



Diploma in Accounting

DIA-1

BASIC ACCOUNTING

Block

2 Cash Book

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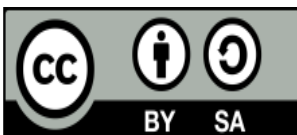
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Unit – I

Cash Book : An Introduction

Learning Objectives:

After studying this lesson, you will be able to know:

Meaning of cash book, features of cash book, objective of cash book, different types of cash book, essential elements of cash book, advantages and importance of cash book, Balancing of cash book, Difference between cash book and cash account and etc.

Structure:

- 1.1 Introduction:
- 1.2 Meaning of cash book:
- 1.3 Features of cash book
- 1.4 Objectives for cash book
- 1.5 Advantages of cash book
- 1.6 Importance Of Cash Book
- 1.7 Essential Elements of cash book
- 1.8 Balancing of cash book
- 1.9 Cash Book Vs Cash Account
- 1.10 Cash Book Journalized Ledger
- 1.11 Types of cash book
- 1.12 Rules for recording transactions in the cash book

1.1 Introduction:

In most of the business organizations lots of cash transactions takes place every day. To record these transactions systematically, the business organizations maintain cash book. Cash book serves the purpose of cash account and thus, there is no need to open cash account separately in ledger. In cash book all cash receipts and cash payments are recorded. We can also record bank deposits, bank withdrawals, receipts and payments through cheques in cash book. Some business organizations also record cash discount allowed to customers and cash discount received from suppliers.

All the business transactions are made on cash or cheque basis that is why cash and bank balances are the most important aspects in accounting. In business most of the transactions relate to receipt of cash, payments of cash, sale of goods on cash and purchase of goods on cash also. So it is necessary to have proper books for these



transactions. For this purpose the business are maintain cash book. Cash book is a subsidiary book with which cash and bank balances can be checked at any point of time.

1.2 Meaning of Cash Book :

The book in which all cash transactions either cash is received or paid are primarily recorded according to dates, is called **Cash Book**. It is a financial journal that contains all cash receipts and payments, including bank deposits and withdrawals. The cash book is set up as a ledger in which all cash transactions are recorded on date wise. It is a book of original entry and final entry.

1.3 Features of Cash Book:

A Cash Book has the following features:

1. It plays a dual role. It is both a **book of original entry** as well as a **book of final entry**. All cash transactions are primarily recorded in it as soon as they take place; so it is a journal (a book of original entry). On the other hand, the cash aspect of all cash transactions is finally recorded in the Cash Book (no posting in Ledger); so a Cash Book is also a Ledger (a book of final entry).
2. Only one aspect of cash transaction is posted to the ledger account. The other aspect (i.e. cash aspect) needs no posting in Cash A/c. Since the Cash Book is the substitute for Cash A/c, no Cash A/c is opened in the ledger.
3. It has two identical sides-left hand side, the debit side and right hand side, the credit side.
4. All the items of cash receipts are recorded on the left hand side and all items of cash payments on the right hand side in order of date.
5. The difference between the total of two sides shows cash in hand on the end of the period.
6. Its balance is verified by counting actual cash in the cash box.
7. It always shows debit balance. It can never show credit balance.

1.4 Objectives of Cash Book :

The main objectives of cash book are as follows:

- To make systematic and permanent record of all cash and banking transactions.
- To control over cash and banking transactions effectively.



- To show the position of cash account, bank account, budget expenditure account, advance account and miscellaneous account.
- To show the bank balance of the office at any given point of time.
- To supply necessary and reliable information and data for preparing monthly statements and other financial reports.
- To prove the completion of the double effect of each transaction.
- To estimate the amount of cash requirement and disbursement.

1.5 Advantages of Cash Book:

Cash book is an important book to be maintained by the organization. It is necessary to safeguard and control over cash in an effective manner. Generally cash transactions are numerous. What is credit transaction today will be cash transactions tomorrow. In other words, all credit transactions are finally settled by cash. Generally all cash transactions are recorded primarily in Journal, the cash aspect of the transactions will be required to be posted to Cash A/C, in the Ledger separately. This involves much time and labour. This is why, cash transactions are recorded in a separate book named Cash Book. It saves much time and labour. The main importance and advantages of bank cash book for offices are as follows: -

- It helps for estimating cash requirement and disbursement.
- It keeps the systematic record of all cash and banking transactions of a government office in complete form.
- It helps for effective safeguarding and controlling over cash and banking transactions.
- It helps for making an audit of Book of Accounts.
- It shows the amount of unclear advance.
- It shows the bank balance of the organization at any given point of time.
- It shows the position of cash account, bank account as and when required.
- It provides complete financial data and information, which help for preparing financial statements and reports.
- Any mistake in the book can be easily detected at the time of verification of cash.
- Any defalcation of money can be detected while verifying cash.
- Since cash is verified daily, Cash Book is always kept up-to-date.



1.6 Importance of Cash Book:

The following are the importance of cash book:

(a) **Helpful in ascertaining the true cash position:** If Cash Book is not maintained the true position of cash can't be ascertained. The Cash Book gives the true position of cash transactions. At any time the balance of cash as shown by the cash book must agree with the physical balance of cash in hand.

(b) **Helping in cash management:** Cash Book helps in the control of cash transactions. It is maintained by every business, whether big or small in size. It is simply because every business must be very cautious about its cash management i.e. cash receipts and cash payments. The business must know the amount of cash that has been collected/payments that have been made daily, weekly and monthly and also the periodic balance of cash in hand, so that effective steps for utilization of cash balance can be taken.

(c) **Helpful in preventing embezzlement:** The maintenance of cash book helps in preventing embezzlement and manipulation. Unless cash book is maintained, the business will be in the dark about the daily cash position and this may increase the chance of committing frauds by the concerned staff.

(d) **Serves as a documentary evidence for cash balance:** Cash Book serves as a documentary evidence for the available cash balances because the actual cash balance is compared with the cash balance as shown by Cash Book daily.

(e) **Ascertainment of daily cash transactions:** Since all cash transactions are recorded in cash book, it is easy to ascertain the cash receipt and cash payment on daily basis from the cash book.

(f) **Ascertainment of cash balance:** Cash balance can be known at any time by ascertaining the balance of the cash book. There is no need of calculating actual cash in hand.

(g) **Guard against defalcation:** The balance of cash as shown by the cash book can be verified with physical balance of cash in the cash box. This process of verification acts as a guard against defalcation of cash.

(h) **Rectification of errors:** Any mistake or error can be detected at the time of verification of cash book. If there is a difference between the actual cash in the cash box and the balance as per Cash Book, it means there is some error.

(g) **Helping in ascertaining bank balance:** Some business organizations maintain cash book with an additional column for bank transactions. In that case it becomes easier to ascertain the bank balances of the organization along with cash balance



1.7 Essential Elements of Cash Book:

All transactions in the cash book have two sides: debt side and credit side. All cash receipts are recorded on the left hand side, and all cash payments are recorded on the right hand side on date wise. The difference between the left and right side shows the balance of cash on hand, which always shows a debit balance. The cash book is set up in columns. The date column is the date of the transaction. In the first column, the accountant inputs the year, and in the second line, the accountant inputs the name of the month, followed by the date. In the next column, the accountant inputs the name of the opposite or contra account, along with a small description or narration of the transaction. In the ledger folio column, the accountant inputs the number of the ledger that holds the account, and the amount of the transaction. If the transaction comes with a voucher, that column may be added as well.

Specimen/format of Simple Cash Book:

Dr.					Cr.				
Date	Particular	V. No.	L. F.	Amount	Date	Particulars	V. No.	L. F.	Amount

The Columns of the Cash Book are explained below:

1. Date:

The date of transaction is written in this column in two lines—in the first line, the year and in the second line, the name of the month followed by the actual date.

2. Particulars:

In this column the name of the opposite account is written (the second aspect of cash transaction). Below this is written the narration of the transaction within brackets.

3. L.F. (Ledger Folio):

The page number of the Ledger where the concerned (opposite) account has been opened is written in this column. This will help to locate the account from the Ledger. It may be noted that in a Ledger account J.F.(Journal Folio) is written as reference, while in a Cash Book L.F.(Ledger Folio) is written. It is so, because cash transactions are not recorded in any Journal.

4. Amount:

The amount of the transaction is recorded in this column. The amount of cash received is recorded on the debit side in amount column and the amount of cash paid is recorded on the credit side in amount column.

5. V. NO. (Voucher Number):



The voucher number of each item of receipt and payment is also written. A voucher is necessary for each item of receipt and payment. Generally, a voucher has a serial number and this number is written in this column (V. No).

When cash is received from a debtor or customer, generally a receipt or 'cash memo' is issued to the debtor is called Receipt Voucher. Again, when money is paid to a creditor or supplier a receipt is obtained from him is called 'Payment Voucher, Cash transactions are recorded in the Cash Book on the basis of Receipt Voucher and Payment Voucher. Thus, a document evidencing cash receipts and payments and forming the basis for making entries in the Cash Book is called Cash Voucher.

1.8 Balancing the Cash Book:

The Cash Book is balanced periodically, i.e. daily, weekly, fortnightly or monthly in the same way as a ledger account to find out the balance of cash in hand.. A **Single Column Cash Book** always shows either a debit balance or a zero balance (When Debit side exceeding credit side is called debit balance and when debit side is equal with credit side is called zero balance) because more cash cannot be paid than what we have. So cash book never show a credit balance. To verify the accuracy of the Cash Book, it should be balanced daily. The balance as per the Cash Book must tally with the actual cash in the cash box. At the end of the period the Cash Book is finally balanced (showing debit balance or zero balance) and the balance is put on the credit side for the purpose of closing the cash book. This balance will be transferred on the debit side of the Cash Book as opening balance of the next period

1.9 Distinction between a Cash Book and a Cash Account:

There are differences between a cash book and a cash account. A cash book is a separate ledger in which cash transactions are recorded, whereas a cash account is an account within a ledger. A cash book serves the purpose of both journal and ledger, whereas a cash account is structured like a ledger. Details or narration are required in a cash book, but not in a cash account. Finally, cash books use a ledger folio, while cash accounts use a journal folio. There are numerous reasons why a business might record transactions using a cash book instead of a cash account. Daily cash balances are easy to access and determine. Mistakes can be detected easily through verification, and entries are kept up-to-date, since the balance is verified daily.

In fact, Cash Book is a perfect substitute for a Cash Account. Yet there are some differences between the two, which are given below:

Sl. No	Cash Book	Cash Account
1.	Cash Book is a subsidiary book	Cash Account is a ledger account
2.	It is a separate book in which cash transactions are directly recorded.	It is an account in a Ledger in which



		posting is made from journal
3.	It serves the purpose of both journal and ledger and hence cash transactions need not be primarily recorded in Journal.	It serves the purpose of a Ledger only. If Cash A/C is opened in the Ledger, all cash transactions are first recorded in journal.
4.	In cash book, entries may be followed by Narrations.	No narration is given against given the posting of entries in the cash book
5.	A column for Ledger Folio is provided.	A column for Journal Folio is provided.

1.10 Is Cash Book a Journal or a Ledger?

From the above discussion it appears that the Cash Book is the substitute for the Cash Account. In fact, no separate Cash Account is opened in the Ledger; Cash Book serves the purpose of the Cash Account. The entries in Cash Book are regarded as one aspect of the Double Entry System - the other aspect is posted to the Ledger in the concerned account. L.C. Cropper remarked "Every entry in the Cash Book makes one half of a double entry; the other half of the double entry appears on the opposite side of some account in the Ledger." From this angle, 'Cash Book is a Ledger'.

On the other hand, all cash transactions are primarily recorded in the Cash Book in order of date and thereafter posted to the concerned ledger accounts. Judging from this angle, 'Cash Book is a Journal'. Thus we see that a Cash Book is the 'mixture of Journal and Ledger'. According to Spicer & Pegler, "the Cash Book is actually a ledger account, but owing to the large number of entries made therein, it is kept in a separate book, called a Cash Book, which is used also as a book of prime entry."

1.11 Types of Cash Book:

There are three types of cash books:

1. **Single column cash book**, i.e. Cash book with cash column only.
2. **Double column cash book**, i.e. Cash book with cash and discount column or cash and bank column
3. **Triple column cash book**, i.e. Cash book with cash, bank, and discount column.

Apart from the above three, one more type of cash book is maintained, known as the '**petty cash book**' used for recording petty cash expenses of the business.

1. Simple Cash Book:

This is the simplest form of Cash Book and is used in businesses where payments are made and received mostly in cash and where usually no cash discount is received or



given. However, if there are any discount or cheque transactions, it is recorded in a separate account in the ledger. The ruling of a Simple Cash Book is like an ordinary cash account.

The Specimen of Single Column Cash Book

Dr.					Cr.				
Date	Particular	V. No.	L. F.	Amount	Date	Particulars	V. No.	L. F.	Amount

2. Two-Column Cash Book:

This type of cash book has two columns, viz., cash column and discount column. Usually cash discount is allowed or received when payment is made. So, it is necessary to record this fact at the same place where the cash transaction is recorded. This type is similar to Simple Cash Book, except that one additional column on each side is provided for recording cash discount. As discount is a nominal account, discount allowed being a loss is shown on the debit side and discount received being a gain is shown on the credit side. The discount column in the cash book are not balanced. The discount column in the receipt side represents “Discount Allowed Account” and the discount column in the payment side represents “Discount Received Account”.

The Specimen of Double Column Cash Book

Dr.						Cr.					
Date	Particulars	V. No.	L. F.	Discount	Cash	Date	Particulars	V. No.	L. F.	Discount	Cash

3. Three Column Cash Book:

In modern times, banking habit has become so widespread and is so convenient and safe that a large number of payments of big concerns are made and received through cheques. In such cases, the Cash Book with bank column in addition to the cash and discount columns is found convenient. Such type of cash book is known as three-column cash book or Triple Column Cash Book

It is a cash book with three columns on each side for recording amounts. These columns are:

- Cash Column: to record cash receipts and cash payments.
- Bank Column: to record all receipts and payments through bank.
- Discount Column: to record all cash discount received and allowed.



The Specimen of Triple Column Cash Book

Dr.							Cr.						
Date	Particulars	V. No.	L. F.	Discount	Cash	Bank	Date	Particulars	V. No.	L. F.	Discount	Cash	Bank

1.12 Rules for Recording Transactions in the Cash Book :

All items of cash receipts are entered in the cash column of the receipt side; cash payments in the payment side. Discount allowed on the debit side and discount received on the credit side of the Cash Book in the discount columns. When cheques are received from customers and deposited immediately they are entered in the debit side of bank column of the Cash Book. If they are sent to the bank at a later date, it becomes deposit of money into bank and, therefore, a ‘**contra entry**’. It is shown on the bank column on the debit side and cash column on the credit side. If cheques are received by the business and endorsed to creditors, they are taken into cash columns as cash receipt and cash payment.

Recording transactions in the cash book following steps should be taken:

Step 1:

In the ‘Date’ column, the day, month and the year, on which transaction occurs should be recorded.

Step 2:

In the ‘Particular’ column, the nomenclature of the accounts, from where cash is received or paid, gets recorded.

Step 3: In the ‘L.F.’ (Ledger Folio) column, the folio (page number) of the respective ledger, where the posting of the transaction is made, shall be recorded.

Step 4: In the ‘Amount’ column, the actual cash paid or received is recorded.

Step 5: The last, but not the least, cash book is to be balanced. As already stated, a separate cash account in ledger is not opened when a cash book is maintained. Like an account is balanced in the ledger, the cash book is balanced in the same way. Depending upon the need and size of the enterprise, the cash book should be balanced daily, weekly or monthly.

Total of the ‘Amount’ column on both sides of the cash book is compared and the difference if any, should be entered on the credit side of the cash book under the ‘Particulars’ column as “**By Balance c/d**”. By putting the difference under the amount column both sides of the cash book become equal. Now total amount under the ‘Amount’ columns on both side of the cash book is written opposite to each other. The



closing balance shown as “**By Balance c/d**” becomes the opening balance for the next period and is written as ‘**To Balance b/d**’.

Example :

1. Enter the following transactions in the simple cash book of Mr. Suresh Kalmadi and post the same in the ledger.

2009

Mar. 1	Balance of cash in hand	19,300
Mar. 5	Cash sales	16,500
Mar. 10	Purchased machinery for cash	6,300
Mar. 13	Rent received from tenant	3,000
Mar. 19	Goods purchased for cash from Devid	9,000
Mar. 21	Salaries paid to staff	5,000
Mar. 22	Cash received from Jaipal	8,000
Mar. 25	Deposited into bank	12,000
Mar. 30	Paid for sundry expenses	1,500

Solution :

Dr.				Cash Book (Single Column)				Cr.			
Date	Particulars	L/F	Amount (Rs.)	Dare	Particulars	L/F	Amount (Rs.)				
2009				2009							
Mar. 1	To Balance b/d		19,300	Mar. 10	By Machinery A/C		6,300				
Mar. 5	To Sales A/C		16,500	Mar. 19	By Purchase A/C		9,000				
Mar. 13	To Rent A/C		3,000	Mar. 21	By Salaries A/C		5,000				
Mar. 22	To Jaipal		8,000	Mar. 25	By Bank A/C		12,000				
				Mar. 30	By Sundry expenses A/C		1,500				
				Mar. 31	By Balance c/d		13,000				
			<u>46,800</u>				<u>46,800</u>				
April. 1	To Balance b/d		13,000								

Note: Narration and voucher No. Columns have been ignored

Sales Account

Dr.				Cr.			
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
				2009			
				Mar. 5	By Cash A/C		16,500



Rent Account

Dr.					Cr.		
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
				2009 Mar. 13	By cash		3,000

Jaipal Account

Dr.					Cr.		
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
				2009 Mar. 22	By cash		8,000

Machinery Account

Dr.					Cr.		
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2009 Mar. 10	To cash		6,300				

Purchase Account

Dr.					Cr.		
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2009 Mar.19	To cash		9,000				

Salaries Account

Dr.					Cr.		
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2009 Mar. 21	To cash		5,000				

Bank Account

Dr.					Cr.		
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2009 Mar. 25	To cash		12,000				

Sundry expenses Account

Dr.					Cr.		
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2009 Mar. 30	To cash		1,500				



2. Enter the following transactions in a cash book, having cash and discount columns and carry out the posting in the ledger :

2006		
Aug.1	Balance in hand	2,500
Aug.5	Purchased goods from Rahim for cash	750
Aug.7	Received from Oswal &co.	980
	Discount allowed	20
Aug.10	Paid to Ranjan	290
	Discount received	10
Aug.16	Purchased goods for cash	400
Aug.20	Paid to Sharma & Co.	760
	Discount availed	40
Aug.21	Cash sales	1,000
Aug.25	Purchased furniture for cash	250
Aug.27	Paid wages	50
Aug.28	Paid rent	150
Aug.30	Paid to Narain	380
	Discount received	20

Solution:

Cash Book (Double Column)

Date	Particulars	L / F	Discount Rs.	Cash Rs.	Date	Particulars	L / F	Discount Rs.	Cash Rs.
2006 Aug. 1 Aug. 7 Aug.21	To balance b/d ToOswals& Co. To Sales A/C		20	2,500 980 1,000	2006 Aug.5 Aug.10 Aug.16 Aug.20 Aug.25 Aug.27 Aug.28 Aug.30 Aug.31	By purchases A/C By Ranjan By purchases A/C By Sharma & co. By furniture A/C By wages A/C By rent A/C By Narain By balance c/d		10 40 20	750 290 400 760 250 50 150 380 1,450
Sept. 1	To balance b/d		20	<u>4,480</u> 1,450				<u>70</u>	<u>4,800</u>

Ledger

Discount Account

Dr.

Cr.

Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2006 Aug. 31	To sundries		20	2006 Aug.31	By sundries		70

Oswal & Co's Account



Dr.				Cr.			
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
				2006 Aug.7 Aug.7	By cash By discount A/C		980 20

Sales Account

Dr.				Cr.			
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
				2006 Aug.21	By cash		1,000

Purchase Account

Dr.				Cr.			
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2006 Aug. 5 Aug. 16	To cash To cash		750 400				

Ranjan's Account

Dr.				Cr.			
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2006 Aug. 10 Aug. 10	To cash To discount a/c		290 10				

Sharma & Co's Account

Dr.				Cr.			
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2006 Aug. 20 Aug. 20	To cash To discount a/c		760 40				

Furniture Account

Dr.				Cr.			
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2006 Aug. 25	To cash		250				

Wages Account

Dr.				Cr.			
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2006 Aug. 27	To cash		50				



Rent Account

Dr.				Cr.			
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2006 Aug. 28	To cash		150				

Narain's Account

Dr.				Cr.			
Date	Particulars	CBF	Amount (Rs.)	Date	Particulars	CBF	Amount (Rs.)
2006 Aug. 30	To cash		380				
Aug. 30	To discount a/c		20				

From the following particulars write up the triple column cash book of Virbhadar singh and bring down the balances on 32st August 2006.

Aug.1	Cash at office	14,350
	Cash at bank	9,655
Aug.3	Paid salary to staff by cheque	5,500
Aug.4	Half yearly interest credited by bank	540
Aug.5	Received from such Ram – Cash	7,300
	- Cheque	7,200
	Discount allowed	400
Aug.7	Sold goods for cash	9,100
Aug.8	Withdrew from bank by self cheque	3,000
Aug.10	Paid cash for the purchase of a computer	20,000
Aug.12	Issued a cheque to Sat pal	6,790
	Discount received 3%	210
Aug.14	Received from Sharda devi (In full settlement of her account Rs. 6,400) by cheque	6,250
Aug.17	Endorsed the above cheque to Raj Rani (In full settlement of her account Rs. 6,500)	
Aug.19.	Paid cash for the purchase of toys for the proprietor's son	1,200
Aug.22	Intimation received from the bank regarding a direct payment into bank by Anil kumar	8,500
Aug.25	Paid insurance premium	2,300
Aug.28	Issued a cheque to petty cashier	2,500
Aug.29.	Received commission from shanta Ram	7,500
Aug,31	Deposited the entire cash into bank in excess of	8,000

**Solution:**

Date	Particulars	V. No	L/F	Discount	Cash	Bank	Date	Particulars	v. No	L / F	Discount	Cash	Bank
2006					Rs.	Rs.	2006				Rs.	Rs.	Rs.
Aug.1	To balance				14,350	9,655	Aug.	By Salary A/C					5,500
Aug.4	b/d					540	3	By cash		C			3,000
Aug.5	To interest			400	7,300	7,200	8	By computer				20,000	
Aug.7	A/c				9,100		10	A/C			210		6,790
Aug.8	To Sukh		C		3,000		12	By Sat Pal			250		6,200
Aug.1	Ram			150	6,250		17	By Raj Rani					1,200
4	To sales A/C					8,500	19	By drawing					
Aug.2	To bank				7,500		25	A/C				2,300	
2	To sharda		C					By insurance					2,500
Aug.2	devi					9,750	28	premium				9,750	
9	To Anil						31	A/C				8,000	17,855
Aug.3	kumar						31	By petty			460	47,500	35,645
1	To			550	47,500	35,645	31	cash A/C					
	commission				8,000	17,855		By Bank					
	A/C							By balance					
	To cash							c/d					
Sept,1	By balance												
	b/d												

Enter the following transactions in the cash book of Mr. Aslam:

2005.		Rs
Jan. 1	Mr. Aslam started business with cash	2,00,000
Jan. 3	Bought goods for cash	1,40,000
Jan. 5	Paid for stationary	2,000
Jan. 7	Sold goods for cash	80,000
Jan. 10	Paid for trade expenses	2,000
Jan. 11	Sold goods for cash	20,000
Jan. 14	Received cash from Mr. kamal	10,000
Jan. 15	Paid cash to Mr.Asish	20,000
Jan. 18	Withdrew cash for personal use	6,000
Jan. 22	Bought goods for cash	40,000
Jan. 25	Sold goods for cash	90,000
Jan. 27	Paid for electricity bill	4,000
Jan. 31	Paid salary	10,000
Jan. 31	Paid rent	3,000

Solution:**Single Column Cash Book of Mr. Aslam**

Date	Particulars	V. N.	L.F.	Amount	Date	Particulars	V. N.	L. F.	Amount
------	-------------	-------	------	--------	------	-------------	-------	-------	--------



2002				2002			
March 1	To Balance b/d		15,000	March 7	By Purchase a/c		17,000
March 4	To kanna a/c		10,000	March 15	By Bank a/c		3,000
March 11	To Sales a/c		18,000	March 18	By Furniture a/c		4,000
March 25	To Bank a/c		2,500	March 22	By Salaries a/c		1,500
March 27	To sales a/c		14,000	March 30	By Ram a/c		8,000
				March 31	By Rent a/c		1,000
				March 31	By balance c/d		25,000
			<u>59,000</u>				<u>59,500</u>
			25,000				
April 1	To Balance b/d						

Enter the following transactions in a Double Column Cash Book:

2002			
March			Rs.
1	Cash in Hand		11,000
5	Received from Krishna		38,000
	Allowed Discount		2,000
7	Bought Goods for cash		40,000
9	Cash paid to Yusuf		7,000
	Discount allowed by him		500
12	Good sold for cash		17,000
14	Withdrawn from bank		52,000
18	Credit purchase from Mukesh		25,000
22	Paid to Mukesh in full settlement		24,000
25	Received interest investment		27,000
28	Deposited into Bank		40,000
31	Paid Salaries		5,000

Solution

Cash Book

Date	Particulars	L	Dis	Amount	Date	Particulars	L	Dis	Amount
		.F	Rs.				.F	Rs.	
		.					.		



2002				2002			
March 1	To Balance b/d		11,000	March 7	By Purchase a/c		40,000
March 5	To krishna a/c	200	38,000	March 9	By Yusuf a/c	500	0
March 12	To Sales a/c	0	17,000	March 22	By Mukesh a/c	1000	7,000
March 14	To Bank a/c		52,000	March 28	By Bank a/c		24,000
March 14	To Intrest a/c		27,000	March 31	By Salaries a/c		40,000
March 25	To Balance b/d			March 31	By balance c/d		5,000
April 1							
			<u>145,000</u>			<u>1500</u>	<u>29,000</u>
		<u>200</u>	<u>29,000</u>				<u>145000</u>
		<u>0</u>					

Let's Sum Up:

In cash book all cash receipts and cash payments are recorded. We can also record bank deposits, bank withdrawals, receipts and payments through cheques in cash book. Some business organizations also record cash discount allowed to customers and cash discount received from suppliers. All transactions in the cash book have two sides: debt and credit. All cash receipts are recorded on the left hand side, and all cash payments are recorded by date on the right hand side. The difference between the left and right side shows the balance of cash on hand, which always shows a debit balance. It saves much time and labour. It shows the position of cash account, bank account as and when required. It provides complete financial data and information, which help for preparing financial statements and reports.

Key Terms:

Cash book: It is a subsidiary book in which all cash transactions either cash is received or paid are primarily recorded according on datewise.

Books of original entry: All cash transactions are primarily recorded in it as soon as they take place; so it is a a book of original entry.

Books of final entry: the cash aspect of all cash transactions is finally recorded in the Cash Book so a Cash Book is also a book of final entry.

Journalized ledger : all cash transactions are primarily recorded in the Cash Book in order of date and thereafter posted to the concerned ledger accounts. Judging from this angle, 'Cash Book is a Journal'. On the other hand, The entries in Cash Book are regarded as one aspect of the Double Entry System - the other aspect is posted to the



Ledger in the concerned account. Thus we see that a Cash Book is the 'mixture of Journal and Ledger'.

Ledger folio: The page number of the Ledger where the concerned (opposite) account has been opened is called ledger folio. This will help to locate the account from the Ledger.

Receipt voucher: When cash is received from a debtor or customer, generally a receipt or 'cash memo' is issued to the debtor is called Receipt Voucher.

Payment voucher: when money is paid to a creditor or supplier a receipt is obtained from him is called 'Payment Voucher,

Cash voucher: a document evidencing cash receipts and payments and forming the basis for making entries in the Cash Book is called Cash Voucher.

Cash account: It is an account in a Ledger in which posting is made from journal.

Single column cash book: where payments are made and received mostly in cash and where usually no cash discount is received or given.

Double column cash book: This type is similar to Simple Cash Book, except that one additional column on each side is provided for recording i.e. discount or bank column.

Triple column cash book: The Cash Book with bank column in addition to the cash and discount columns is Triple column cash book.

Self Assessment Questions:

1. Is cash book a journalized ledger?-discuss

Ans. _____

2. Describe the different types of cash book in details.

Ans. _____

3. State the different features of cash book.



Ans. _____

4. Explain the diverse objectives of cash book.

Ans. _____

5. Narrate the importance of cash book.

Ans. _____

6. What are the essential elements of cash book.

Ans. _____

Model Questions :

1. Distinguish between cash discount and trade discount.
2. Briefly describe the numerous advantages of cash book.
3. Differentiate cash book and cash account.



4. State the importance of cash book.
5. Highlights the rules for recording transactions in the cash book.

Further Readings :

1. Modern Accountancy: Hanif and Mukherjee, volume –I, Tata Mcgrewhill.
2. Higher secondary Accounting: Biswal and Sharma.
3. Financial Accounting: P.C. Tulsian, Pearson.
4. An Introduction to Accountancy: S.N. Maheshwari, S.K. Maheshwari. Vikas.



Unit: II

Details of Cheque

Learning Objectives:

After studying this lesson, you will be able to know:

Meaning of cheque, features of cheque, different types of cheque, essential elements of cheque, advantages and importance of cheque, endorsement of cheque, difference between cash discount and trade discount and etc.

Structure:

- 2.1 Introduction:
- 2.2 Meaning of cheque:
- 2.3 Features of cheque
- 2.4 Types of cheque
- 2.5 Advantages of cheque
- 2.6 Uses of cheque
- 2.7 Essential Elements of cheque
- 2.8 Endorsement of cheque
- 2.9 Distinction between cash and trade discount
- 2.10 Distinction between cash credit and overdraft
- 2.11 Contra entry
- 2.12 Dishonor of cheque

2.1 Introduction:

A **cheque** is a document that orders a bank to pay a specific amount of money from a person's account to the person in whose name the cheque has been issued. The person writing the cheque, the *drawer*, has a transaction banking account (often called a bank account) where their money is held. The drawer writes the various details including the monetary amount, date, and a payee on the cheque, and signs it, ordering their bank, known as the *drawee*, to pay that person or company the amount of money stated.

Cheques are a type of bill of exchange and were developed as a way to make payments without the need to carry large amounts of money. Paper money evolved from promissory notes, another form of negotiable instrument similar to cheques in that they were originally a written order to pay the given amount to whoever had it in their possession (the "bearer").



2.2 Meaning of Cheque:

Cheque is an important negotiable instrument which can be transferred by mere hand delivery. Cheque is used to make safe and convenient payment. It is less risky and the danger of loss is minimized. "Cheque is an instrument in writing containing an unconditional order, addressed to a banker, sign by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money only to or to the order of certain person or to the bearer of instrument."

2.3 Features:

Essential characteristics of a cheque

If one takes a close look at the definition of a cheque, it becomes clear that a cheque has the following 10 essential elements or characteristics.

1. **It must be in writing:** A cheque must be in writing. An oral order to pay does not constitute a cheque.
2. **It should be drawn on banker:** It is always drawn on a specified banker. A cheque can be drawn on a bank where the drawer has an account, saving bank account, or current bank account.
3. **It contains an unconditional order to pay:** A cheque cannot be drawn so as to be payable conditionally. The drawer's order to the drawee bank must be unconditional and should not make the cheque payable dependent on a contingency. A conditional cheque shall be invalid.
4. **The check must have an order to pay a certain sum:** The cheque should contain an order to pay a certain sum of money only. If a cheque is drawn to do something in addition to, or other than to pay money, it cannot be a cheque. For example, if a cheque contains 'Pay USD 500 and a TV worth USD 500 to A' it is not a cheque.
5. **It should be signed by the drawer and should be dated:** A cheque does not carry any validity unless signed by the original drawer. It should be dated as well.
6. **It is payable on demand:** A cheque is always payable on demand.
7. **Validity:** A cheque is normally valid for six months from the date it bears. Thereafter it is termed as stale cheque. A post-dated or antedated cheque will not be invalid. In both cases, the validity of the cheque is presumed to commence from the date mentioned on it.
8. **It may be payable to the drawer himself:** Cheques may be payable to the drawer himself/herself. It may be drawn payable to bearer on demand unlike a bill or a pro-note.



9. Banker is liable only to the drawer: The banker on whom the cheque is drawn shall be liable only to the drawer. A holder or bearer has no remedy against the banker if a cheque is dishonored.

10. It does not require acceptance and stamp: Unlike a bill of exchange, a cheque does not require acceptance on part of the drawee. There is, however, a custom among banks to mark cheques as 'good' for the purpose of clearance. But this marking is not an acceptance. Similarly, no revenue stamp is required to be affixed on cheque

2.4 Different Kinds / Types of Cheques:

1. Bearer Cheque

When the words "or bearer" appearing on the face of the cheque are not cancelled, the cheque is called a bearer cheque. The bearer cheque is payable to the person specified therein or to any other else who presents it to the bank for payment. However, such cheques are risky; this is because if such cheques are lost, the finder of the cheque can collect payment from the bank.

2. Order Cheque

When the word "bearer" appearing on the face of a cheque is cancelled and when in its place the word "or order" is written on the face of the cheque, the cheque is called an order cheque. Such a cheque is payable to the person specified therein as the payee, or to any one else to whom it is endorsed (transferred).

3. Uncrossed / Open Cheque

When a cheque is not crossed, it is known as an "Open Cheque" or an "Uncrossed Cheque". The payment of such a cheque can be obtained at the counter of the bank. An open cheque may be a bearer cheque or an order one.

4. Crossed Cheque

Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like "& CO." or "Account Payee" or "Not Negotiable". A crossed cheque cannot be encashed at the cash counter of a bank but it can only be credited to the payee's account.

5. Anti-Dated Cheque

If a cheque bears a date earlier than the date on which it is presented to the bank, it is called as "anti-dated cheque". Such a cheque is valid up to three months from the date of the cheque.

6. Post-Dated Cheque

If a cheque bears a date which is yet to come (future date) then it is known as post-dated cheque. A post dated cheque cannot be honored earlier than the date on the cheque.



7. Stale Cheque

If a cheque is presented for payment after three months from the date of the cheque it is called stale cheque. A stale cheque is not honored by the bank.

2.5 Advantages of Cheque:

The main advantages of using cheques as a way of paying for goods and services are the following;

- **Safe:** only the named recipient is able to cash the cheque at a bank or other financial institution.
- **Trusted:** being a method of payment that has been around for generation, people trust this traditional method of payment over online solution at times.
- **Batch processed:** this allows the costumers to make post dated cheques that grants them time to put funds into their accounts. This is widely used as consumers can make payments for goods and services in advance even if they do not have the funds in their accounts.
- **Personalization:** companies as well as business professionals are able to personalize and customize cheques according to their companies, incorporating logos, trademarks and designs.

2.6 Why Use Cheques for Payment Transactions

There are a number of reasons why this offline method of payment is still used widely across the globe. It offers benefits to consumers using cheques to make payments however, many business entities do not accept cheques due to high risk of cheque fraud.

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- **Batch processed:** this allows the costumers to make post dated cheques that grants them time to put funds into their accounts. This is widely used as consumers can make payments for goods and services in advance even if they do not have the funds in their accounts.
- **Personalization:** companies as well as business professionals are able to personalize and customize cheques according to their companies, incorporating logos, trademarks and designs.

The following are essential requirements for a valid cheque:

**Printed versions:**

- Name of the bank and branch
- IFSC code of the bank branch
- Cheque number
- MICR code
- Account category

Written versions:

- **Date of the cheque** - the validity period of the cheque is three months and it should not be a stale cheque or post dated cheque - to be written by the drawer
- **Name of the payee** - to be written by the drawer
- **Amount in words** - to be written by the drawer
- **Amount in figures** - to be written - The amount mentioned in figures and words should be identical and in case of any difference, only the amount mentioned in words will be taken into account and the cheque need not be returned - to be written by the drawer
- **Signature of the drawer** - should match with the signature as recorded in the system
- **Out of the following five items namely** - date of the cheque, amount mentioned in words. amount in figures, name of the payee and signature of the drawer; the absence of anyone or more of the items will make the cheque as invalid

2.7 Essential Elements of Cheque:

1. In Writing :-The cheque must be in writing. It cannot be oral.

2. Unconditional :-

The language used in a cheque should be such as to convey an unconditional order. If the banker is ordered to pay upon the condition of payee's signing the receipt, then the instrument is a conditional order and thus not a cheque. 'But if the order regarding receipt is too construed as addressed to the payee, the instrument can be treated as a cheque.

3. Signature of the Drawer:-It must be signed by the maker.

4. Certain Sum of Money:-The amount in the cheque must be certain.

5. Payees Must be certain:-It must be payable to specified person.

6. Only Money:-The payment should be of money only.

7. Payable on Demand:-It must be payable on demand.

8. Upon a Bank:-It is an order of a depositor on a bank.



2.8 Endorsement of Cheque:

Check Endorsement. Signature included on the front or back of a check acknowledging that both parties have agreed to exchange the specified amount on the document. The signature or account information included on the back of a check acknowledges that the intended recipient received the document and deposited it.

Important kinds of endorsements are given below:

1. Blank or general endorsement:

If the endorser signs his name only and does not specify the name of the endorsee, the endorsement is said to be in blank Sec. 16(1). The effect of a blank endorsement is to convert the order instrument into bearer instrument (Sec. 54), which may be transferred merely by delivery.

2. Endorsement in full or special endorsement:

If the endorser, in addition to his signature, also adds a direction to pay the amount mentioned in the instrument to, or to the order of, a specified person the endorsement is said to be in full [Sec. 16(1)].

If, for example, A, the holder of a bill of exchange, wants to make an endorsement in full to B, he would write thus: "Pay to B or order, SdA4." After such an endorsement it is only the endorsee, i.e., B, who is entitled to receive the payment of the instrument and to further negotiate the instrument by his endorsement.

blank endorsement can easily be converted into an endorsement in full, According to Section 49, the holder of a negotiable instrument endorsed in blank may, without signing his own name, by writing above the endorser's signature a direction to pay to any other person as endorsee, convert the endorsement in blank into an endorsement in full; and since such holder does not sign himself on the instrument he does not thereby incur the responsibility of an endorser.

3. Partial Endorsement:

Section 56 provides that a negotiable instrument cannot be endorsed for a part of the amount appearing to be due on the instrument. In other words, a partial endorsement which transfers the rights to receive only a part payment of the amount due on the instrument is invalid.

Such an endorsement has been declared invalid because it would subject the prior parties to plurality of actions (one action by holder for part value and another action by endorsee for part value) "and will thus cause inconvenience to them.

: Moreover, it would also interfere with the free circulation of negotiable instruments. It may be noted that an endorsement which purports to transfer the instrument to two or more endorses separately, and not jointly is also treated as partial endorsement and hence would be invalid.



Thus, where A holds a bill for Rs 2,000 and endorses it in favor of B for Rs 1,000 and in favor of C for the remaining Rs 1,000, the endorsement is partial and invalid.

Section 56, however, further provides that where an instrument has been paid in part, a note to that effect may be endorsed on the instrument and it may then be negotiated for the balance.

Thus, if in the above illustration the acceptor has already paid Rs 1,000 to A, the holder of the bill, A can then make an endorsement saying “Pay B or order” Rs 1,000 being the unpaid residue of the bill.” Such an endorsement would be valid.

4. Restrictive endorsement:

Stating the effect of endorsement, Section 50 provides that “the endorsement of negotiable instrument followed by delivery transfers to the endorsee the property herein with the right of further negotiation.” However, Section 50 permits restrictive endorsement.

An endorsement which, by express words, prohibits the endorsee from further negotiating the instrument or restricts the endorsee to deal with his instrument as directed by the endorser is called ‘restrictive’ endorsement.

The endorsee under a restrictive endorsement gets all the rights of an endorser except the right of further negotiation. In other words, such an endorsement entitles the endorsee to receive the payment on due date and sue the parties for it but he cannot further negotiate the instrument.

Illustrations:

(a) B, the holder of the bill, makes an endorsement on the bill saying “Pay C only.” It is a restrictive endorsement as C cannot negotiate the bill further.²

(b) B, the holder of the bill, makes an endorsement on the bill, saying “Pay C for my use or “Pay C or order for the account of B.” In either case there is a restrictive endorsement as the right of further negotiation by C has been excluded thereby.

The person liable on the bill must pay by drawing a cheque in the name of the holder (or the endorser) B. If he makes the payment to C on C’s own account, he will still be liable to B, the endorser; Hence C cannot endorse the bill further in his own name.

5. Conditional endorsement:

If the endorser of a negotiable instrument, by express words in the endorsement, makes his liability, dependent on the happening of a specified event, although such event may never happen, such endorsement is called a ‘conditional’ endorsement (Sec. 52).

The law permits a conditional endorsement and therefore it does not in any way affect the negotiability of the instrument. Thus, endorsements can validly be made in the following terms:

(i) “Pay B or order on his marriage;”

(ii) “Pay B on the arrival of Pearlless ship at Bombay.”



In the case of a conditional endorsement the liability of the endorser would arise only upon the happening of the event specified. But the endorsee can sue other prior parties, e.g., the maker, acceptor, etc., if the instrument is not duly met at maturity, even though the specified event did not happen.

6. Sans recourse endorsement (Sec. 52):

When the endorser expressly excludes his own liability on the negotiable instrument to the endorsee or any subsequent holder in case of dishonor of the instrument, the endorsement is known as 'sans recourse' endorsement.

Such an endorsement is generally made by adding the words 'sans recourse' or 'without recourse.' Thus, "Pay X or order sans recourse" or "Pay X without recourse to me" or "Pay X or order at his own risk" is examples of this type of endorsement.

7. Facultative endorsement:

When the endorser expressly gives up some of his rights under the negotiable instrument, the endorsement is called a 'facultative' endorsement. Thus, "Pay X or order, notice of dishonor waived" is a facultative endorsement.

As a result of such an endorsement the endorsee is relieved of his duty to give notice of dishonor to the endorser and the latter remains liable to the endorsee for the non-payment of the instrument, even though no notice of dishonor has been given to him

Example 2:

Enter the following transactions in a Single Column Cash Book and prepare Bank A/c in ledger.

2005		\$
March 1	Cash in hand	80,000
March 1	Bank Balance	120,000
March 3	Received a cheque from Osman	24,000
March 4	Deposited Osman's cheque with bank	--
March 8	Withdrawn from bank for business use	20,000
March 10	Goods sold for cash	30,000
March 15	Goods bought for cash	80,000
March 18	Goods sold for cash	60,000
March 20	Paid Rahim by cheque	26,000
March 30	Deposited into bank	16,000
March 31	Paid salary in cash	10,000
March 31	Paid rent by cheque	6,000



Solution :

Date	Particulars	V . N	L.F	Amount (\$)	Date	Particulars	V.N	L.F	Amount (\$)
2015	ToBalance b/d			80,000	2015				
Mar.1	ToOsman A/C (Being cheque received)			24,000	Mar.1	ByBank A/C (Being cheque deposited)			24,000
Mar. 8	ToBank A/C (Being amount withdrawn)			20,000	Mar.15	ByPurchase A/C (Being goods bought for cash)			80,000
	ToSales A/C (Being goods sold for cash)			30,000	Mar. 15	ByBank A/C (Being cash deposited)			16,000
	ToSales A/C (Being goods sold for cash)			60,000	Mar.30	BySalary A/C (Being salary paid)			10,000
Mar. 10	Balance b/d			<u>2,14,000</u>	Mar.31	Balance c/d			<u>84,000</u>
									<u>2,14,000</u>
Mar. 18				84,000					
Apr. 1									

2.9 Key Differences between Trade Discount and Cash Discount

Definition of Trade Discount

Trade discount is referred to as a discount, given by the seller to the buyer at the time of purchase of goods, as a deduction in the list price of the quantity sold. The trade discount is used by the sellers to attract more customers and increase the quantity sales. There is no record maintained in the books of both the buyer and seller for such a discount.

Definition of Cash Discount

Cash Discount is referred to as a discount, allowed to customers by the seller at the time of making the payment of purchases, as a reduction in the invoice price of the commodity. A cash discount is used by the sellers to facilitate a prompt payment and thereby to avoid the credit risk. Both the buyers and sellers keep a proper record of such discount in their books of accounts.

Cash discount

1. Cash discount is recorded in the account books.



2. It is allowed by in a creditor to the debtor.
3. It is reduction in the amount due by a creditor, if the account is cleared within the stipulated time.
4. It is an incentive for prompt discharge of the debit within the specified period.
5. It conditional, because cash discount is enjoyed, if payment is made within the period.
6. No question of returning the cash.
7. Rate of cash discount is almost same in all kinds of trade.

Trade Discount:

1. Trade discount is not recorded in account books.
2. It is allowed by the manufacturers or wholesale dealers to the retailers.
3. It is adjusted in the invoice and is not subjected to the time of payment.
4. The object of trade discount is to enable the retailer to make profit, even is he sells at catalogue price.
5. It is unconditional.
6. It is deducted from any goods returned.
7. The rate of trade discount differs from business to business.

Differences are:

1. Trade discount is given on the catalogue price of the goods while the cash discount is given on the invoice price.
2. Trade discount is granted with the aim of increasing the sales in bulk quantity, whereas Cash discount is granted to facilitate a quick payment.
3. Trade discount is allowed to all customers while the Cash discount is allowed to those customers, who purchase goods in cash.
4. In the case of Trade Discount, no entry is made in the books of accounts, while the proper entry is made in the books of accounts for the cash discount.
5. A trade discount is shown as a deduction in the invoice. Conversely, a cash discount is not shown at all.
6. The cash discount may differ with the time period, within which payment is made by the customer. On the contrary, trade discount may differ with the quantity of goods purchased and amount of purchases.
7. Trade discount is allowed at the time of purchase while the cash discount is allowed at the time when the payment is made.



2.10 Differences between Cash Credit and Overdraft Account

Differences are:

Overdraft and Cash Credit account both are the type of loan accounts in which the account holder can withdraw the amount he requires. These generally are considered as similar type of loan by many, yet there are some differences between them.

SL. No	Cash Credit Account	Overdraft Account
1	It is normally given on security of stock, debtors etc.	It is normally given on security of a fixed asset.
2	The maximum amount is calculated as a percentage of sale and stock along with financial statements. For ex. A bank allowed cash credit up to 80% of stock plus 20% of sales.	The maximum amount allowed is calculated mainly on basis of financial statements and security.
3	It should be used for the purpose of business.	Can be used for any purpose
4	Balance Sheet, P & L account, VAT reports is required be submitted to bank generally annually or quarterly.	Financial statements are generally not required to be resubmitted after approval.
5	It doesn't reduce over time.	There is a monthly reduction in amount of overdraft facility in Dropdown Overdraft (DOD).
6	Insurance of stock is normally required.	Insurance of the property is generally required.
7	Many a time's new account has to be opened to take cash credit facility.	Overdraft facility is generally started by banks in existing current accounts.
8	Interest rate is normally lower than overdraft account.	Interest rate is normally higher than cash credit account.



2.11 Contra Entry

In any account we can only have one half of a double entry. An account cannot be debited and credited at the same time. For example, when we sell goods for cash, cash received will be recorded on the debit side of Cash Book and the goods sold will be posted on the credit side of Sales Account. But in Double Column Cash Book, we have two accounts, Cash A/c and the Bank A/c, so it is possible to have both a debit entry and a credit entry at the same time. For example, cash of \$5,000 is deposited into the bank. In this transaction both Bank A/c and Cash A/c are involved and they will be recorded on both sides of Double Column Cash Book i.e. on the debit side in bank column and on the credit side in cash column.

Thus a transaction in which Cash A/c and Bank A/c are involved, is recorded on both the sides of Double Column Cash Book and Triple Column Cash Book, it is called "contra entry", from the Latin prefix contra meaning 'opposite to or against'.

In recording such a transaction the letter "C", is written in 'L.F' column because both aspects of the transactions are recorded and there is no need to post them into the ledger.

In this connection, the difference between contra entry and other entries in Cash Book may be noted. "The Double entry work of contra entry is completed in Cash Book. They need not be posted to ledger". But the double entry work of other entries in Cash Book is not completed, one aspect (i.e. cash aspect) of the transaction is, however, completed in Cash Book, but the other aspect is not completed, which is to be posted to the concerned account in ledger.

Contra entry will be passed in the following cases:

1. **When cash is deposited or paid into the Bank:**
Bank column - debit -- Cash column-credit.
2. **When cash is drawn from the bank for business purposes:**
Cash Column - debit -- Bank column - credit.
3. **When a cheque received from a debtor on a date subsequent to its receipt is deposited into the bank:** The Contra Entry is passed on the date of deposit of cheques into the bank(2nd entry)
Bank column - debit -- Cash column - credit.

Example 1:

Enter the following transactions in a double column cash book/two column cash book.

2005		\$
March 1	Cash in hand	80,000
March 1	Bank Balance	120,000
March 3	Received a cheque from Osman	24,000
March 4	Deposited Osman's cheque with bank	--



March 8	Withdrawn from bank for business use	20,000
March 10	Goods sold for cash	30,000
March 15	Goods bought for cash	80,000
March 18	Goods sold for cash	60,000
March 20	Paid Rahim by cheque	26,000
March 30	Deposited into bank	16,000
March 31	Paid salary in cash	10,000
March 31	Paid rent by cheque	6,000

Solution: Double column cash book

Date	Particulars	V/ N	L/F	Cash (\$)	Bank(\$)	Date	Particulars	V / N	L/ F	Cash (\$)	Bank (\$)
2005 Mar. 5	Balance b/d			80,000	1,20,000	2005 Mar. 4	Bank A/C (Being cheque deposited)		C	24,000	
1	Osman A/C (Being cheque received)			24,000		8	Cash A/C (Being cash withdrawn from bank)		C		20,000
3	Cash A/C (Being cheque deposited with bank)		C		24,000	15	Purchase A/C (Being goods bought)			80,000	
4	Bank A/C (Being cash withdrawn from bank)		C	20,000		18	Cash A/C		C	16,000	
8	Sales A/C (Being goods sold for cash)			30,000		20	Rahim A/C (Being cheque issued)				26,000
10	Sales A/C (Being goods sold for cash)			60,000		31	Salary A/C (Being salary paid)			10,000	
18	Cash A/C (Being cash deposited)		C		16,000	31	Rent A/C (Being rent paid by cheque)				6,000
30						31	Balance c/d			84,000	108,000
				<u>2,14,000</u>	<u>1,60,000</u>					214,000	160,000
Apr. 1	Balance b/d			<u>84,000</u>	1,08,000						

Example 2:

Enter the following transactions of M. Rauf in a Double Column Cash Book and post them to concerned accounts in ledger:

2005		\$
Jan. 1	Cash in hand	100,000



Jan. 1	Cash at Bank	60,000
Jan. 3	Cash Sales	40,000
Jan. 4	Paid M. Arshad by a cheque	14,000
Jan. 6	Received a cheque from Babar	8,000
Jan. 8	Cash deposited into bank	19,000
Jan. 8	Babar's cheque deposited into bank	--
Jan. 10	Drew from bank for office use	15,000
Jan. 11	Drew from bank for personal use of owner	24,000
Jan. 12	Cash purchases	57,000
Jan. 15	Received a cheque from S. Rashid	10,000
Jan. 16	Rashid's cheque endorsed to Shakeel	--
Jan. 17	Paid Arshad Khan by a cheque	36,000
Jan. 18	Rashid's cheque returned dishonored	--
Jan. 19	Our cheque to Arshad Khan was dishonored	--
Jan. 21	Received interest from bank	1,400
Jan. 24	Cash sales	33,00
Jan. 27	Incidental charges debited by bank	700
Jan. 31	Salary paid by cheque	14,000

Solution

Date	Particulars	V/M	L/F	Cash (\$)	Bank (\$)	Date	Particulars	V/N	L/F	Cash (\$)	Bank (\$)
2005						2005					
Jan.1	Balance b/d			100,000	60,000	Jan.4	M. Arshad A/c		7		14,000
3	Sales A/C		5	40,000		8	Bank A/c		C	19,000	
6	Babar A/C		9	8,000		8	Bank A/C		C	8,000	
8	Cash A/C		C		19,000	10	Cash A/C		C		15,000
8	Cash A/C		C		8,000	11	Drawing A/C		11		24,000
10	Bank A/C		C	15,000		12	Purchase A/C		13	57,000	
15	S. Rashid A/C		15	10,000		16	Shakeel A/C		16	10,000	
19	Arshad Khan A/C		17		36,000	17	Arshad Khan A/C		17		36,000
21	Interest A/C		19		1,400	27	Bank charge A/C		20		700
24	Sales A/C		5	33,000		31	Salary A/C		21		14,000
						31	Balance c/d			112,000	207,000
				<u>206,000</u>	<u>124,400</u>					06,000	124,000
Feb. 1	Balance b/d			112,000	20,700						

**Solution:**

- On 6.1.2005, cheque received from Babar is treated as cash because it is not deposited into the bank on the same date.
- A contra entry is passed when Babar's cheque (which was treated as cash) is deposited into the bank on 8.1.2005.
- On 15.1.2005, cheque received from S. Rashid is treated as cash, so recorded in Cash Column.
- Cheque issued to Arshad Khan on 17.1.2005 is dishonored, so the bank is debited again and Arshad Khan became a creditor again.
- On 21.1.2005, the bank allowed us interest which is revenue for the business and our bank balance is increased by \$1,400
- Write out the following transactions in the Triple column cash book of Sitaram: 2013

Jan. 1 Sitaram commences his business with cash = Rs. 30000

Jan 2 He pays into bank current account = Rs. 20000

Jan. 3 He receive cheque from kulwant rai on account = Rs. 1000

Jan. 7 He pays kulwant rai's cheque into bank = Rs. 1000

Jan. 10 He pays Radha Sharan by Cheque = Rs. 1980

and receive discount = Rs. 20

Jan. 11 He receive cheque from Wasim = Rs. 970

and allow him discount = Rs. 30

Jan. 15 He makes sales for cash = Rs. 2000

Jan. 17 Cash deposited into bank = Rs. 3000

Jan. 19 He purchased a motor car by cheque = Rs. 6500

Jan. 20 He purchased goods by cheque = Rs. 1500

Jan. 22 He pays jajoo traders in cash = RS. 2000

and receives discount = Rs. 100

Jan. 29 He withdraws from bank for office use = Rs. 500

Jan. 30 He purchases furniture by cheque = Rs. 1200

Jan. 30 Cheque received from sham endorsed to Ram = Rs. 5000

Dr.		Cash book (Triple column)						Cr.	
Date	Receipt	Discount	Cash	Bank	Date	Receipt	Discount	Cash	Bank
2013 Jan. 1	To capital		30,000		2013 Jan. 2	By bank (C)		20,000	
2	To cash (C)			20,000	7	BY bank (C)		1,000	
3	To kulwant Rai		1,000		10	By Radha sharan	20		1,980
7	To cash (C)			1,000	17			3,000	
11	To Wasim	30		970	19	By bank(C)			6,500
15	To sale		2,000		20	By motor car			1,500



17	To cash (C)			3,000	22	By purchase	100	2,000	
29	To bank (C)		500		29	By Jajoo traders			500
					30	By cash (C)			1200
					30	By furniture A/C		7,500	13,290
		30	33,500	24,970		By balance c/d	120	33,500	24,970
May. 1	To balance		7,500	13,290					

Remember : a) If we deposited money into bank or withdraw money from bank we have to show such amount both cash column in one side and bank column in other side. So, these are the contra entries and its double entry has completed in cash book. We show c just front of entries.

b) Before showing discount column, we have to show ledger folio column both side, due to shortage of space, we did not show.

c) When we get a cheque but we have endorsed to some other person, it is recorded in cash book because this is neither receipt nor payment from cash or our bank. Its record will be done through journal entry. So, we will not show

Jan. 30 endorsement transaction in cash book.

Example:

From the following particulars write up a Three Column Cash Book of Mr. Naseem.

2005	\$
May 1: Cash in hand	40,000
May 1: Cash at Bank	30,000
May 3: Goods sold for cash	9,000
May 5: Goods bought for cash	18,000
May 8: Received a cheque from M. Farooq for \$19,300 in full settlement of his dues \$19,600 and deposited into the bank.	
May 11: Paid to Zulfiqar Cash \$10,000 and a cheque for \$9,400 in full settlement of his dues \$20,000	
May 15: Cash received from M. Kaleem \$9,800 in full settlement of his dues \$10,000	
May 17: Paid cash to Adnan \$3,900 in full clearance of his dues \$4,000	
May 20: Received a cheque from Asim Tufail \$7,800 in full settlement of his dues \$8,000	
May 23: Asim Tufail's cheque endorsed to a creditor Akif in settlement of \$8,100	
May 25: Bank credited interest 1,000	1,000



May 31: Bank debited bank charges . 1,400

1,400

Solution :

Date	Particulars	V	L / F	Discount allowed (\$)	Cash (\$)	Bank (\$)	Date	Particulars	V/ N	L/ F	Discount received (\$)	Cash (\$)	Bank (\$)
2005 May. 1	Balance b/d				40,000	30,000	2005 May. 5	Purchase A/C				18,000	
3	Sales A/C				9,000		11	Zulfqar A/C			600	10,000	9,400
8	M. Farooq A/C			300		19,300	17	Adnan A/C			100	3,900	
	M. kaleem A/C						23	Akif A/C			300	7,800	
15	Asim Tufail A/C			200	9,800		31	Bank charges A/C					1,400
20	Interest			200	7,800		31	Balance c/d				26,900	39,500
25						1,000	31					66,000	50,300
				700	66,000	50,300					1,000	66,000	50,300

Note: The Discount columns are not balanced. The two Discount columns are simply totaled and posted to Discount Allowed A/c and Discount Received A/c in the Ledger.

2.12 Dishonor of Cheque and Reasons for Dishonor

Meaning Of Dishonor of Cheque

The bank should pay the amount mentioned on the cheque as soon as it is presented. If the amount of cheque is paid by the bank to the payee, the cheque is said to be honored. If the bank refuses to pay the amount of cheque, then the cheque is said to be dishonored. Thus the dishonored of the cheque means the refusal by the bank to pay the amount of cheque to the payee. It is a condition in which the bank does not pay the amount of the cheque to the payee. In fact, when the drawer draws the cheque without following all the rules of issuing cheque or when he/she draws the cheque exceeding the bank balance then the bank dishonors the cheque.

Following are the some important reasons for dishonoring a cheque

* If the date is not written or written incorrectly or the date given is of three months before or if the advance date is given.

*If the name of the payee is not written or not written clearly.

*If the ordered or crossed cheques are transferred without proper endorsement and delivery.

* If the amount is not written in words and figures or written incorrectly or if the



amount written in words and figures does not match with each other.

- * If the alteration made on the cheque is not proved by the drawer giving signature.
- * If the account number is not mentioned or if it is not clear or if it is not mentioned clearly.
- * If the signature is not given or if the signature given in the cheque does not match with the signature given on the signature specification card kept by the bank.
- * If the amount mentioned on the cheque is more than the amount that the drawer has in his bank account or if as per bank's rule the minimum balance in the account of the drawer cannot remain.
- * If the cheque is overwritten.
- * If the cheque is not found in proper condition or it is found wet, torn or spotted.
- * If the drawer has given order to the bank to stop payment of the cheque.
- * If the bank has got the information regarding the death or insolvency or lunacy of the drawer of depositor.
- * If the court of law orders the bank to stop payment of the cheque.
- * If the bank balance remains shortage on account of not collecting the cheque deposited.
- * If the drawer has closed his/her account before presenting the cheque

Example 1:

Enter the following transactions in the cash book of Mr. Aslam:

2005.		Rs
Jan. 1	Mr. Aslam started business with cash	2,00,000
Jan. 3	Bought goods for cash	1,40,000
Jan. 5	Paid for stationary	2,000
Jan. 7	Sold goods for cash	80,000
Jan. 10	Paid for trade expenses	2,000
Jan. 11	Sold goods for cash	20,000
Jan. 14	Received cash from Mr. kamal	10,000
Jan. 15	Paid cash to Mr.Asish	20,000
Jan. 18	Withdrew cash for personal use	6,000
Jan. 22	Bought goods for cash	40,000
Jan. 25	Sold goods for cash	90,000
Jan. 27	Paid for electricity bill	4,000
Jan. 31	Paid salary	10,000
Jan. 31	Paid rent	3,000



Solution: Single Column Cash Book of Mr. Aslam

Date	Particulars	V.N.	L.F.	Amount	Date	Particulars	V.N.	L.F.	Amount
2005					2005				
Jan 1	To Capital A/C (Being business started)			200,000	Jan 3	By Purchases A/C (Being goods bought for cash)			140000
Jan 7				80,000	Jan 5				2000
Jan 11	To Sales A/C (Being goods sold)			20,000	Jan 10	By Stationery A/C (Being stationery purchased)			2000
Jan 14				10,000	Jan 15	By Trade expenses (Being expenses paid)			20000
Jan 25	To Sales A/C (Being goods sold)			90,000	Jan 18				6000
	To Mr. Asif A/C (Being cash received)				Jan 22	By Mr. Qadir A/C (Being cash paid)			
	To Sales A/c (Being goods sold)				Jan 27	By Drawing A/C (Cash drawn for personal use)			40000
Feb 1				<u>40000</u>	Jan 31				4000
				173000	Jan 31	By Purchase A/C (Being goods bought)			10000
					Jan 31	By Electricity A/C (Being bill paid)			3000
									173000
						By Salary A/C (Being salary paid)			<u>40000</u>
						Rent A/C (Being rent paid)			
						Balance c/d			



Sum Up:

Cheque is an important negotiable instrument which can be transferred by mere hand delivery. Cheque is used to make safe and convenient payment. It is less risky and the danger of loss is minimized. Unlike a bill of exchange, a cheque does not require acceptance on part of the drawee. There is, however, a custom among banks to mark cheques as 'good' for the purpose of clearance. But this marking is not an acceptance. Similarly, no revenue stamp is required to be affixed on cheque

Key Words:

Cheque: Cheque is an instrument in writing containing an unconditional order, addressed to a banker, sign by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money only to or to the order of certain person or to the bearer of instrument."

Bearer cheque: The bearer cheque is payable to the person specified therein or to any other else who presents it to the bank for payment.

Order cheque: the word "or order" is written on the face of the cheque, the cheque is called an order cheque.

Open cheque: When a cheque is not crossed, it is known as an "Open Cheque" or an "Uncrossed Cheque"

Cross cheque: Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like "& CO." or "Account Payee" or "Not Negotiable".

Cash discount: A cash discount is a deduction allowed by a supplier of goods or by a provider of services to the buyer from the invoice price.

Self Assessment Questions:

1. What do you mean by cheque? What are the features of it?

Ans. _____

2. Describe the different kinds of cheque.

Ans. _____



3. State the advantages of cheque.

Ans. _____

4. Show the different essential elements of cheque

Ans. _____

5. Enter the following transactions in a cash book with bank column:-

Ans. _____

2010		Rs.
Jan 1	Cash in hand	100000
Jan 1	Bank overdraft	5000
Jan 3	Sold goods to Ram	10000



Jan 4	Sold goods for cash	5000
Jan 5	Received a cheque from Ram	10000
Jan 6	Cash deposited into bank	20000
Jan 15	Paid salary by cheque	8000
Jan 17	Received a cheque from Yogesh	9000
Jan 20	Paid to Mohan Rs.1485 in full settlement of	1500
Jan 21	Yogesh's cheque returned dishonoured.	

Model Questions:

Q.1.Prepare a Cash Book with discount column of Shri Shyam from the following transaction. Enter the following in Shri Shyam's Cash Book and show the Balance:

2009

March 1	Balance of cash in Hand Rs. 25,000
March 3	Rent paid Rs. 2,000
March 5	Purchased goods for cash Rs. 10,000
March 10	Stationery purchased Rs. 2,500
March 12	Sold Goods for Cash for Rs. 8,000
March 15	Cash received from Ram Rs. 980 and discount allowed Rs.20
March 18	Cash paid to Shyam Rs.950 and discount Received Rs.50
March 25	Wages Paid Rs. 2,000

Q.2.: Enter The Following Transactions In Cash Book With Cash And Bank Column Of Rao & Sons.

JUNE 2010 Particulars

1	started business with cash Rs. 1,00,000
3	opened a bank current a/c with SBI Rs. 60,000
6	brought goods from ashok Rs. 15,000
8	paid ashok by cheque Rs. 14,700 and received discount Rs. 300
10	sold goods to mohan for cash Rs. 10,000 and on credit Rs. 22,000
12	received cheque from mohan 21,400 and allowed discount Rs. 600
13	cheque of mohan deposited into bank
15	paid electricity charges Rs. 1100 & rent Rs. 2,000
17	received a cheque from Gopal for Rs. 6,800 in full settlement of his a/c Rs. 7,000
19	endorsed the cheque of gopal in favour of our creditor amar
23	withdrew cash from bank for office use Rs. 5,000 & for personal use 3,500
25	bought a machine from raman. He was paid by cheque 9,000
26	paid carriage of machine Rs. 300 and installation charges Rs. 700
29	bank allowed interest Rs. 800 & bank charges were Rs. 200



Q3. Prepare a cash book with cash & bank columns. Jan, 2010

1. Cash in hand Rs.50, 000 and Bank overdraft Rs.10,000.
 2. Cash sales Rs.20, 000.
 3. Deposited into bank Rs.15, 000.
 4. Purchased goods for cash Rs.10, 000.
 5. Paid trade expenses by cheque Rs.5, 000.
 6. Discounted a B/E of Rs.2, 000 with bank at a discount of 2%.
 7. Ramesh who owed us Rs.5, 000 became bankrupt and paid us 60 paisa in a rupee.
 8. Withdrew from bank Rs.1, 000.
 9. Received a cheque of Rs.4, 000 from Rajesh.
 10. Rajesh's cheque deposited into bank.
 11. Honoured our own acceptance of Rs.5, 000.
 12. Received a cheque of Rs.12, 000 from Shiva.
 13. Shiva's cheque endorsed in favour of Vishay.
 14. Rajesh's cheque returned dishonored.
 15. Withdrew from bank for personal use Rs.1, 200.
 16. Received a repayment of loan of Rs.10, 000 and deposited 6,000 out of it into bank.
 17. Bank charges as per pass book Rs.150.
 18. Withdrew goods for private use worth Rs.4, 500.
 19. Furniture purchased Rs.7, 000.
 20. Deposited into bank balance of cash in excess of Rs.11, 000
4. Distinguish between cash credit and overdraft.
 5. What is endorsement of cheque? What are the different kinds of it?

Further Readings:

1. Financial Accounting, Ashis Bhattacharya, Prentice hall of India Pvt. Ltd, New Delhi.
2. Financial Accounting, S. N. Maheshwari, Vikash Publishing House Pvt. Ltd., New Delhi.
3. Theory and Practice of Financial Accounting, B. B Dam and H C Gautam, Capital Publishing Company, Guwahati
4. Advance Accountancy, R. L. Gupta and M. Radhaswamy, Sultan Chand & Sons, New Delhi.
5. Jain & Narang, Accounting Theory and Management Accounting, Kalayani Publishers.



Unit: III

Petty Cash Book

Learning Objectives:

After studying this lesson, you will be able to know:

Meaning of petty cash book features of petty cash book, objective of petty cash book, different types of petty cash book, essential elements of petty cash book, advantages and importance of petty cash book, imprest system of petty cash book, reconciliation of petty cash book and etc.

Structure:

- 3.1 Introduction:
- 3.2 Meaning of petty cash book:
- 3.3 Problems of Petty Cash Book
- 3.4 Objectives for petty cash book
- 3.5 Importance of petty cash book
- 3.6 Advantages of petty cash book
- 3.7 How to balance petty cash book
- 3.8 Disadvantages of petty cash system
- 3.9 Imprest system of petty cash book
- 3.10 Types of petty cash book
- 3.11 Rules for recording transactions in the cash book
- 3.12 Reconciliation of petty cash book

3.1 Introduction:

Petty means small. In big business firms, all payments are made by cheques and all receipts are banked. There are numerous small payments on account of expenses like stationery, cartage, coolie hire, refreshments to guests etc. which cannot be paid through cheques. Moreover, the main cashier will be over-burdened if he makes these small as well as frequent payments. To avoid this inconvenience, such items of expenditure of frequent occurrence are removed to a separate book, known as Petty Cash Book, which is maintained by a Petty Cashier. Petty Cashier is a person, who maintains the Petty Cash Book. Petty cash book is maintained in a columnar form.

In this book, separate columns are provided for usual head of expenditure. A Petty Cashier makes a detailed analysis of petty payments and records under suitable heads,



i.e., column. Petty cash book is similar to cash book. The amounts received by Petty Cashier from the main Cashier are debited in petty cash book and all petty payments are credited. Periodic total of each column is posted to respective nominal account in the ledger. The petty cash book is a book of vouchers which are made each time an expense is made from petty cash (money). Always the voucher would show the amount, purpose, recipient, general ledger account number and date relating to the expenses. If person receiving the petty cash and the person giving out the petty cash would sign the voucher and any supporting certification (such as revenue) would be involved.

The petty cash book is normally maintained on a columned foundation - the separate column being allotted for each kind of outlay and is only 1 money column on the debit entry side and all sum got at times by the petty cashier from the chief bank clerk are entered in cash. Credit side consists of more analysis columns in the petty cash book. The petty cash is a small amount of discretionary finances in the business firm of cash practiced for expenditure where it's not sensible to make the expense by check because of the trouble and price of cashing and writing signing cashing in the check of the bank.

3.2 Meaning of Petty Cash Book :

The petty cash book is defined as relatively small amount of cash kept at hand for making quick payments for miscellaneous small expenses in the business concern. A cash book which is created for the small payments of an organization i.e. taxi fare, bus fare, carfare, postage and stamps, stationary wages tea and coffee etc. it has a provide separate fund to meet the day to petty expensive in the office is called petty cash book. It is established in the responsibility of petty cashier who maintain a separate cash book to record, such small payments only.

It's a cash book used to enter daily petty expenses like cost of stationery, postage and Xerox copy and so on. The petty cash book will be maintained by a separate cashier known as petty cashier in the accounting field.

The petty cash book is to enter how the cash available for daily expenses are spent for example milk, tea, taxi charges and postage.

3.3 Problems of Petty Cash Book:

Accounting Errors

Your business's petty cash system is susceptible to accounting errors because of the absence of a secondary documentation for tracking the cash. These errors manifest as discrepancies between your sales and cash receipts when reconciling the accounts at the end of the month. Discrepancies result from the petty cash custodian's failure to record the transactions accurately or to monitor the efficient use of petty cash funds. You can



avoid such accounting errors by using cash vouchers to record every transaction involving petty cash.

Theft

Without proper controls, the business's petty cash account becomes vulnerable to theft by employees, and it's hard for you to know who took the cash. Keeping large amounts of petty cash may also increase the likelihood of theft in your business. Avoid making the petty cash accessible to all employees, as this sets the stage for theft. Limit access to the petty cash account to two people and store the cash in a tamper-proof safe.

Misappropriation

Petty cash, being a liquid asset, is prone to misappropriation by your employees without adequate controls. Some of your workers could use the cash for purchases -- such as lunch or other personal needs -- that do not benefit your business. Designate someone other than the petty cash custodian to maintain records of transactions and disbursements. Limit the use of the petty cash to purchases where checks cannot be used.

Overspending

Failure to set expenditure limits for every transaction involving petty cash puts you at risk of overspending on purchases. It also necessitates a large petty cash fund, which increases the risk of theft. Ensure that your enterprise's petty cash expenditures are appropriate by setting limits, such as Rs100, per expenditure.

Back dated system:

Petty cash is largely an outdated and inefficient system, and one that businesses should reconsider using. While convenient for small purchases, petty cash is not a feasible solution to large expenses. The bigger the company, the harder it is to track outgoing petty cash, change, and receipts. This makes the entire petty cash system susceptible to abuse or outright fraud. For most businesses, the disadvantages of using petty cash far outweigh the advantages. Fortunately, there is an alternative. Prepaid cards, such as the PEX Visa Prepaid Card offer a more precise way of managing small expenses,

3.4 Objectives of Petty Cash Book:

1. It makes records of all petty expenses and payments systematically.
2. It reduces the use of cheques and also avoids the inconvenience of issuing cheques for small payments maximum 500 rupees.
3. It helps in making the records of cash transactions up-to-date because of division of labour in recording cash transactions.
4. It provides information regarding petty payments made on different heads more easily and quickly.



5. It helps to control petty expenses more effectively by comparing of petty expenses between one and two period.

3.5 Importance of Petty Cash Book :

Business performing a large number of petty transactions usually maintain a separate petty cash book. The following points highlight the importance and advantages of petty cash book which can be taken as its objectives as well.

- * Petty cash book maintains records of all petty payments systematically.
- * Petty cash book supplies information regarding petty payments made on different heads more easily and quickly.
- * Petty cash book makes possible for making comparison of the petty expenses between two periods and helps in controlling such petty expenses more effectively.
- * Petty cash reduces the burden of head cashier as he is not required to handle petty transactions. Hence, the head cashier will have enough time to manage and control major cash transactions more effectively.
- * Petty cash book helps in making the main cash book more informative, clean and clear by including only major transactions.
- * Petty cash book helps in making the records of cash transactions up-to-date because of division of labor in recording cash transactions.
- * Petty cash book saves time because each payment under particular head is not posted into the ledger separately. The posting is made with the periodical total at a time.

3.6 Advantages of Petty Cash Book :

(i) Reduces the labour:

Petty cash book is based on the division of labour and works on imprest system; hence, it reduces the work and labour of main cashier.

(ii) Controls irregular expenses:

One of the famous principles of management is 'control by exception' which means that if one person tries to control everything, he may end up controlling nothing. Based on this principle, a petty cashier is appointed who can control the irregular expenses. In the absence of petty cashier, it is very difficult to watch and control the necessities of incurring any expenses.

(iii) Main cash book does not become over bulky:

Petty cash book helps to keep the main cash book in a compact form because numerous entries for small and petty items are recorded in the petty cash book itself.



(iv) Quick payment possible:

In petty cash book, payments for petty items are recorded. Though they are small, yet they are essential. Sometimes they are so urgent that they cannot wait for approval of the higher authority. In that case quick payment is required and this can be made by the petty cashier.

(v) Others:

- Reduction in numbers of transactions:** Many expenses of small nature are recorded in petty cash book. The number of transactions is reduced in the cash.
- Reduction of errors:** As head cashier checks the accounts of previous month and gives advance for the coming month, thus, errors if any are reduced.
- Savings of time and labor:** As the petty expenses are recorded by petty cashier hence the labor and time of the head cashier is saved.
- Check on expenses:** From time to time the head cashier checks the account of petty cashier at any time so that the chances of misuse are minimized.
- Control on petty expenses:** While checking the total of such expenses, the head cashier can put objections on undesirable expenses. Thus, expenses are controlled.
- Facility in posting:** Since only the total of various small expenses are recorded in cash book. Hence direct ledger posting becomes easy.
- saving of space:** Only the total of all small expenses are recorded in cash book and also in ledger account

3.7 How to Balance Petty Cash:

The petty cash fund is an effective way to manage smaller expenses in the office without having to submit a formal requisition every time. By keeping a small amount of cash on hand, you can make purchases as necessary and submit the receipts. Proper tracking and reconciliation is essential to managing the petty cash balance. Reconcile the balance compared to the activity at the end of each accounting period, or more often if your petty cash fund has more frequent activity.

1. Identify the ending balance of the account as of the last reconciliation. This is the starting balance for the current period. In most cases, this is a standard balance, such as a Rs200 petty cash fund.
2. Count the total funds left in the petty cash account at the end of the period. For example, count the balance at the end of the month if you do a monthly reconciliation. Record the current balance.
3. Gather all of the receipts/vouchers provided for expenses that were paid out of the account for the period in question. Add the total amount of the receipts and record it as the total expenses.



4. Add the total amount of the receipts to the ending balance. The result should match the starting balance of the account.
5. Identify the amount of any variance. Account for any additions to the petty cash account, such as extra deposits, or a withdrawal that may not be recorded. If an employee borrowed from the fund with an IOU and has not yet repaid the balance, this may be the reason for the variance.
6. Report any variances in the petty cash balance to the management staff in control of the fund. The petty cash custodian should monitor and reconcile the account, but the company authorities who replenish the fund must address any shortfalls or overages

3.8 Disadvantages to a Petty Cash System :

Petty cash is largely an outdated and inefficient system, and one that businesses should reconsider using. While convenient for small purchases, petty cash is not a feasible solution to large expenses. The bigger the company, the harder it is to track outgoing petty cash, change, and receipts. This makes the entire petty cash system susceptible to abuse or outright fraud. For most businesses, the disadvantages of using petty cash far outweigh the advantages.

3.9 Imprest System of Petty Cash Book :

Under this system, a round sum of money estimated as necessary for the possible needs of the business to meet petty expenses for the week or fortnight is handed over to the Petty Cashier. At the end of the fixed period or earlier, when petty cashier needs further cash, he submits the petty cash book, along with vouchers.

The Chief Cashier examines the cash book with the vouchers. Then, Chief Cashier gives money/cheque for the exact amount, which he actually spent during the period. Thus, he starts for the next period with the same sum as held previously. That is, the Petty Cashier will have again the fixed sum in the beginning of the next period.

This system is known as Imprest System of Petty Cash Book. For instance, a business estimates that a sum of Rs 500 is required to meet small expenses in the business for one week. This amount is given to the Petty Cashier. At the week end or earlier, the Petty Cashier spent Rs 480 and needs more cash.

Therefore, Petty Cashier completes the records and hands over the petty cash book along with vouchers to Chief Cashier, who examines the entries. Then, the Chief Cashier gives a cheque for an exact amount he spent i.e., Rs 480. This sum i.e., Rs 480 plus the unspent balance i.e., Rs 20 would restore him the original sum with which he has started in the beginning of the last period i.e., Rs 500.

Advantages of Imprest System of Petty Cash Book:

1. It relieves the cash book and the Chief Cashier of the burden of recording tiny and frequent payments.



2. Commission of fraud is reduced as the Chief Cashier verifies petty cash book along-with vouchers and the Petty Cashier is more responsible.
3. This method is very scientific and labour saving. The total expenditure under each column can easily be ascertained and only the periodical totals of each column need be posted to the ledger.

3.10 Types of Petty Cash Book

1. Simple petty cash book

2. Analytically petty cash book

Simple petty cash book

Simple petty cash book means this book is similar to single column cash book where only on amount column is maintained in each side of such book. Amount received from head cashier is entered on the debit side of cash book and all petty payment are made by cashier are recorded in credit side. At last, the balance amount is found amount is found out. Its specimen of is given below.

Analytically petty cash book

Under this systems are special for separate column is provided for each heading of petty expenses in credit side of cash book. The debit sides of petty cash book contain only one column for the cash received from the cashier. When there is large number of transaction, only most common petty expenses are assembled in the sundry expenses or miscellaneous expenses column.

The book may be considered as the book of original entry or memorandum book. If treated as a part of double entry, then no separate Petty Cash Account is needed. When the Petty Cashier needs further cash, he makes up the petty cash book and presents it to the Chief Cashier, who verifies the accounts and gives further amount.

3.11 Different Measures of Petty Cash System

Establishing Petty Cash

To establish a petty cash fund, cash a check for an amount such as Rs 100 that you will probably use over the course of a month for small miscellaneous purchases. Use a box for your fund, such as a small metal cash box. Choose a box with a lock if you want to restrict access to the fund to a limited number of managers or employees. Note the amount you are using to start your fund on your petty cash ledger.

Replenishing Petty Cash

Replenish petty cash by cashing subsequent checks when the sum you used to start your fund is nearly depleted. If you have gone through the initial amount more quickly than you anticipated, replenish it with a greater sum or consider ways to make some of your petty cash purchases with checks or credit cards. If you have gone through your initial



amount more slowly than you anticipated, replenish your fund with a smaller amount than you used for starting it.

Tracking Petty Cash

Whether you are establishing, replenishing or spending money from your petty cash fund, you must make a note in your petty cash ledger any time you add or subtract cash. Your petty cash ledger should include fields for the date and the nature and amount of each purchase. It should also include fields for recalculating your balance by adjusting your running total every time you add or subtract funds. To track the flow of funds within your business, always use a cashed check to replenish petty cash, leaving a clear paper trail.

Reconciling Petty Cash

Assuming that nobody has been stealing from your petty cash fund, the running total listed in your petty cash ledger should match the actual sum in your petty cash fund. Count the cash and compare the total with your ledger each time you replenish funds. If the totals do not match, check the math in the ledger for addition and subtraction mistakes. If you find no mistakes, consider restricting access to the fund or retraining employees in protocols such as conscientiously returning change.

3.12 Reconciliation of Petty Cash Book:

Although most business expenses will be paid by check or bank transfer through the company's normal accounting system, incidental expenses and items such as small advances to employees are usually handled as petty (from the French "petit" or "small") cash. One person should have overall responsibility for the petty cash system and should only provide cash to employees when provided with either a signed IOU or an approved receipt for expenditure. The Imprest petty cash system, where the cash on hand is always topped up to a fixed amount, is the most common method of reconciling petty cash.

1. Verify the opening cash balance, by checking the previous petty cash reconciliation or totaling the amount of cash checks written since the last reconciliation was done. For this example, a check for Rs 100 was issued to petty cash and there was no previous cash balance.
2. List and total the amount of cash expense receipts and IOUs in the petty cash lock box. For example, there are expense receipts totaling Rs 35 and an IOU for advance payment of travel expenses of Rs16 in the box. The total cash disbursed is therefore (Rs 35 + Rs 16) or Rs 51.
3. Deduct the sum of the expenses and IOUs from the opening balance or from the total cash issued to the box to determine the cash that should be on hand. In our example, Rs 100 cash issued minus Rs 51 disbursements means a cash balance of Rs 49 should remain.



4. Count the remaining cash in the petty cash lock box and compare it with the cash balance calculated in the previous step. Investigate any difference. For example, if the cash on hand is less than Rs 49, a receipt or IOU may not have been supplied, the petty cashier may have issued the wrong amount, or cash may have been stolen from the box. If the lock box contains more than Rs 49, it may be that an employee has repaid an IOU without the original docket having been canceled, the cashier may have made an error or an employee may have provided a receipt but not yet collected the funds.

5. Record the reconciliation. Using the figures from this example: Opening balance: Rs 100.00 Less receipted expenses: Rs 35.00 Less IOUs: Rs 16.00 Closing balance calculated: Rs 49.00 Cash counted on hand Rs 49.00 Difference: Rs 0.00

6. Request a petty cash top-up of Rs 51 to replace the cash issued.

Petty cash is a system for making and tracking small purchases that don't make sense as check or credit card transactions. A petty cash fund is simply a box with a supply of cash and a sheet of paper or notebook for tracking the amounts that are added to or subtracted from the fund. To establish a petty cash fund, you must have a balance of starting cash. When that starting amount runs out, you must replenish the fund with additional cash.

Petty Cash Book Example

1. Enter the following transaction in the following columns. The cashier who was given Rs. 100 under imprest system on Aug 4, 1986.

1986

Aug 6 Paid for printing work	5
Aug 8 Paid for stationary purchased	8
Aug 10 Paid for postage stamps	6
Aug 12 paid for office furniture	11
Aug 14 Paid for travelling charges	7
Aug 15 Paid for general expenses	4
Aug 17 Manager taxi fare	12



Amount Received	Date	Particulars	V.N.	Total	Postage	Printing And Stationary	Cartage	Travelling Expenses	Misc.
Rs Rs. 100	1986 Aug -4	To Cash							
	Aug -6	By Printing		5		5			
	Aug - 8	By Stationary		8		8			
	Aug -10	By Postage		6	6				
	Aug-12	By furniture		11			11		
	Aug-14	By travelling charges		7				7	
	Aug -15	By general Expenses		4					4
	Aug-17	By taxi fare		12					12
<u>100</u>	Aug-31	By balance c/d		47					
47	Sep-1	To balance b/d							
53	Sep-1	To cash a/c							
				100	6	13	11	7	12

2. Enter the following transactions in the simple petty cash book:

2008

May 2 Cheque received for Rs. 700 to open the book.

May 3 Postage paid Rs. 50.

May 6 Paid taxi hire of travelling salesman Rs. 100.

May 8 Paid wages Rs. 125.

May 13 Telegram sent to Delhi Rs. 40.

May 17 Cart hire paid on commodities bought Rs. 60.

May 19 Stationary purchased Rs. 120.

May 25 Customer's tiffin charges Rs. 60.

May 31 Settled the balance due to Smith Rs.80.

**Solution:**

Amount Received	Casg book folio	Date	Particulars	Voucher No.	Ledger folio	Amount paid
Rs. 700		2007 May 2	To Bank			Rs. 700
		May 3	By Postage			50
		May 6	By taxi hire			100
		May 8	By wages			125
		May 13	By telegram			40
		May 17	By cart hire			60
		May 19	By stationery			120
		May 25	By tiffin charges			60
		May 31	By Smith			80
		May 31	By balance c/d			65
<u>700</u>						<u>700</u>
65		June 1	To balance b/d			

Write up a simple petty cash book from the following particulars :

2007

Jan 1	Balance in hand with petty cashier	40
Jan 1	received cheque for petty cash from the cashier	460
Jan 2	Paid for postage stamps	30
Jan 6	paid for stationery	75
Jan 9	Paid for cartag on goods	28
Jan 12	Paid for refreshments	42
Jan 14	Sent a telegram to delhi	18
Jan 15	Paid for printing	97
Jan 20	paid tips to peons	15
Jan 23	Paid taxi – hire to manager	34
Jan 27	Paid for freight	29
Jan 31	Paid for coolie-hire	12



Solution : Simple Petty Cash Book

Amount Received	Date	Particulars	V.No.	L.F.	Amount Paid
Rs. ---- P	2007				Rs. ---- P
40.00	Jan 1	To Balance b/d			
460.00	Jan 1	To bank			
	Jan 2	By Postage & Telegrams A/c			30.00
	Jan 6	By Printing & stationary A/c			75.00
	Jan 9	By carriage & cartage A/c			28.00
	Jan 12	By sundry Expenses A/c (Refreshments)			42.00
	Jan 14	By postage & telegram A/c			18.00
	Jan 15	By printing & stationary A/c			97.00
	Jan 20	By sundry Expenses A/c (Tips to peon)			15.00
	Jan 23				34.00
	Jan 27	By Conveyance A/c			29.00
	Jan 31	By Freight A/c			12.00
	Jan 31	By Carriage & Cartage A/c			120.00
	Jan 31	By Balance c/d			<u>500.00</u>
	Feb 1	To Balance b/d			
<u>500.00</u>					
120.00					

Enter the following transactions in the petty cash book of Shri Bharat Bhusan with appropriate analysis columns. Show the amount which would be received by the petty cashier under imprest system after the book is balanced on May 31.

2008

May 1	Handed over to petty cashier an imprest of Rs. 1,000	Rs. P.
May 2	Bought postage stamps	57.50
May 2	Paid travelling expenses	72.50
May 2	Paid for stationery	92.50
May 4	Paid for office cleaning	13.50
May 5	Paid for carriage	15.00
May 9	Paid travelling expenses	105.50
May 13	Paid for postage stamps	84.00
May 15	Paid for cartage	22.50
May 18	Served tea to customer	6.00
May 21	Paid for telegram	12.00



May 22	Paid for carriage	44.00
May 25	Bought office stationery	137.00
May 26	Bought postage stamps	39.50
May 28	Paid for office cleaning	14.00
May 29	Paid for painting	150.00
May 30	Paid to Ram on account	79.00
May 31	Gave tips to office peon	14.00
May 31	Gave charity	2.00

Date	Amount Received	Particulars	V.No.	Total Payments	Carriage & Cartage	Postage & Telegrams	Printing & Stationery	Travelling Expenses	Sundries
2008				Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
May 1	1,000.00	To cash a/c							
May 2	0	By postage stamps		57.50		57.50			
May 2		By Stationary		92.50			92.50		
May 4		By travelling exp.		72.50				72.50	
May 5		By office cleaning		13.50					13.50
May 9		By Carriages		15.00	15.00				
May 13		By Travelling exp.		105.50				105.50	
May 15		By Postage stamps		84.00		84.00			
May 18		By Cartage		22.50	22.50				
May 21		By Stationary		6.00					6.00
May 22		By Printing		12.00		12.00			
May 25		By Carriage		44.00	44.00				
May 26		By Stationary		137.00			137.00		
May 28		By Printing		39.50		39.50			
May 29		By Travelling exp.		14.00					14.00
May 29		By Printing		150.00			150.00		
May 30		By Carriage		79.00					79.00
May 31		By Carriage		14.00					14.00
May 31		By Stationary		2.00					2.00
May 31		By Postage Stamps		960.50	81.50	193.00	379.50	178.00	128.50
		By Office cleaning		39.50					
		By Office cleaning		1,000.00					
Jun 1	1,000.00	By Printing							
Jun 1	39.50	By Ram's a/c							
	960.50	By Tips to Peons							
		By Charity							
		By balance c/d							
		To balance b/d							
		To Cash a/c							

Model Questions:

Prob:1 From the following, prepare petty cash book on imprest system of Laxman & Co. for the month of Jan 2001. 2001 Jan1 Opening balance Rs.100 2 Paid for stamps Rs.12 3 Paid cleaners wages Rs.15 4 Paid for bus fare Rs.16 5 Paid tea etc. Rs.15 6 Paid



for repairs of cycle Rs.10 7 Paid for advertisement Rs.30 8 Drew imprest from head cashier 9 Paid for cartage Rs.10 10 Paid for traveling exps. Rs.25 11 Paid for Telegram Rs.15 12 Paid for entertainment to salesman Rs.20 13 Paid for repairs of cycle Rs.10 14 Paid for printing bill Rs.5 15 Paid for stationary Rs.3

Q.2. Insert the following in Tabular Petty Cash Book. On 1st Feb. 2009 Rs. 40 were given to petty cash clerk.
4

Feb2009	Transactions	Amount (Rs.)
1.	Chowkidar's Wages	15.00
2.	Pencils	5.25
8.	Railways freight on Account of books	2.31
12.	Postage Stamps	1.25
14.	Telegrams	2.44
15	Sundry Expenses	0.56

Sum Up:

In big business firms, all payments are made by cheques and all receipts are banked. There are numerous small payments on account of expenses like stationery, cartage, coolie hire, refreshments to guests etc. which cannot be paid through cheques. Moreover, the main cashier will be over-burdened if he makes these small as well as frequent payments. To avoid this inconvenience, such items of expenditure of frequent occurrence are removed to a separate book, known as Petty Cash Book. It is a small amount of discretionary finances in the business firm of cash practiced for expenditure where it's not sensible to make the expense by check because of the trouble and price of cashing and writing signing cashing in the check of the bank.

Key Words.

Petty cash: The petty cash is defined as relatively small amount of cash kept at hand for making quick payments for miscellaneous small expenses in the business concern.

Petty cash book : A cash book which is created for the small payments of an organization i.e. taxi fare, bus fare, carfare, postage and stamps, stationary wages tea and coffee etc

Ordinary systems of petty cash: under this system petty cashier is given a certain amount of cash for meeting petty expenses of the office, when he spends nearly the whole amount, he submits the amount of expensive along with surplus amount. If necessary he will be given another sum for petty payments for subsequent period.

Impress system of petty cash book: the word 'impress' means 'advance amount' which is personal to certain person to make petty expenses. It is a systems off petty cash book



where a person (petty cashier) is given a fixed amount in the beginning of the period, the petty cashier submit the account of expenses keeping surplus amount himself.

Replenishing Petty Cash : Replenish petty cash by cashing subsequent checks when the sum you used to start your fund is nearly depleted.

Self Assessment Questions:

1. Define petty cash book. Describe the different problems of it.

Ans. _____

2. Describe the objectives of petty cash book.

Ans. _____

3. State the importance of petty cash book.

Ans. _____

4. Highlights the essential elements of petty cash book.

Ans. _____



Model Questions:

1. What is imprest system of petty cash book what are the advantages of it.
2. Describe the different types of petty cash book.
3. How do you reconcile the petty cash book.
4. Briefly mention the rules for recording transactions in petty cash book.

Further Readings:

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