to **be** given to the petty cashier **i.e., imprest** money, should **be** carefully determined. It should neither be too large nor too small, it should be sufficient to make small payments for **the** fixed period.

3.5.2 Recording and Posting the Petty Cash Book

As you will observe in Illustration 9 the Petty Cash Book **has** a **number** of **columns**. The extreme left-hand column records the receipts **of** cash. But **on** the payment side a separate **column** is provided for each **expense**, such as postage, telegrams, stationery, cartage, wages, conveyance, etc. This facilitates the **analysis** of payments under different headings and also

helps in posting to the concerned accounts. The number of columns depend upon the nature and size of the business. The columns provided for different expenses generally are: (i) printing and stationery, (ii) postage and telegrams, (iii) cartage, (iv) conveyance, (v) entertainment and (vi) sundry expenses.

When the petty cashier receives money from the chief cashier, he records it in the particulars column of the Petty Cash Book by writing 'To Cash A/c' (if he receives cash) or 'To Bank A/c' (if he receives a cheque) and records the amount in receipts column. When payment is made, it is entered in the particulars column by writing the name of the expense incurred. The amount is first recorded in the 'total payments' column and then in the relevant column provided for it.

The Petty Cash Book is balanced periodically. The difference between the total receipts and total payments is the balance with the petty cashier. This balance is carried to the next period and the petty cashier is paid the amount actually spent by him. Thus, you will note that the procedure of balancing the Petty Cash Book is the same as you have adopted in the case of ordinary cash book.

A 'Petty Cash Account' is opened in the ledger. It is debited with the amount given to petty cashier. When Petty Cash Book is balanced, each expense account is **individually** debited with the periodic total as per the respective column by writing 'To Petty Cash A/c' and the 'Petty Cash Account' is credited with the total expenditure incurred during the **period** by writing 'By Sundries as per Petty Cash Book'. The Petty Cash Account is then balanced. It normally shows a debit balance which will be equal to the actual cash **with** the petty cashier.

Look at Illustration 9. It shows the recording of Petty Cash Book and its posting into the ledger.

Illustration 9
Enter the following transactions in Petty Cash Book, and post them into ledger.

1988		Rs.
Jan.	1 Received cash from chief cashier	300.00
"	2 Paid for postage	25.20
"	3 Paid for stationery	10.50
"	5 Paid conveyance to clerk	10.20
"	6 Paid for telegram	12.40
"	8 Paid for ink	6.10
"	9 Paid for tea for customers	5.00
"	10 Stamps purchased	13.00
"	12 Purchased pens	20.00
"	14 Paid for trunk call	27.50
"	15 Paid cartage	8.00
"	16 Paid for taxi fare	43.50
"	17 Purchased soap	5.60
"	18 Paid for typewriting paper	40.00
"	19 Cartage paid	10.00
"	20 Bus fare paid to clerk	8.20
"	21 Paid to coolie	10.50
"	22 Tips to peon	5.00
"	23 Purchased registers	20.00
"	28 Rickshaw charges	2.50
"	30 Paid for cold drinks for customers	7.50

Solution:

Receipts	Date	Particulars	V. No.	Total	Stationery	Postage & Telegrams	Cartage	Conveyance	Entertainment Expenses	Sundry Expenses
Rs.	1988		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
300.00	Jan. 1	To Cash A/c								
	" 2	By Postage		25.20		25.20				
	" 3	By Stationery		10.50	10.50					
	" 5	By Conveyance		10.20				10.20		
	" 6	By Telegrams		12.40		12.40				
	" 8	By Ink		6.10	6.10					
	" 9	By Tea Expenses		5.00					5.00	
	" 10	By Stamps		13.00		13.00				
	" 12	By Pens		20.00	20.00					
	" 14	By Trunk Call		27.50		27.50				
	" 15	By Cartage		8.00			8.00			
	" 16	By Taxi Fare		43.50				43.50		5.60
	" 17	By Soap		5.60						
	" 18	By typewriting paper		40.00	40.00					
	" 19	By Cartage		10.00			10.00			
	" 20	By Bus Fare		8.20				8.20		
	" 21	By Coolies		10.50			10.50			5.00
	" 22	By Tips		5.00						
	" 23	By Registers		20.00	20.00					
	" 28	By Rickshaw		2.50				2.50		
	" 30	By cold drinks		7.50					7.50	
		Total Payments		290.70	96.60	78.10	28.50	64.40	12.50	10.60
	Jan 31	By Balance c/d	9.30							
		Total	300.00							
9.30	Feb. 1	To Balance b/d								
290.70	" 1	To Cash A/c								

LEDGER

Petty Cash Account

Dr.			Cr.		
1988		Rs.	1988		Rs.
Jan. 1	To Cash A/c	300.00	Jan. 31	By Sundries as per Petty Cash Book	290.70
			" 31	By Balance c/d	9.30
		300.00			300.00
Feb. 1	To Balance b/d	9.30			
" 1	To Cash A/c	290.70			

Stationery Account

1988		Rs.			
Jan. 31	To Petty Cash A/c	96.60			

Postage & Telegrams Account

1988		Rs.			
Jan. 31	To Petty Cash A/c	78.10			

Cartage Account

1988		Rs.			
Jan. 31	To Petty Cash A/c	28.50			

Conveynnce Account

1988		Rs.			
Jan. 31	To Petty Cash A/c	64.40			

Entertainment Account

1988		Rs.			
Jan. 31	To Petty Cash A/c	12.50			

Sundry Expenses Account

1988		Rs.			
Jan. 31	To Petty Cash A/c	10.60			

3.6 LET US SUM UP

When the number of transactions in a business are too large, it becomes difficult to record all of them in the Journal. Hence, it is sub-divided into a number of special journals called subsidiary books. Each subsidiary book is used for recording only one category of transactions. The subsidiary books generally used are: (i) Cash Book, (ii) Purchases Journal, (iii) Purchases Returns Journal, (iv) Sales Journal, (v) Sales Returns Journal, (vi) Bills Receivable Journal, (vii) Bills Payable Journal, and (viii) Journal Proper.

All cash transactions are recorded in Cash Book. There are three types of cash books. They are: (i) Simple Cash Book, (ii) Two Column Cash Book, and (iii) Three Column Cash Book. Simple Cash Book has only one amount column on both sides. All cash receipts are recorded on the debit side and all cash payments on the credit side. It serves the purpose of Cash Account. The Two Column Cash Book has an additional column for cash discount on both sides. The discount allowed is recorded on the debit side and the discount received on the credit side. The Three Column Cash Book provides one more column on both sides for recording the banking transactions. All deposits into the bank are recorded in the bank column on the debit side of the cash book and all withdrawals on the credit side. This serves the purpose of a Bank Account.

When cash book and the pass book are compared, it is often found that the balances shown by these two books differ. There may be many causes leading to difference. A Bank Reconciliation Statement is prepared to explain the causes of difference and take the necessary follow up action. It can be prepared either by taking cash book balance as the starting point or by taking pass book balance as the starting point. It can also be prepared by taking the adjusted balance of the cash book as the starting point. The adjusted balance of the cash book is arrived at by passing corresponding entries in the cash book for items which appeared in the pass book only.

A Petty Cash Book can also be prepared for recording payments of various petty expenses. It is maintained on imprest system which means advancing a fixed amount to the petty cashier. The maintenance of Petty Cash Book saves a lot of labour and time.

3.7 KEY WORDS

Bank: An organisation which deals in money by accepting deposits and lending money to those who need it. It also provides various other services to its customers.

Cash Book and Bank Reconciliation

Bank Charges: **Amount** charged by bank for providing various services to its customers.

Bank Reconciliation Statement: A statement reconciling the bank balance as shown by the cash **book with** that of the pass book by showing all causes of difference between the two.

Cheque: An instrument used for withdrawing money from the bank. It is an unconditional order on the bank made by its customer, instructing the bank to pay the amount specified therein to the person named in the cheque or to his order.

Contra **Entry**: When both the debit and the credit aspects of a transaction are recorded in the cash book itself, it is called a contra entry.

Dishonour: Refusal by bank to make payment against the cheque.

Endorsement: **A** written statement made and signed by the payee at the back of the cheque for its transfer.

Favourable Balance: Balance indicating that the customer has got money in his account with the bank.

Imprest System: A system of advancing a fixed amount to the petty cashier.

Pass Book: A book supplied by the bank to its customers showing his transactions with the bank.

Standing Instructions: Instructions to the bank for making certain payments and collections regularly **on** behalf of the customer.

Subsidiary **Book**: **A** special journal used for recording a particular category of transactions.

3.8 SOME USEFUL BOOKS

- 1 Maheshwari, S.N., 1986. *Introduction to Accounting*, Vikas Publishing House, New Delhi. (Chapters 5,7)
- 2 Patil, V.A. and J.S. Korlahalli, 1986. *Principles and Practice of Accounting*, R. Chand & Co., New Delhi. (Chapters 7,10)
- 3 William Pickles, 1982. *Accountancy*, E.L.B.S. and Pitman, London. (Chapter 2)
- 4 Gupta R.L. and M. Radhaswamy, 1986. *Advanced Accountancy*, Sultan Chand & Sons, New Delhi. (Chapters 3,10)

3.9 ANSWERS TO CHECK YOUR PROGRESS

- A 2 (a) iii (b) **i** (c) iii (d) ii (e) iii
- 3 (i) Cash (ii) credit (iii) debit (iv) credit (v) overdraft (vi) contra entry (vii) credit (**viii**) cash
- B 4 (a) ii (b) **i** (c) ii (d) i (e) **ii** (f) i (g) i (h) ii

3.10 TERMINAL QUESTIONS/EXERCISES

Questions

- 1 Why is journal sub-divided? Name the special journals generally maintained by the business and state the type of transactions entered in each of **them**.
- 2 Explain the following in about 50 words each,
 - a) Cash Book is **both** a journal and a ledger
 - b) Posting of the Two Column Cash Book
 - c) **Imprest** System
 - d) Advantages of preparing a Bank Reconciliation Statement
- 3 State various causes **of** disagreement between the balances shown by the cash book and the pass book.
- 4 Why is cash book adjusted? Explain how Bank **Reconciliation** Statement is **prepared** with an adjusted balance of cash book.
- 5 What are the advantages of maintaining a Petty Cash Book? Explain the method of balancing and posting the Petty Cash Book.

Exercises

Cash Book and Bank Reconciliation

1 From the following particulars, prepare a Simple Cash Book, balance it, and post it into ledger :

1987		Rs.
Nov.	1 Commenced business with cash	20,000
"	2 Deposited in Bank Account	10,000
"	3 Purchased furniture for cash	500
"	3 Paid cartage	70
"	4 Purchased goods for cash	5,000
"	8 Cash sales	4,000
"	10 Received from Shyam Lal	1,000
"	18 Withdrew from bank	5,000
"	20 Received cash from Mahesh	1,500
"	25 Purchased a typewriter	7,000
"	28 Paid wages	500
"	30 Deposited into bank	5,000
"	31 Paid rent for the month	1,000

(Answer: Cash in hand Rs. 2,430)

2 Enter the following transactions in Two Column Cash Book, balance it, and post it into ledger.

1987		Rs.
Dec.	1 Cash in hand .	10,000
"	2 Boughtgoods	4,000
"	3 Paid to Kapil	500
"	4 Cash sales	2,000
"	5 Cash sales	3,000
"	6 Bought goods on credit from Suresh	3,000
"	6 Paid cartage	60
"	8 Purchased stationery	100
"	10 Paid to Suresh	2,950
"	Discount allowed by him	50
"	15 Paid travelling expenses	100
"	16 Sold goods on credit to Shankar	1,600
"	18 Purchased furniture	2,500
"	20 Received from Shankar	1,550
"	Discount allowed to him	50
"	25 Purchased typewriter	5,000
"	27 Paid to Kumar Rs. 1,900 in full settlement of his account of Rs. 2,000.	
"	29 Received from Hari	2,470
"	Discount allowed to him	30
"	31 Paid wages	500
"	31 Withdrew for personal use	200

Hint: Credit purchases and credit sales of goods are not entered in cash book. They are to be recorded in Purchases Journal and Sales Journal respectively.

(Answer: Cash Balance Rs. 1,210; Discount Allowed Rs. 80; Discount Received Rs. 150)

3 Prepare a Three Column Cash Book from the following transactions and post them into ledger.:

1987			Rs.
Oct.	1	Cash in hand	2,000
		Cash at bank	10,000
"	3	Bought goods and paid by cheque	4,000
"	5	Purchased furniture for cash	1,000
"	7	Paid wages by cash	600
"	10	Sold goods to Harish for cash	2,000
"	12	Received cheque from Gopal	2,000
"	15	Paid to Manohar by cheque	2,450
		Discount received from him	50
"	17	Received cheque from Rajesh	500
"	18	Cheque received from Gopal deposited in the bank	2,000
"	19	Paid to Banarasi Das by cheque	3,000
"	20	Cheque of Rajesh endorsed to Ram	500
"	22	Deposited into bank	2,000
"	24	Sold goods and received a cheque	4,000
"	25	Withdrew from bank for personal use	600
"	26	Received from Rakesh	2,480
		Discount allowed to him	20
"	31	Paid rent by cheque	1,000
"	31	Paid salaries by cheques	3,000
"	31	Withdrew from bank for office use	2,000

(Answer: Cash Balance Rs. 4,880; Bank Balance Rs. 1,950; Discount Allowed Rs. 20; Discount Received Rs. 50)

- 4 Record the following transactions in a Three Column Cash Book and post them into ledger.

1987			Rs.
Nov.	1	Cash balance	900
		Bank overdraft	1,500
"	2	Cash sales	600
"	4	Received from Nafees	980
"		Discount allowed to him	20
"	6	Paid to Rao by cheque	1,000
"	7	Received a cheque from Mahesh	500
"	8	Paid wages	100
"	10	Purchased goods for cash	1,000
"	15	Paid for stationery	100
"	17	Received a cheque from Bansilal and endorsed it to Amar Nath	1,000
"	22	Cash sales	1,000
"	28	Paid rent	500
"	30	Paid telephone bill by cheque	200
"	31	Deposited into bank	1,000

(Answer: Cash Balance Rs. 780; Bank Overdraft Rs. 1,200; Discount Allowed Rs. 20)

- 5 The cash book of a trader showed a bank balance of Rs. 7,500 on December 31, 1987. On going through the cash book it was found that: (i) two cheques for Rs. 500 and

Rs. 700 deposited on December 28 were credited in the pass book on January 4, 1988; (ii) Three cheques for Rs. 500, Rs. 900 and Rs. 1,200 issued on December 29, 1987 were presented to the bank for payment on January 7, 1988; (iii) Bank had credited the trader for Rs. 125 as interest and had debited him for Rs. 10 as bank charges for which there were no corresponding entries in the cash book.

Prepare a Bank Reconciliation Statement as on December 31, 1987.

(Answer: Balance as per Pass Book Rs. 9,015)

6 Prepare a Bank Reconciliation Statement on December 31, 1987 from the following particulars.

	Ks.
1 Overdraft as per cash book	10,210
2 Interest and bank charges appeared in pass book only	305
3 A cheque debited in cash book but not credited by bank	300
4 Cheques issued but not cashed by customers up to December 31, 1987	2,320
5 Cheques paid into bank but not yet cleared	1,550
6 A Bill Receivable discounted with the bank on November, 1987, dishonoured on December 30, 1987. No entry was made in the cash book.	800

(Answer: Overdraft as per Pass Book Rs. 10,845)

7 When Madhav & Co. Ltd. received its bank statement for the period ending on June 30, 1987, the balance therein did not agree with the balance as per cash book. The bank statement showed a balance of Rs. 12,000. The following discrepancies were noticed,

- 1 A cheque for Rs. 400 paid on June 30 was not credited by the bank until July 2,
- 2 Bank charges amounting to Rs. 20 were not entered in the cash book.
- 3 A debit of Rs. 70 appeared in the cash book in respect of a cheque which had been returned by the bank marked 'out of date'. The cheque was revalidated by the customer and received by Madhav & Co. Ltd. in July. It was deposited into the bank again on July 6.
- 4 A standing instruction for payment of annual subscription amounting to Rs. 40 was not entered in the cash book.
- 5 On June 26, the Managing Director gave the cashier a cheque for Rs. 800 to pay into his personal account at the bank. The cashier paid it into the company's account by mistake.
- 6 On June 29, two customers paid Rs. 700 and Rs. 800 directly into the company's bank account. The concerned advices had not been received by the company until July 3.
- 7 Rs. 250 paid into the bank was entered twice in the cash book.
- 8 Cheques amounting to Rs. 3,500 were issued but not yet presented for payment.
- 9 A customer of the company who received a cash discount of 1.5% on his account of Rs. 1,000 paid the company by cheque on June 10. The cashier by mistake entered the gross amount in the bank column of the cash book.

Prepare the Bank Reconciliation Statement.

(Answer: Balance as per Cash Book Rs. 6,995)

8 On June 26, 1988, I had an overdraft of Rs. 7,500 as shown by my pass book. Cheques amounting to Rs. 1,000 had been paid into the bank on June 24, but of these only Rs. 750 was credited in the pass book. I had also issued cheques amounting to Rs. 2,500 of which Rs. 2,000 worth only have been presented. There is a debit in my pass book of Rs. 75 for interest. I also find that a cheque for Rs. 60 which I had debited to Bank Account in my pass books has been omitted to be banked. An entry of Rs. 300 of a payment by a customer direct into the bank appears in the pass book only.

Prepare a Reconciliation Statement as on June 30, 1988.

(Answer: Overdraft as per Cash Book Rs. 7,915)

- 9 Prepare a Bank Reconciliation Statement from the following particulars and find out the balance as per pass book on December 31, 1987. The bank balance as per cash book was Rs. 5,600.
- 1 Cheques Received from the following persons were paid into the bank in December 1987 but were credited by the bank in January 1988.
Shekhar Rs. 2,500
Madan Rs. 3,200
Rakesh Rs. 4,480
 - 2 Cheques issued by the firm in December 1987, were cashed in January 1988.
Ahmed Rs. 700
David Rs. 900
Siva Rs. 550
 - 3 The pass book showed a credit of Rs. 100 for interest.
 - 4 A debit of Rs. 20 for bank charges appeared twice in the pass book. However, it did not appear in cash book at all.
 - 5 Jagdeep, a customer, deposited a cheque of Rs. 100 directly into firm's bank account for which there was no entry in the cash book.
 - 6 A cheque for Rs. 100 received from Pradeep and deposited into the bank was returned dishonoured.
 - 7 A cheque received from Anil for Rs. 690 was entered twice in the cash book.

(Answer: Overdraft as per Pass Book Rs. 3,060)

- 10 Compile a Petty Cash book on the Imprest System from the following particulars.

		Rs.
1988		
Feb.	1 Received a cheque for petty cash	200.00
"	2 Bought postage stamps	4.70
"	4 Paid for stationery	10.00
"	6 Paid for tonga hire	5.00
"	8 Paid cartage	10.00
"	9 Paid for two telegrams	15.20
"	12 Coolie charges	5.00
"	15 Paid for tea for customers	5.50
"	17 Paid for minor repairs	12.00
"	18 Bus fare	4.50
"	19 Purchased ink and pencils	7.50
"	20 Purchased soap	5.50
"	21 Paid to sweeper	5.00
"	22 Paid taxi fare	45.50
"	23 Cold drinks for customers	7.50
"	25 Paid travelling expenses	20.00
"	26 Bought Air mail letters	17.50
"	28 Purchased order books	12.00

(Answer: On March 1, 1988, petty cashier will be given a cheque for Rs. 192.40)

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.

UNIT 4 OTHER SUBSIDIARY BOOKS

Structure

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Special Purpose Subsidiary Books
 - 4.2.1 Purchases Journal
 - 4.2.2 Purchases Returns Journal
 - 4.2.3 Sales Journal
 - 4.2.4 Sales Returns Journal
- 4.3 Journal Proper
- 4.4 A Comprehensive Illustration
- 4.5 Let Us Sum Up
- 4.6 Key Words
- 4.7 Some Useful Books
- 4.8 Answers to Check Your Progress
- 4.9 Terminal Questions/Exercises

4.8 OBJECTIVES

After studying this unit you should be able to:

- prepare purchases and purchases returns journals and post them into ledger
- prepare sales and sales returns journals and post them into ledger
- identify transactions to be recorded in journal proper and explain the journal entries to be passed

4.1 INTRODUCTION

In Unit 3 you learnt why journal is sub-divided and which subsidiary books are generally used in business. You also learnt about the preparation of different types of cash books and their posting into ledger. In this unit we intend to discuss most of the remaining subsidiary books including Journal Proper. The Bills Receivable Book and Bills Payable Book will be taken up in Unit 5 where bills of exchange transactions have been discussed in detail.

4.2 SPECIAL PURPOSE SUBSIDIARY BOOKS

You have learnt that in any business the number of cash and bank transactions is quite large. Hence, the firms always maintain a separate book called Cash Book to record them. Similarly, the transactions relating to purchase and sale of goods are also large in number and they take place too frequently. It is, therefore, considered desirable to maintain separate books for purchases and sales of goods also. But you know cash purchases and cash sales of goods are recorded in the Cash Book. Therefore, separate books will be needed only for recording credit purchases and credit sales of goods. The firms generally maintain four separate books to record credit transactions relating to goods. These are: (i) Purchases journal, (ii) Purchases Returns Journal, (iii) Sales Journal, and (iv) Sales Returns Journal. Let us now discuss them one by one,

4.2.1 Purchases Journal

The Purchases Journal (also called Purchases Book) is used for recording credit purchases of goods and raw materials. Note that the credit purchases of fixed assets like furniture, vehicles, etc. are not recorded in this book. They are to be recorded in Journal Proper about which you will learn later in this unit. The Purchases Journal is also called 'Purchases Book', 'Purchases Day Book', and 'Invoice Book'. The proforma of Purchases Journal is given in Figure 4.1.