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CASH BOOK

Cash book is book where all cash receipts and payments (including bank deposits and withdrawals) are recorded first, in chronological order, for posting to general ledger. Cash Book serves dual role of a ledger as well as journal. Cash book is the account which keeps track of all the cash transactions of the business. It is a part of Ledger. Because of the enormously large amount of cash transactions in a typical business, this Cash Account is maintained as a separate book known as **CASH BOOK**. Cash book is also a **book of original entry**. Cash book consists of Cash Account and Bank Account. Cash book is regularly reconciled with the bank statements as an internal auditing measure.

- Cash Account is an **Asset Account or Real Account** and thus,
    - Any increase in Cash or Bank Account is debited to the account and;
    - Any decrease in Cash or Bank account is credited to the account.
    - Cash Book **always shows a debit balance.**

Types of Cash Book

- Single Column Cash Book
- Double Column Cash Book
- Triple Column Cash Book
- Petty Cash Book

Contra Entries

These entries are made to record:

1. When money is withdrawn from the bank for office use: It is recorded in cash column on its debit side by writing 'Bank account' in the column of particulars and in bank column of the same cash book but on its credit side by writing 'Cash account' in the column of particulars.

2. When money is taken from Office cash and deposited into bank: When cash is deposited into bank, it is recorded in the bank column of the cash book on its debit side by writing 'Cash account' in the column of particulars and in the cash column of the same cash book but on its credit side by writing 'Bank account' in the column of particulars.

Two entries are made in the Cash Book on the same page at the same time. The double entry for each transaction is complete. There will be no more postings of these entries to the ledger and these contra entries are indicated by a sign "c" in the folio column.

Cash Discount

A cash discount is a deduction from the amount due. It is given to encourage prompt payment of debts. Cash discount which is given by the trader to its customers is known as Discount allowed. Cash discount is allowed to the customers to encourage prompt payment of their debts. Discount allowed is recorded in the discount column on the debit side of the triple column Cash Book and posted individually to the credit side of the debtors accounts to which they relate.

Cash discount received by the trader from its supplier is known as Discount received. The trader ends up paying less by the amount of discount received. Discount received is recorded in the discount column on the credit side of the triple column Cash Book and posted individually to the debit side of the creditors accounts to which they relate.

Exercise on Cash Book

1. *From the following transactions of Mr. Rahman prepare a single Column Cash Book for the month of January, 2008:*

Jan 1	Opening balance of cash	Tk. 6,000
2	Cash brought as capital	10,000
4	Cash purchase of goods	4,000
6	cash Sales	8,000
7	Deposit into Bank	5,000
8	Paid karim by cheque	1,000
9	Received from Kamal	5,500
10	Paid electric bills	600
12	Purchased a still almirah	2,000
14	Received from Mr. A Aziz	1,800
15	Paid for advertisement	900
18	Paid telephone bill	250
20	Paid house rent	2,480
25	Withdrawn from bank	2,900
29	Paid salaries for the month	4,000

2. From the following cash and bank transactions of Mr. M Mannan prepare a Cash Book for the month of June, 2009:

June 1	Opening balance of cash Opening balance of bank	Tk. 6,000 1,00,000
2	Cash withdrawn from bank	15,000
3	Cash purchase	16,000
5	Paid to Mr. X by cheque	25,000
7	Cash sales	20,000
10	Bonus to employees	12,000
9	Creditors paid by cheque	15,500
10	Paid electric bills	1,600
12	Purchased a still Almirah by cheque	2,000
14	Cheque received from Mr. A Aziz	1,800
15	Paid for advertisement	900
18	Paid telephone bill by cheque	250
20	Paid cash for house rent	2,480
25	Cheque deposited to bank	2,900
29	Paid salaries for the month by cheque	4,000

Personal use ... 200

Capital Expenditure versus Revenue Expenditure

Capital expenditure is an amount spent to acquire or improve a long-term asset such as equipment or buildings. Usually the cost is recorded in an account classified as Property, Plant and Equipment. The cost (except for the cost of land) will then be charged to depreciation expense over the useful life of the asset.

Capital expenditure occurs when a business gets a long term advantage due to that expenditure. It is usually incurred for accusation of an asset. These expenditures do not occur in the regular day to day transactions of the business.

Common examples

- Purchase of furniture, office building etc.
- Purchase of additional furniture or machinery
- Expenditure incurred in connection with the purchase of a fixed asset. For example, carriage paid of machinery purchased.
- Purchase of patent right, copy rights etc.

Revenue Expenditure

Expenditure which is not for increasing the value of fixed assets, but for running the business on a day to day basis, is known as revenue expenditure.

Revenue expenditure is an amount that is expensed immediately—thereby being matched with revenues of the current accounting period. Routine repairs are revenue expenditures because they are charged directly to an account such as Repairs and Maintenance Expense. Even significant repairs that do not extend the life of the asset or do not improve the asset (the repairs merely return the asset back to its previous condition) are revenue expenditures.

Difference between Capital and Revenue expenditure.

Buying a car is capital expenditure because its benefit to the business will be spread over a long time. Fuel cost for running this car is revenue expenditure and it will be used up in few days and does not add to the value of the fixed asset.

It's important to understand the basic difference between Capital and Revenue expenditure. Appended below, in tabulated form, the characteristic and some salient points to understand the difference:

CAPITAL EXPENDITURE
Outlay resulting in the increase or acquisition of an asset or INCREASE in the earning capacity of a business
REVENUE EXPENDITURE
Outlay as is necessary for the MAINTENANCE of earning capacity including the upkeep of the fixed assets in a fully efficient state.
SALIENT POINTS TO NOTE
1. Accounting fraud occur because management choose to classify should be revenue expenditure as capital expenditure. The revenue expenditure should be taken up into the Income Statement but instead now being suspended or deferred into the Balance Sheet. In the process, lesser expenses are being charge into the Income Statemen., hence profit are overstated to impress the investors or outsiders

2.	Strong GAAP and Accounting standards have classified what should be assets, what should be deferred in the balance sheet so that there should be a clearer demarcation between Capital and Revenue expenditure
3.	We need to note that certain expenses are recognized as being of a capital nature, although no tangible property may have been acquired as a result. Examples are Research and Development Expenditure, Pre-Incorporation and Preliminary Expenses, Interest on Borrowings for Building, Legal Expenses to Acquire Property, additional Renovations to Properties and Others
4.	The classification of what is capital expenditure of a company might not applies to another company that is not in the same industry. Say in a property based company, most land and buildings are revenue expenditure as they are purchase with the intent for re-sale.
5.	As we learned from the above, when the purpose of expenditure is to Maintain the business it is revenue and if it is to Improve the business it is capital. However, at times in a company, the classification of pure capital or revenue expenditure in a company is not so straightforward especially when there is a mixture of both capital and revenue expenditure in nature.

Capital Receipts and Revenue Receipts

Capital receipts consist of

- additional payments made to the business either by owner or shareholder of the business; or
- from sale of fixed assets of the business.

On the other hand, all receipts in the normal running or through day to day transactions of the business are categorized as Revenue receipt. Sales receipts of the business are revenue receipts.

Difference between Capital Receipts and Capital Revenues:

Capital Receipts	Revenue Receipts
(a) Receipts derived from activities which are not part of the normal trading activities of the business	(a) Receipts related to NORMAL ACTIVITIES of the business
(b) Appears as capital or liabilities in the Balance Sheet	(b) Credited as revenue to Trading and Profit & Loss Account
© Examples: receipts of cash brought in by partners, shareholders, debenture holders and bank loans	© Examples: receipts from sales of goods and services, rent, commission and interest on bank deposits received by the business.