

Chapter 2E

Accounting Process – Cash Book

CHAPTER OVERVIEW

Cash Book	
1. Meaning and Features	5. Contra Entry in Double / Triple Column Cash
2. Simple Cash Book	6. Petty Cash Book and Imprest System
3. Double Column Cash Book	7. Procedure for Debit Cards / Credit Cards
4. Triple Column Cash Book	8. Illustrations

This Chapter is an extension of the previous chapter. This chapter specifically discusses the concepts related to Cash Book, which is one of the Subsidiary Books. This book forms part of the First Stage of Recording and also the Second Stage of Ledger.

GLOSSARY OF SIGNIFICANT TERMS USED

Term	Meaning
Cheque	Cheque is a negotiable instrument in writing, containing an unconditional order directing the banker to pay a definite sum of money to a definite person.
Negotiable instrument	<ul style="list-style-type: none"> Any instrument or paper or document which is accepted in the trade as a valid consideration apart of money. For Eg. Cheque can be given instead of cash and the receiver accepts it as valid. Other examples of Negotiable Instrument – (a) Bill of Exchange (b) Promissory Note
Parties to a cheque	(a) Drawer – The person who prepares the cheque (b) Drawee – The Banker on whom the cheque is drawn (c) Payee – Person to whom the payment is to be made
Endorsement	1. Transfer of a negotiable instrument from the payee to another person. 2. For Eg. A cheque is drawn b A in favour of X. If X transfers the same cheque to Y by signing at the back of the cheque, such transfer is called as Endorsement by X to Y. 3. The transferor is called "Endorser" i.e. X; Transferee is called 'Endorsee' i.e. Y
Types	1. Bearer Cheque – A cheque where the bank will make the payment to any person who possesses the cheque. The bank will not make any detailed verification of the authenticity of the bearer. 2. Order Cheque – A cheque which is payable either to the payee or to any other person on his behalf. 3. Crossed Cheque – <ul style="list-style-type: none"> A cheque where the bank will make payment directly to the account of the payee. However, the payee can endorse the cheque in favour of any third party. In that case, the amount will be transferred to the account of the person to whom it is transferred. It is indicated by two parallel lines at the top left corner of the cheque 4. Account Payee Cheque – <ul style="list-style-type: none"> A cheque where the bank will make payment directly to the bank account of the payee, whose name is mentioned in the cheque. Payee cannot endorse the cheque to third party. It is indicated by the word "A/c Payee" at top left corner of the cheque with / without crossing
Crossed Vs A/c Payee	1. Crossed Cheque – The payee can endorse in favour a third party instead of encashing the cheque 2. Account Payee Cheque – The amount will be credited only to payee's bank account. Hence, payee cannot endorse / transfer the cheque. A/c Payee Cheque affects the negotiability of cheque

1.1 Cash Book – Meaning and Features

- Meaning of Cash Book:** Cash Book is one of the Subsidiary Books which directly records transactions **involving cash**. Hence, it groups together all cash related transactions.
- Features:**
 - Subsidiary Book:** On the occurrence of cash transactions, they are **recorded in Cash Book directly**. Hence, no Journal Entry is passed. From cash book, the other aspect of the same transaction is posted to Ledger Accounts.
 - Principal Book:** The Cash Book itself serves as an Account since the balances are entered in the Trial Balance directly. Hence, the Cash Book is part of the Ledger also and should also be regarded as a Principal Book. The format of cash book is also in the form of a ledger account.
 - The Cash Book is thus both a Subsidiary Book and a Principal Book**
- Various types of Cash Book:** The main Cash Book may be of **three types** –
 - Single Cash Book – Having **Cash Column only** on both sides.
 - Two-Column Cash Book – Having **Cash and Discount columns / Cash and Bank Columns** on both sides
 - Three-Column Cash Book – Having **Cash, Bank and Discount columns** on both sides.

Certain enterprises maintain a "Petty Cash Book" on imprest basis, which is purely a Subsidiary Book.

- Debit and Credit Aspects:**
 - Debit Side** of Cash Book is for recording **Receipts** of Cash / Cheques (by way of Capital introduced, Loans taken, Cash Sales, Collection from Debtors, Income by way of Interest / Rent etc. received, Bad Debts recovered, Sale of Fixed Assets or Investments, etc.)
 - Credit Side** of Cash Book is for recording **Payments** of Cash / Cheques (by way of Drawings, Loans repaid, Cash Purchases, Payment to Creditors, Expenses like Salary, Rent, Advertisement paid, Purchase of Fixed Assets or Investments, etc.)

1.2 Simple Cash Book

- Meaning:** Simple Cash Book is also called as Single Column Cash Book. It appears like an ordinary Ledger Account with one amount column on each side.
- Contents:** Dr. Side is for recording all Cash Receipts while Cr. Side is for recording all Cash Payments.
- The difference between Debit and Credit side (i.e. Closing Balance) is written as "By balance c/d" on the **credit side** of the Cash Book. **[Note: Cash balance cannot be negative, i.e. Cash Payments cannot exceed Cash Receipts]**
- The Closing Balance of this period will be brought forward to the subsequent period by writing as "To Balance b/d" on the Debit Side of the Cash Book in the next period.
- Format of Single Column Cash Book:**

Dr.				Cr.			
Date	Receipts	L.F.	Amount	Date	Payments	L.F.	Amount
Beginning	To Balance b/d		xxx	During the month	By Payments		xxxx
During the month	To Receipts		xxxx	Month End	By Balance c/d		xxx
	Total		xxxx		Total		xxxx

[Note: There is no Journal Entry passed for recording in Cash Book. One aspect involving cash is directly recorded in Cash Book and another aspect is directly recorded in the relevant ledger account]

1.3 Double Column Cash Book

- Meaning:** Double Column Cash Book has **two amount columns** on both side, i.e. two each on Dr. and Cr. Side.
- Types:** Double Column Cash Book may be maintained in any of the following ways –

Type of Double Column	Dr. Side is for recording	Cr. Side is for recording
(a) Cash & Bank Columns	Cash and Cheque Receipts	Cash and Cheque Payments
(b) Cash & Discount Columns	Cash Receipts and Discount Allowed to Customers / Debtors	Cash Payments & Discount Received from Suppliers / Creditors

Notes:

- If Cash and Bank Columns are maintained in Cash Book, then discount transactions are recorded in Journal Proper
- If Cash and Discount Columns are maintained in Cash Book, then bank transactions are recorded in Journal Proper

- Nature of Accounts / Columns:**

Column	Nature	Closing Balance
Cash	Cash Column represents Cash Account. It is a Real Account .	<ul style="list-style-type: none"> Cash balances cannot be negative, since payments of cash cannot exceed receipts thereof. So, this column will always have Dr. Side total greater than Cr. Side. Closing Balance is written on the credit side as "By balance c/d"
Bank	Bank Column represents Bank Account. It is a Personal Account .	<ul style="list-style-type: none"> If Dr. Side > Cr. Side, it means there is a favourable Bank Balance, written on the credit side as "By balance c/d". If Cr. Side > Dr. Side, it means that there is an Overdraft balance, which is written on the debit side as "To balance c/d".
Discount	Discount Column represents Discount Allowed / Received.	<ul style="list-style-type: none"> Discount Columns are not balanced. They are totaled and entered in the Discount Account in the Ledger. Total of Discount Column on the Receipts Side (i.e. Dr. Side) shows total Discount Allowed to Customers. Total of Discount Column on Payments Side (i.e. Cr. Side) shows total Discount Received from Suppliers.

Students' Notes:

- Cash / Bank is an account, since they have debit and credit columns on both sides of cash book
- However, discount allowed and discount received are not accounts as they do not have columns on both sides. For discount allowed, one column exists on debit side and for discount received one column exists on credit side. Hence, a separate ledger account is to be opened for Discount Received / Discount allowed in the ledger.

- Format of Two-Column Cash Book:**

(a) Cash and Discount Columns

Date	Receipts	L.F.	Discount allowed	Cash	Date	Payments	L.F.	Discount Received	Cash
	To Balance b/d		N.A.	xxx		By Payments			xxxx
	To Receipts			xxxx		By Creditors		xx	xxxx
	To Debtors		xx	xxxx		By Balance c/d			xxx
	Total		xx	xxxx		Total		xx	xxxx

(b) Cash and Bank Columns

Date	Receipts	L.F.	Bank	Cash	Date	Payments	L.F.	Bank	Cash
Note	To Balance b/d		xxx	xxx	Note	By Balance b/d		xxx	N.A.
	To Receipts		xxxx	xxxx		By Payments		xxxx	xxxx
	To Debtors			xxxx		By Creditors		xxxx	xxxx
Note	To Balance c/d		xxx	N.A.	Note	By Balance c/d		xxx	xxx
	Total		xxxx	xxxx		Total		xxxx	xxxx

Note: Opening / Closing Balances of bank may be debit or credit balance. Both debit and credit balance cannot exist at the same time. However, for cash, its always debit balance only.

1.4 Triple Column Cash Book

- Meaning:** Three Column Cash Book has **three amount columns** on both sides i.e. Cash, Bank and Discount amounts. [Note: The principles for recording are the same as for Two Column Cash Book as described in the previous question.]

- Format:**

Date	Receipts	L.F.	Discount allowed	Bank	Cash	Date	Payments	L.F.	Discount Received	Bank	Cash

- Advantages:**

- Cash and Bank Accounts are prepared simultaneously, so there is saving in time.
- Information regarding Cash in Hand and Bank Balances can be obtained simultaneously.
- If there are two or more Bank Accounts, the Firm can introduce multi-column Cash Book, one each for the various Bank Accounts.

- Illustration:** Refer at the end of this chapter

1.5 Contra Entry

- Meaning:** Inter-Column transactions, i.e. Cash deposited into Bank, Cash withdrawn from Bank for business etc. are recorded on both Dr. and Cr. sides of the same Cash Book in appropriate columns. They are called "**Contra Entries**".
- Need:** Contra Entries arise in Two-Column Cash Book (with Cash and Bank Columns) or Three- Column Cash Book.
- Treatment:** In case of Contra Entries, the amount is entered in the Bank Column and the Cash Column on the appropriate (Dr. or Cr) sides. Such entries will be marked as "**C**" in the **Ledger Folio** Column to indicate that these are contra transaction and **no further posting is required**.

Transaction	In Bank Column	In Cash Column
Cash deposited into Bank	Debit Bank Column of Cash Book.	Credit Cash Column of Cash Book.
Cash withdrawn from Bank for business purposes	Credit Bank Column of Cash Book.	Debit Cash Column of Cash Book.
Note: Cash withdrawn from bank for personal purposes will be treated as drawings and is not a contra entry . Credit Bank Column of Cash Book; Debit Drawings A/c		

- Student's Notes: Cheque received from the Customers on a day and deposited on subsequent days –**

- In certain cases, when the Cheque is received from a customer, it is treated as if it is a Cash Receipt. Hence, it is recorded in the Cash Column of the Cash Book.

Journal Entry for Cheque Receipt –	Cash A/c Dr. To Customer A/c
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- When the same cheque is deposited into Bank, it is recorded by a Contra entry as if Cash is deposited.

Journal Entry passed for Deposit –	Bank A/c Dr. To Cash A/c
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- FOR THE LIMITED PURPOSES OF EXAMS,** Students may follow the above Journal Entries for Cheque Receipt and subsequent deposit.
- However, practically, if Cheque is received & deposited on the same day, Bank A/c is directly debited. Cash A/c will not be involved.**

1.6 Petty Cash Book and Imprest System

- Meaning:** Petty Cash Book is used to maintain the record of all **petty cash expenses**, i.e. **expenses of small amount** say upto ₹100, e.g. Auto Fare, Postage Stamps purchase, Minor Repairs, etc. **Petty Cash balance is an asset for the business and shown directly on the assets side of the balance sheet under "Cash Balances"**

2. **Purposes / Advantages:**

- Saving of time of the Chief Cashier.
- Saving in labour in writing up the Cash Book and posting into the Ledger, and
- Effective Control over small payments.

3. **Format:****ANALYTICAL PETTY CASH BOOK**

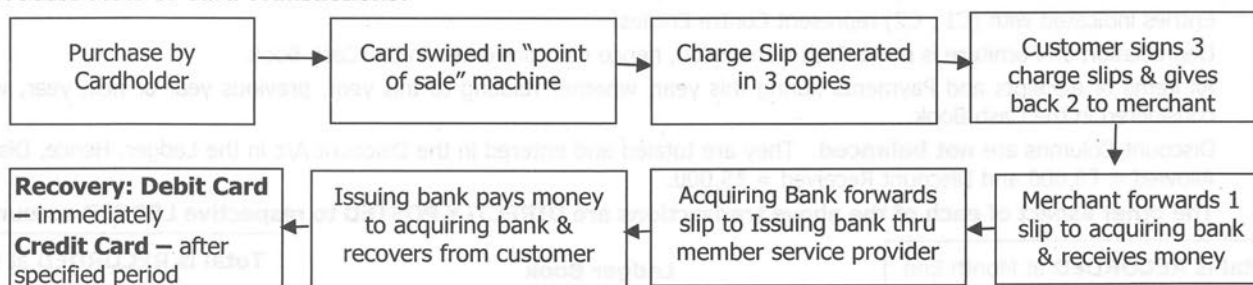
Receipts ₹	Date	Voucher Number	Particulars	Total Payments ₹	Expense 1 ₹	Expense 2 ₹	Expense 3 ₹	Expense 4 ₹

Note: Generally, a "Sundries" Column is provided on right side, which is analysed at the end of the month or week.

- Imprest System:** The Petty Cashier is entrusted with a certain amount of Cash, say ₹500 to pay petty expenses during a period, say a week. After that week, the Petty Cashier submits a statement of expenses paid by him, e.g. ₹430, which will be reimbursed to him by the Main Cashier. Thus, the Petty Cashier will have ₹500 again with him (₹70 Petty Cash in Hand + ₹430 Reimbursement received), to meet expenses during the next week. This reimbursement system is called **Imprest System**.

5. **Illustration: Refer an illustration at the end of this chapter****1.7 Sale through Credit / Debit Cards.**

- Card Contents:** Credit Card / Debit Card issued by a Bank is a small plastic card containing – (a) Name of the Cardholder, (b) Card Number (16 digit Number), (c) Date of Issue, (d) Date of Expiry, and (e) Magnetic Strip at the back.
- Debit vs Credit Card:** In a Credit Card, the Cardholder can buy now and pay later, whereas in a Debit Card, the Cardholder has to pay earlier (i.e. have a minimum balance in his account) in order to buy now. Nowadays, ATM Cards issued by a Bank can also be used as Debit Card.
- Parties involved:**
 - Cardholder (Who buys goods using a Credit / Debit Card)
 - Merchant (Who sells goods to a customer using a Credit / Debit Card)
 - Issuing Bank (A bank who has issued a card to the Cardholder Eg. Standard Chartered Bank)
 - Acquiring Bank (A bank with whom the merchant has an account Eg. HSBC Bank)
 - Member Service Provider (Visa / Master)

4. **Process Flow of Card Transactions:**5. **Accounting Entries in the books of the Merchant:**

(a) For recording Sales		(b) For recording Commission charged by Bank	
Bank Account	Dr.	Commission Account	Dr.
To Sales Account		To Bank Account	
Bank has to pay the money to the merchant. Hence bank becomes a debtor. Sales is an income		Commission charged by the bank is an expense for the business and it is payable to the Bank.	

Illustration for Three Columnar Cash Book and Posting therefrom

Post the following transactions in the Cash Book of Ramakrishna & Sons.

Transaction	₹	Transaction	₹
Opening Balance of Cash	85,000	Cash received from Debtors (after Disc. 4,000)	86,000
Opening Balance of Bank (Cr.)	50,000	Chq recd from Customers (Bill for ₹70,000)	69,000
Cash paid to Creditors after deducting 3,000	57,000	Cash Sales during the period	63,000
Chq paid to Creditors after deducting 5,000	1,20,000	Rent and Administrative Exps paid	40,000
Capital introduced by way of Cheque	1,10,000	Cash withdrawn for personal use of Proprietor	36,000
Loan taken by way of Cheque	25,000	Purchase of Furniture (Cheque paid)	45,000
Outstanding Wages of last year, now paid	12,000	Cash withdrawn from Bank for office use	10,000
Cash Deposited into Bank	12,000	Depreciation on Furniture	4,500

Cash Book											
Dr.						Cr.					
Dt	Receipts	L. F.	Disc. All.	Bank	Cash	Dt	Payments	L. F.	Disc. Rec.	Bank	Cash
	To balance b/d		—	—	85,000		By balance b/d		—	50,000	—
	To Sales (Cash)		—	—	63,000		By Creditors A/c		3,000	—	57,000
	To Debtors A/c		4,000	—	86,000		By Creditors A/c		5,000	1,20,000	—
	To Debtors A/c		1,000	69,000	—		By O/s Wages		—	—	12,000
	To Capital A/c		—	1,10,000	—		By Bank	C-1	—	—	12,000
	To Loan A/c		—	25,000	—		Cash dep. into Bk		—	—	—
	To Cash	C-1	—	12,000	—		By Rent & Exp A/c		—	—	40,000
	Cash dep. into Bk		—	—	—		By Drawings A/c		—	—	36,000
	To Bank	C-2	—	—	10,000		By Furniture A/c		—	45,000	—
	Drawn from Bank		—	—	—		By Cash	C-2	—	10,000	—
			—	—	—		Drawn from Bank		—	—	—
	To bal. c/d (OD)		—	9,000	—		By balance c/d		—	—	87,000
	Total		5,000	2,25,000	2,44,000		Total		8,000	2,25,000	2,44,000

Notes:

- Credit Balance in Bank indicates Overdraft Balance. (Cash balance cannot be negative.)
- Entries indicated with (C1 , C2) represent Contra Entries.
- Depreciation on Furniture is not a Cash transaction, hence not considered in the Cash Book.
- All items of Receipts and Payments during this year, whether relating to this year, previous year or next year, will be considered in the Cash Book.
- Discount Columns are **not balanced**. They are totaled and entered in the Discount A/c in the Ledger. Hence, Discount Allowed = ₹8,000 and Discount Received = ₹5,000.
- **The other aspect of each of the above transactions are DIRECTLY POSTED to respective LEDGER accounts.**

Total is RECORDED at Month End

Ledger Book

Total is RECORDED at Month End

Dr.				Discount Allowed A/c				Cr.			
Date	Receipts	L.F.	₹	Date	Payments	L.F.	₹	Date	Receipts	L.F.	₹
Month End	To Sundry Debtors A/c		5,000	Month End	By balance c/d		5,000				
	Total		5,000		Total		5,000				

Dr.				Discount Received A/c				Cr.			
Date	Receipts	L.F.	₹	Date	Payments	L.F.	₹	Date	Receipts	L.F.	₹
Month End	To Balance c/d		8,000	Month End	By Sundry Creditors A/c		8,000				
	Total		8,000		Total		8,000				

Illustration for Petty Cash Book

Post the following transactions in the Petty Cash Book of Ramakrishna & Sons. (Imprest Amount = ₹ 1,000)

Transaction		₹	Transaction		₹
April	1 st Opening Balance of Petty Cash	230	April	5 th Xerox Expenses incurred	30
	2 nd Imprest received	?		5 th Repairs to Office Furniture	260
	3 rd Stapler Pins & Paper purchase	270		6 th Refreshments to Customers	200
	4 th Postage Expenses	40		7 th Bus Fare Expenses	20
	5 th Auto Fare incurred	60		7 th Cartage & Coolie Expenses	100

Dr.

Analytical Petty Cash Book

Cr.

Receipts	Date	Particulars	Payments					
	Apr		Total	Stationery	Postage	Convey.	Repairs	Misc.
230	1	To balance b/d	—					
770 (Note)	2	To Main Cash A/c	—					
	3	By Stationery A/c	270	270				
	4	By Postage A/c	40		40			
	5	By Expenses A/c	350	30		60	260	
	6	By Refreshments a/c	200					200
	7	By Expenses A/c	120			20		100
1,000		Sub–Total	980	300	40	80	260	300
		By balance c/d	20					
1,000		Total	1,000					
		To balance b/d	20					
		To Main Cash A/c	980					

Note: Reimbursement from Main Cash on 2nd April = ₹1,000 Imprest – OB ₹230 = ₹770.

Reimbursement from Main Cash at end of the period = Amount of Petty Cash Expenses = ₹980.

Question Types in this Chapter

- Direct Theory Questions** – Cash & Bank Balance, Types of Cheque, Nature of Discount Columns, Contra Entries
- Problem Questions** – Preparation of Cash Book, Finding out Missing Figures, etc.