

Chapter-8

Cash Book and Bank Related Transaction

Learning Objectives :

After going through this chapter, you should be able to understand-

1. The meaning of Cash Book & its need
2. Merit of maintaining Cash Book
3. Types of Cash Book
4. Meaning of Petty Cash Book
5. Meaning of Imprest system

Cash Book

The number of transactions relating to cash are the maximum in every business. Hence a separate book is required to record cash transactions. As such it is necessary to keep cash book for every small and big business. The trader records all cash receipts and cash payments in cash book relating to his business.

Only Cash transactions are entered in Cash Book. Cash transactions may relate either to cash receipts or to cash payment- Cash may be received from any source (sale or goods, receipts of any income or sale of assets etc.), it is recorded in Cash Book, Similarly, Cash payment for any payment of expenses are also written in Cash Book, Cash receipts are recorded on one side of Cash Book while cash payment on other side. Thus a trader, at any time, can know the balance of cash with him.

According to Andrew Munro, “Cash Book is used for recording the receipts and payments money whether in coins, notes, cheques, postal order, bank drafts etc.”

A special feature of Cash Book is that it serves both the purpose of a subsidiary book as well as of principal book since all transactions are directly recorded in the Cash Book which need not be recorded elsewhere, and on the basis of such record ledger accounts are prepared, it is a subsidiary book. On the other hand, when cash book is prepared cash and bank accounts are prepared in the ledger separately and the balances of cash book and bank columns are carried directly to trial balances the cash, therefore is a part of ledger also. Thus, Cash Book is both a subsidiary book and a principal book.

Only cash Transactions are recorded in Cash Book. Cash Transactions are of two types-

(i) Cash Receipts – Cash receipts may be for any reasons, (from sale of goods, receipts of income, sale of assets etc) are recorded in Cash Book.

(ii) Cash Payments – Cash payments which may in purchasing goods, paying expenses incurred or buying asset etc. are recorded in Cash Book.

Characteristics of Cash Book

1. **Recording Cash Transactions** – Cash Book is used for recording transactions related to cash receipts and cash payments
2. **Part of Ledger** - Cash Book is both a subsidiary book (book of original entry) and a principal book (Ledger)

3. **Debit and Credit Sides-** Cash Book has debit and credit both sides whereas other subsidiary books have any one side, (either debit side or credit side.)
4. **Opening and Closing Balances-** First of all opening balance of cash is written on debit side of cash book. Therefore, closing balance of cash is calculated and written on credit side.
5. **Recording Bank Transactions-** Transactions relating to bank are also recorded in bank column of cash book.

Necessity and uses of Cash Book

1. By maintaining a separate book, all cash transactions are recorded only in one book, and we can know information about cash transactions at one place.
2. This book enables a business man to know the balance of cash in hand at the end of each day and can tally, the same with actual cash in hand. The error, if any, may be detected which can be rectified immediately.
3. This book enables a business man to know the balance of cash and bank at any point of time which is necessary for formulating business plans.
4. In triple column Cash Book, there is a column for bank transactions also. In which banking transactions are recorded, from which balance of amount in bank is also known at any point of time. A separate bank account in ledger is not required to be opened.
5. Cash account need not be opened in the ledger because cash book itself serves the purpose of ledger. Thus ledger posting is required only for other sides.

Advantages of Cash Book

1. When a cash book is maintained, no separate cash account is opened in the ledger. Thus it prevents duplication of work in recording cash transactions in journal and the posting them in the ledger.
2. In double column cash book bank, transactions along with cash, are also recorded and so no separate bank account is required to be opened.
3. By keeping cash book, the burden of the ledger is reduced because cash account and bank account need not be opened separately in the ledger
4. Cash Book also provides the convenience of recording daily cash receipts and payments.
5. It helps a businessman to know the balance of cash in hand and cash at bank at any point of time without waiting for posting from the journal.
6. The balance of cash as shown in cash book should be equal to actual or physical balance of cash in hand. By regular verification on possibility of defalcation or theft is reduced. The mistake if any can also be detected immediately which may be rectified in time.

Distinguish between Cash Book and Cash Account

Cash Book, in fact, is a substitute of cash account. In both there, cash transaction are recorded date wise both of these enable a businessman to know the cash balance on any date, even then there are some difference between these two as follows –

S.No.	Cash Book	Cash Account
1	It is separate book which is maintained to record all cash transaction	It is one of the various accounts kept in the ledger
2	It is a book of original entry since all cash transaction are first recorded in it and then posted from this book to various accounts in ledger	Cash Account is kept in the ledger and posting in this account is done from journal.
3	When cash transactions are recorded in cash book, there is no necessity to open a cash account in the ledger	When transaction of cash are also recorded in journal it becomes necessary to open a cash account in the ledger
4	It records both the aspects of some transactions	If records one aspect of transaction, i.e. cash.

Kinds of Cash Book

1. Simple cash book or one column cash book
2. Cash Book with discount column or two column cash book
3. Cash Book with discount and bank column or three column cash book in addition to the main cash book, firms also maintains generally Petty Cash Book, it is only a subsidiary book.

1. Simple Cash Book or One Column Cash Book

This type of cash book is maintained by all businessmen who do not have any transaction with the bank nor they keep any bank account. In this cash book only cash receipts and cash payment are written. Cash receipts are recorded on its debit side and cash payments on its credit side. Entries for cash discount and banking transaction are not recorded in this book. The book is just like a cash discount. Vouchers are needed to enter the transactions in this book, the serial of which is written in column provided for it on both side of this book. When this book is maintained, Cash Account need not be prepared in the ledger. The Performa of simple Cash Book is given below –

Simple Cash Book

Dr.

Cr.

Date	Particulars	V.No.	L.F.	Amount	Date	Particulars	V.No.	L.F.	Amount

It is clear from the above format columns are similar on both sides of cash book, there are as follows –

- i. Date: - The date of transaction is recorded on this column.
- ii. Particulars: - The name of accounts in respect of which cash has been received or cash has been paid in written in this column.
- iii. Voucher No.: -The serial number of receipt or any other evidence verifying or rectifying the receipt or payment is written in this column.
- iv. Ledger Folio (LF): - The page number of the ledger on which posting of this amount has been made is written.
- v. Amount: - The amount of the transaction is recorded in this column. '

Rules of passing entries in Cash Book –

Cash Book itself is a cash account and cash account is a real account. Rules of debit and credit are the same as that of a real account i.e. Debit what comes in and credit what goes out. Thus, when cash is received, it is recorded on its debit side by prefixing 'To' and cash paid is recorded on credit side by prefixing 'By'.

If, Opening balance of cash is given it will be written on debit side of the cash book.

Balance of Cash Book and Carry Forward

Cash Book may be balanced daily or weekly or monthly depending upon the requirement of the business enterprises. Generally, it is balanced daily so as to tally the balanced as shown cash book. With that of the actual amount of cash laying in cash box the following points should be taken into consideration while balancing the cash book-

- i. Fire of all summate and add up debit side and credit side of cash book
- ii. Thereafter, the difference of both side should be extracted and difference amount be written on the shorter tot tal side. In this case, on credit side as “**By Balance c/d**” Thus the total of both sides will be equal which will be written in the two columns of amount- opposite to one another.
- iii. The closing balance becomes opening balance of cash in hand in the next period by writing “**To Balance b/d**”.
- iv. The total of debit (receipt) side of cash book shall always be more than the total of credit (payment) side. It is because of the face that businessmen cannot pay more than what he has got. Sometimes both sides may be equal but debit side cannot be less than credit side.

Illustration 1: Enter the following transaction in simple cash book or one column cash book –

<u>2017</u>		₹
Jan 1.	Cash in hand	12,000
Jan 2.	Cash Sales	9,000
Jan 3.	Cash Purchases	6,000
Jan 7.	Purchased Furniture	1,300
Jan 11.	Goods purchased from ram on credit	5,000
Jan 15.	Received cheque from Gaurav	4,000
Jan 20.	Paid Wages	500
Jan 22.	Received Commission	1,500
Jan 25.	Paid Rent	2,000
Jan 31.	Paid to Rashmi	13,000

Solutions

Simple Cash Book (For the month of Jan 2017) (Table)

Date	Particulars	V. No.	L.F.	Amount (₹)	Date	Particulars	V. NO.	L.F.	Amount (₹)
2015					2015				Rs.
Jan 1	To Balance b/d			12,000	Jan 5	By Purchase A/c			6,000
Jan 3	To Sales A/c			9,000	Jan 7	By Furniture A/c			1,300
Jan 15	To Gaurav			4,000	Jan 20	By Wages A/c			500
Jan 22	To Commission A/c			1,500	Jan 25	By Rent			2,000
					Jan 31	By Rashmi			13,000
					Jan 31	By Balance c/d			3,700
				26,500					26,500
2015									
Feb 1	To Balance b/d			3,700					

Note:-

- Transaction of Jan 11 will not be recorded in cash book since it relate to credit purchase.
- When a cheque is received from any party. It is treated as cash as given in the transaction of January 15.

Posting of Simple Cash Book into Ledger

There is no need of opening cash account in the ledger since cash book serves the purpose of cash account also. Posting of one aspect of transaction is already done in cash book and posting of another aspect of transactions is done by opening necessary accounts in the ledger. Thus, all receipts appearing on debit side of cash book are posted to the credit of the respective ledger account by writing “**By Cash A/c**” to complete double entry similarly, all payments appearing on credit side of cash book are posted to the debit side of respective ledger account by writing “**To Cash A/c**” in particulars column to complete double entry.

Thus, in short we can say that accounts of receipts side are credited while that of payments side debited.

Illustration 2: Enter the following transaction in simple cash book and post then in ledger–

<u>2016</u>		₹
July 1.	Cash in hand	4,800
July 3.	Received from Rubi	1,200
July 10.	Paid Rent	1,200
July 15.	Paid to Rachana	1,000
July 20.	Purchased Machinery	1,800
July 25.	Paid Salary	400
July 28.	Cash Sales	800
July 30.	Cash Purchases	1,700

Simple Cash Book
(For the month of July, 2016)

Date	Particulars	V. No.	L.F.	Amount	Date	Particulars	V. No.	L.F.	Amount
2015				`	2015				`
July 1	To Balanced b/d			4,800	July 10	By Rent A/c			1,200
July 3	To Rubi			1,200	July 15	By Rachna's A/c			1,000
July 28	To Sales A/c			800	July 20	By Machinery A/c			1,800
					July 25	By Salary A/c			400
					July 30	By Purchase A/c			1,700
					July 31	By Balance c/d			700
				6,800					6,800
2016									
Aug 1	To Balance b/d			700					

Ledger

Dr.

Rubi's Account

Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
				2016 July 3	By Cash A/c		1,200

Rent Account

2016 July 10	To Cash A/c		1,200				
-----------------	-------------	--	-------	--	--	--	--

Rachna's Account

2016 July 15	To Cash A/c		1,000				
-----------------	-------------	--	-------	--	--	--	--

Machinery Account

2016 July 15	To Cash A/c		1,800				
-----------------	-------------	--	-------	--	--	--	--

Salary Account

2016 July 25	To Cash A/c		400				
-----------------	-------------	--	-----	--	--	--	--

Sales Account

				2016 July 28	By Cash A/c		800
--	--	--	--	-----------------	-------------	--	-----

Purchase Account

2016 July 30	To Cash A/c		1700				
-----------------	-------------	--	------	--	--	--	--

Now a day, credit transactions are taking place very often but realization of credit transactions is a very difficult task. To save from this difficulty a businessman usually allows some amount as discount to customer payments is made within a certain period. Similarly he also receives some allowance from the suppliers of goods. These allowances are called cash discount. Cash discount received by a businessman is a profit while cash discount allowed are received when payment is made. As such it becomes necessary to record this fact at the same place where the cash transaction is recorded. Double column cash book is used for this purpose. Thus an additional column of discount on each side of the cash book is provided for discount.

Two Column Cash Book

Date	Particulars	V. No.	L.F.	Amount		Date	Particulars	V. No.	L.F.	Amount	
				Dis	Cash					Dis	Cash
				₹	₹					₹	₹

Rules for recording transactions in double column cash book are the same as in case of simple cash book difference is only as regards discount. For this we should remember that cash discount is allowed when cash is received. As such discount allowed is recorded on debit side because it is a loss. Whereas discount received is recorded when cash is paid which should be recorded on credit side of cash book, because it is a profit. In short we may say that discount is recorded on the same side where cash receipts and cash payments are recorded.

When amount of cash is received from debtors before due date, discount is allowed for which following entry is passed–

For Example: Received from shyam ₹. 950 and allowed him discount ₹. 50 amount of cash received is debited and discount allowed being a loss, also debited. As such in Cash Book on debit side we shall write **“To Shyam”** ₹. 50 in discount column and ₹. 950 in cash column.

Discount Received

When payment to creditors is made prior to due date, cash discount is received for which following entry be passed-

Creditors A/c	Dr.
To Discount Received A/c	

For Example: Paid to Ram ₹. 1,900 is full settlement of ₹. 2,000 the amount of discount received in this transaction in ₹. 100. As such, “**By Ram**” will be written on credit side of Cash Book and write rs. 100 in discount column and ₹. 1,900 in cash column. The rules for recording transactions in double column cash book may be understood as follows-

“In Double Column Cash Book two columns for the amount are provided on both sides. First column on both sides is meant for writing the amount of discount and the second column for the amount of Cash. If discount is allowed to a customer, the amount of discount will be written on debit side in discount column and cash received in cash column. Similarly at the time of payment, if discount is received, it will be written in discount column and the amount of cash in cash column on credit side of cash book.”

Balancing of Two Column Cash Book

The Following points should be taken into consideration while balancing double column cash book-

1. The debit balance of cash column will always be higher than the payment or credit side.
2. The difference will be put on the credit as 'By Balance c/d'. This will be make the total of two cash column equal which will be written in the two column opposite to one another.
3. It must be noted that the discount column in cash book are only totaled and not balanced. These columns are merely memorandum columns and hence do not serve the purpose of discount-

Illustration 3: Enter the following transaction in two column cash book of Lal Chand—

<u>2017</u>		<u>₹</u>
Jan 1.	Cash in hand	12,000
Jan 2.	Cash Purchases	6,000
Jan 6.	Cash Sales	4,000
Jan 7.	Paid to Alka	4,000
	Discount receive from her	100
Jan 10.	Receive from Ashis in full settlement of Rs. 380	370
Jan 15.	Paid to Dev in full settlement of Rs. 300	290
Jan 20.	Furniture Purchased	2,000
Jan 25.	Paid Wages	200
Jan 31.	Paid Salary	2,000
Jan 31.	Rent Received	1,000

Two Columnar Cash Book of Shri Lal Chand
(For the month of Jan. 2017)

Dr.

Cr.

Date	Particulars	V. No.	L.F.	Amount		Date	Particulars	V. No.	L.F.	Amount	
				Dis.	Cash					Dis.	Cash
2015				₹	₹	2015				₹	₹
Jan 1	To Balance b/d				12,000	Jan 2	By Purchase A/c				6,000
Jan 6	To Sales A/c				4,000	Jan 7	By Alka			100	4,000
Jan 10	To Ashesh			10	370	Jan 15	By Dev			10	290
Jan 31	To Rent A/c				1,000	Jan 20	By Furniture A/c				2,000
						Jan 25	By Wages A/c				200
						Jan 31	By Salary A/c				2,000
						Jan 31	By Balance c/d				2,880
				10	17,370					110	17,370
2015											
Feb 1	To Balance b/d				2,880						

Ledger Posting of Two Column Cash Book

In double Column Cash Book the ledger posting of cash columns is done exactly in the same manner as in cash of simple Cash Book but if in Cash Book amount of discount and cash both appear in two columns, the same will be posted as under-

- i. **Ledger Posting of Debit Items of Cash Book** – All those accounts appearing on debit side related to cash and discount columns will be credited in those account by writing 'By Cash A/c' and 'By Discount A/c' and concerned amount is written in amount column.
- ii. **Ledger Posting of Items of Credit side of Cash Book** – All those accounts appearing on credit side related to cash and discount columns will be debited in those accounts by writing 'To Cash A/c' and 'To Discount A/c' and concern amount written in the amount columns.
- iii. **Opening Discount Accounts in Ledger** – As stated above the discount columns appearing on both sides of cash book are totaled for ledger posting. Total amount of discount on debit side is discount allowed while that of credit side discount received. According to accounts of discount are opened in the ledger. An individual entry in discount allowed columns is posted to the respective personal account in the eldger by writing 'By discount Allowed' and total of discount allowed columns is posted to the 'Discount Allowed A/c' by writing 'To Sundries as per Cash Book' and similarly total of discount received column is posted to the Discount Received A/c by writing 'By Sundries as per Cash Book'.

Illustration 4: Enter the following transaction in cash book with discount column and also post them in ledger—

2016

- May 1. Balance of Cash in hand ₹ 7,000
- May 2. Received from Harish ₹ 1,700 and discount allowed to him ₹ 500
- May 6. Cash Purchase ₹ 1,160
- May 8. Cash Sales ₹ 1,640
- May 11. Received a cheque from Shyam ₹ 900, discount allowed ₹ 20
- May 17. Paid to Suresh ₹ 2,500, Discount Received ₹ 100
- May 22. Cash Sales ₹ 1,900
- May 24. Goods Bought from Bholu rs. 2,000
- May 28. Paid to Narendra ₹ 1,360 in full settlement of his discount which shows a credit balance of ₹ 1,400
- May 30. Paid salary ₹. 2,400
- May 31. Goods sold to Ram ₹. 5,000

Two Columnar Cash Book
(For the month of May, 2016)

Dr.

Cr.

Date	Particulars	V. No.	L.F.	Amount		Date	Particulars	V. No.	L.F.	Amount	
				Dis.	Cash					Dis.	Cash
2015				₹	₹	2015				₹	₹
May 1	To Balance b/d				7000	May 6	By Purchase a/c				1160
May 5	To Harish			50	1700	May 17	By Suresh			100	2500
May 8	To Sales a/c				1640	May 25	By Wages a/c				200
May 11	To Shyam			20	900	May 28	By Narendra			40	1360
May 22	To Sales a/c				1900	May 30	By Salary a/c				2400
						May 31	By Balance c/d				5520
				70	13140					140	13140
2015											
June 1	To Balance b/d				5520						

Note:-

- Transaction of May 24 and 31 do not relate to cash receipt or payment, as such not recorded in cash book.
- Discount columns are not balanced but totaled since those columns are merely memorandum columns.

LEDGER

Dr.

Harish's Account

Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
				2016 May 5 May 5	By Cash A/c By Discount A/c		1,700 50

Purchase Account

2016 May 6	To Cash A/c		₹ 1,160				
---------------	-------------	--	------------	--	--	--	--

Sales Account

				2016 May 8 May 22	By Cash A/c By Cash A/c		₹ 1,640 1,900
--	--	--	--	-------------------------	----------------------------	--	---------------------

Suresh's Account

2016 May 17 May 17	To Cash A/c To Discount A/c		₹ 2,500 100				
--------------------------	--------------------------------	--	-------------------	--	--	--	--

Shyam's Account

				2016 May 11 May 11	By Cash A/c By Discount A/c		₹ 900 20
--	--	--	--	--------------------------	--------------------------------	--	----------------

Wages Account

2016 May 25	To Cash A/c		₹ 200				
----------------	-------------	--	----------	--	--	--	--

Narendra's Account

2016 May 29 May 29	To Cash A/c To Discount A/c		₹ 1,660 40				
--------------------------	--------------------------------	--	------------------	--	--	--	--

Salary Account

2016 May 30	To Cash A/c		₹ 2,400				
----------------	-------------	--	------------	--	--	--	--

Discount Account

2016 May 31	To Sundries A/c per Cash Book		₹ 70	2016 May 31	By Sundries A/c per Cash Book		₹ 140
----------------	----------------------------------	--	---------	----------------	----------------------------------	--	----------

1. Cash Book with Discount and Bank Columns or Three Column Cash Book-

In the present age banking service have developed very much . Thus businessmen usually do not keep much cash with them and surplus amount deposit in banks and most of the payment are made by issuing cheques. In some cases payment by cheques is a legal necessity. When a businessmen keep an account in bank, three column for the amount are drawn on both side of cash book. There columns are discount column, cash columns and bank columns. In Performa is as follows-

For passing entries in three column cash book, the following points should be kept in consideration –

- (i) Cash Column of Cash Book always reveal debit balance which is written in cash book on debit side as 'To Balance b/d' but the balance of Bank Account may be debit or credit. So while writing this balance, if it is debit, will be written on debit side as 'To Balance b/d' and in case of credit balance, it will be shown on credit side as 'By Balance b/d' : When the withdrawals of a trader are more than his deposits, such excess amount is called overdraft to be recorded on credit side for cash book.
- (ii) **Contra Entries :** When cash is deposited into Bank withdrawn from Bank for office use. Entries in both these cases are passed on both sides of cash book. Since these transactions are recorded on both sides so called 'Contra Entries'. Cash and Bank both accounts are affected by these transactions, the letter 'C' must be written in the column of L.F. to indicate that these are contra entries and for which no further Ledger posting is required.
 - (a) **Deposited into Bank :** When cash is deposited into Bank, both cash and bank accounts are affected. This amount is recorded in the Bank column on receipt side and in cash column payment side and letter (C) is written on both the sides in LF columns.

For example : ₹ 1,000 deposited in Bank, the Journal entry will be –

Bank A/c Dr.
To Cash A/c
(Being Cash deposited into Bank)

Three Columnar Cash Book

Dr.

Cr.

Date	Particulars	V. No.	L.F.	Amount			Date	Particulars	V. No.	L.F.	Amount		
				Dis.	Cash	Bank					Dis.	Cash	Bank
	To Cash a/c		C	₹	₹	₹		By Bank a/c		C	₹	₹	₹
						1000						1000	

(b) Withdraw from Bank for Office use :

When amount is withdrawn from Bank for the use of the office, its entry will also be passed on both sides of cash book. It will be entered in Bank column on credit side or payment side and cash column on debit side means receipts side. The letter (C) shall be written on both

sides in L.F. columns.

For example : Withdrew ₹ 2,000 for office use. The journal entry will be –

Cash A/c Dr.

To Bank A/c

(Being cash withdrawn from Bank for office use)

Three Columnar Cash Book

Dr.

Cr.

Date	Particulars	V. No.	L.F.	Amount			Date	Particulars	V. No.	L.F.	Amount		
				Dis.	Cash	Bank					Dis.	Cash	Bank
	To Bank a/c		C	₹	₹ 2000	₹		By Cash a/c		C	₹	₹	₹ 2000

- (iii) When a cheque is received which is not deposited into Bank on the same date then it will be recorded on Receipt side in Cash Column. When this cheque will be deposited into Bank then it will be entered as contra entry, on receipt column of Bank as 'To Cash' and on payment side of cash column as 'By Bank'. The letter (C) will be written on both sides in LF Column.
- (iv) When Cash or cheque or bank draft is received, it should be written on Receipt side cash column.
- (v) When we receive a cheque or a bank draft and is deposited into Bank on the same day, it should be recorded in Bank column on receipt side.
- (vi) At the time of receiving cash or cheque, discount is allowed the amount of discount should be shown on Receipt side in discount column against the column of amount of receipt.
- (vii) Cash payments are recorded on payment side in Cash Column.
- (viii) When payment is made by a cheque, it is written on payment side in Bank Column.
- (ix) When a businessman makes payment to a creditor some expense by cheque, write the same on credit side in Bank column.
- (x) While making payment, if discount is received , it should be recorded on credit side in discount column of cash book.
- (xi) When Bank charges some amount of fee, interest or commission, which should be recorded on payment side in Bank column of Cash Book.
- (xii) When Bank collects Interest and Commission on behalf of the trader or businessman, the amount so collected should be written on Receipt side in Bank column.

- (xiii) If a cheque deposited into Bank is dishonored i.e. the bank fails to collect its amount against it, it is entered on credit side with the name of the concerned party in Bank Column.
- (xiv) Amount drawn by the proprietor for personal use is recorded on credit side in cash or in Bank column, as the case may be.
- (xv) Cheque received is recorded on Receipt side in cash column and if it is endorsed to some person or party, it should be entered on payment side in cash column by writing the name of endorsee.

Balancing of Three Column Cash Book :

There are three Columns of amount on both sides of three column cash book viz, Discount, Cash and Bank. The following points should be kept in consideration while balancing it –

- (i) The discount columns of this cash book are totaled and not balanced.
- (ii) The cash column are balanced exactly in the same manner as we do in case of simple cash book.
- (iii) Bank column may reveal either debit balance or credit balance. Since bank allows the facility to customer to withdraw more amount than his deposits. Such excess withdrawal is called 'Bank overdraft' facility. In this case total of credit side is higher than that of debit side. The difference is written on debit side as 'To Balance c/d' in Bank Column. If debit side of Bank column is excess, the difference is written on credit side as 'By Balance c/d' and thereafter both sides are totaled.

Illustration 5 : Write out the following transactions in three column cash book :

2017		₹
Jan. 1	Commenced Business with cash	2,00,000
Jan. 2	Deposited into Bank	80,000
Jan. 5	Purchased goods from Mohit (trade discount 10%)	50,000
Jan. 8	Paid to Mohit by cheque, cash discount received ₹1,000	44,000
Jan. 10	Cash Sales	20,000
Jan. 11	Purchased goods from Sitaram and paid by cheque	22,500
Jan. 15	Goods sold to Yogita	25,000
Jan. 18	Received a cheque from Sonu ₹ 12,250 and discount allowed ₹ 250 and deposited cheque into Bank.	
Jan. 25	Purchased furniture and paid by cheque	10,000
Jan. 30	Withdraw from Bank for Office Use	2,000
Jan. 30	Purchased Machinery	30,000
Jan. 31	Bank collected dividend on behalf of customer	3,750

(Solution) :

Three Columnar Cash Book

Dr.

(For the month of Jan 2015)

Cr.

Date	Particulars	V.N o.	L.F.	Amount			Date	Particulars	V.N o.	L.F.	Amount		
				Dis.	Cash	Bank					Dis.	Cash	Bank
2015				₹	₹	₹	2015				₹	₹	₹
Jan 1	To Capital a/c				200000		Jan 2	By Bank a/c		C		80000	
Jan 2	To Cash a/c		C			80000	Jan 8	By Mohit			1000		44000
Jan 10	To Sales a/c				20000		Jan 11	By Purchases a/c					22500
Jan 18	To Sonu			250		12250	Jan 25	By Furniture a/c					10000
Jan 30	To Bank a/c		C		2000		Jan 30	By Cash a/c		C			2000
Jan 31	To Dividend a/c					3750	Jan 30	By Machinery a/c				50000	
							Jan 31	By Balance c/d				92000	17500
				250	222000	96000					1000	222000	96000
2015													
Feb 1	To Balance b/d				92000	17500							

Note :

1. On January 5, goods purchased from Mohit is a credit transaction and it will not be recorded in cash book.
2. On January 11, purchases from Sitaram by payment of cheque. This the account of Sitaram is not affected.
3. On January 15, Goods are sold to Yogita on credit. Thus it is not entered in cash book.
4. On January 2, amount deposited in Bank, and on January 30, amount withdrawn for office use, both these transactions are contra entries.

Posting from Three Column Cash Book into Ledger

As stated above, cash column in the cash book are the cash accounts and bank columns are Bank account. As such, Cash account and bank account are not opened in Ledger. The various items appearing on debit and credit sides of Three column cash book are posted in Ledger as under :

- (i) All the receipts appearing on debit side of cash book are posted to the credit side of the respective ledger accounts by writing 'By Cash/Bank A/c' in the particulars column because cash or cheque has been received from them. An individual entry in the discount allowed column is posted to the credit of respective personal accounts by writing 'By discount allowed a/c' on particular column.

- (ii) All the payments appearing on credit side are posted to the debit of concerned ledger account by writing "To cash/bank a/c" in the particulars column because cash or cheque has been paid to them. An individual entry in the discount received column is posted to the debit of the concerned personal accounts by writing, 'To discount received account' in the particulars column.
- (iii) Contra entries are not posted in the Ledger because double entry is completed in cash book itself.
- (iv) The total of discount allowed account from debit side, of cash book is posted to the debit of 'Discount Allowed Account' by writing 'To Sundries as per cash book' in particulars column. Similarly, the total of discount received column on credit side of cash book is posted to the credit of 'Discount Received Account' by writing 'By Sundries as per Cash Book' in particulars column.
- (v) Opening and Closing Balances in Cash Book are not posted in Ledger.

Illustration 6 : Enter the following transactions in three column or cash book and post them into Ledger –

2016		₹
July 1	Cash in Hand	1,600
July 1	Bank Overdraft	11,400
July 7	Received a cheque from Alka	6,500
July 9	Above cheque deposited into Bank	-
July 12	Paid to Ashish by Cheque	4,850
July 15	Alka's cheque returned dishonored by Bank	-
July 20	Withdrew from Bank for Office use	500
July 22	Received cash from Amit ₹ 950, discount allowed ₹ 50	-
July 24	Purchased goods from Swati ₹ 1,500 and paid her by cheque after deducting 20% discount.	-
July 25	Cheque received from Sadhana	2,400
July 28	Sadhna's cheque endorsed to Manju	-
July 30	Income tax paid by cheque	300
July 31	Bank charges	50

(Solution):

Three Columnar Cash Book
(For the month of July 2017)

Dr.

Cr.

Date	Particulars	V. No.	L.F.	Amount			Date	Particulars	V. No.	L.F.	Amount		
				Dis	Cash	Bank					Dis	Cash	Bank
2015				₹	₹	₹	2015				₹	₹	₹
July 1	To Balance b/d				1600		July 1	By Balance b/d					11400
July 7	To Alka				6500		July 9	By Bank a/c		C		6500	
July 9	To Cash a/c		C			6500	July 12	By Ashesh					4850
July 20	To Bank a/c		C		500		July 15	By Alka					6500
July 22	To Amit			50	950		July 20	By Cash a/c		C			500
July 25	To Sadhna				2400		July 24	By Purchase a/c			30		1470
July 31	To Balance c/d					18570	July 28	By Manju				2400	
							July 30	By Drawings a/c					300
							July 31	By Bank Charges a/c					50
							July 31	By Balance c/d				3050	
				50	11950	25070					30	11950	25070
2015							2015						
Aug 1	To Balance b/d				3050		Aug 1	By Balance b/d					18570

Notes :

1. Alka's cheque was deposited on July 9 in the Bank. This transaction is similar to the amount of cash deposited in Bank.
2. On dishonor of Alka's cheque, the entry will be Alka's A/c debit, to Bank A/c. As such it will be credited in Bank column of cash book.
3. When cheque received from Sadhna is endorsed to Manju, it will be entered on credit side in cash column of cash book.
4. Income tax is treated as personal expense of the proprietor as such it is treated as Drawings on July 30.

LEDGER

Dr.

Harish's Account

Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2016 July 15	To Bank A/c		6,500	2016 July 7	By Cash A/c		₹ 1,500

Amit's Account

				2016 July 22	By Cash A/c		₹ 950
				July 22	By Discount A/c		50

Sadhna's Account

				2016 July 25	By Cash A/c		₹ 2400
--	--	--	--	-----------------	-------------	--	-----------

Ashesh's Account

2016 July 12	To Bank A/c		₹ 4850				
-----------------	-------------	--	-----------	--	--	--	--

Narendra's Account

2016 July 24	To Bank A/c		₹ 1,470				
July 24	To Discount A/c		30				

Manju's Account

2016 July 28	To Cash A/c		₹ 2400				
-----------------	-------------	--	-----------	--	--	--	--

Drawing's Account

2016 July 30	To Bank A/c		₹ 300				
-----------------	-------------	--	----------	--	--	--	--

Bank Charges Account

2016 July 31	To Bank A/c		₹ 50				
-----------------	-------------	--	---------	--	--	--	--

Discount Account

2016 July 31	To Sundries A/c per Cash Book		₹ 50	2016 July 31	By Sundries A/c per Cash Book		₹ 30
-----------------	----------------------------------	--	---------	-----------------	----------------------------------	--	---------

(Illustration) 7 : Post the transaction given in Illustration 5 into the Ledger)

(Solution) :

LEDGER

Dr.				Cr.			
Capital Account							
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
				2016 July 1	By Cash A/c		₹ 200000
Sales Account							
				2016 July 10	By Cash A/c		₹ 200000
Sonu's Account							
				2016 July 15	By Bank A/c		₹ 12250
				July 15	By Discount A/c		250
Dividend Account							
				2016 July 31	By Bank A/c		₹ 3750
Mohit's Account							
2016 July 8	To Bank A/c		₹ 4,400				
July 8	To Discount A/c		100				
Purchase Account							
2016 July 11	To Bank A/c		₹ 22500				
Furniture Account							
2016 July 25	To Bank A/c		₹ 10000				
Machinery Account							
2016 July 30	To Cash A/c		₹ 5000				
Discount Allowed Account							
2016 July 30	To Sundries as per Cash Book A/c		₹ 250				
Discount Allowed Account							
				2016 July 11	To Sundries as per Cash Book A/c		₹ 1,000

Petty Cash Book

In every organization a large number of small payments are incurred for daily needs. For example, tea and refreshment expenses for customers and visitors, postage, riksha & taxi charges, carriage & cartage, printing & stationary charges etc. If all these payments are entered in the main cash book, it will become very bulky. To avoid this problem, large scale organizations normally appoint one person who makes all small payments and records then in his cash book, which is called Petty Cash Book and the person in charge, a petty cashier. Petty cashier posses the right of payment of expenses to a certain limit, for example say upto ₹ 100 or ₹ 200. This saves time and energy of the main cashier. Petty expenses can be adequately controlled. The petty cashier is provided certain amount as advance by the main cashier so that he can make such payments immediately.

Advantages of Petty Cash Book :

- (i) The method of preparing petty cash book is quite easy. Its preparation does not need special knowledge.
- (ii) Petty Cash Book is kept by Petty Cashier, thus it saves time and energy of chief cashier.
- (iii) Since petty expenses are written in petty cash book, the time and labour of main cashier is saved.
- (iv) When petty cash book is maintained, its totals are recorded in the Ledger which causes great saving in positing.
- (v) On preparing petty cash book, the possibilities of mistakes are minimized in main cash book since it is checked by the main cashier from time to time.
- (vi) Preparation of petty cash book reduces the chances of defalcation because every item of expenditure will have separate evidence.
- (vii) Keeping petty cash book reduces the bulk of main cash book.

Petty Cash Book can be maintained in two ways :

- (1) According to first method, sundry petty expenses are written in petty cash book and at the end of each month those petty expenses are summed up and total amount is posted in Ledger by opening only Miscellaneous or Sundry Expenses Account. This method does not furnish the information regarding the total expenditure incurred on each head of expenses because no separate columns are maintained of different expenses under this method.
- (2) Second method : According to this method, amount received as an advance from main cashier is recorded on debit side. While the payment of expenses on credit side. On the payment side a separate column is provided for each class of most common expenses. Number of columns depends upon the nature and necessity of each business. A business of small size require lesser number of columns while a business of large size will require more columns. A separate column is provided for very small expenses designated Sundry or Miscellaneous expenses. These separate columns of different expenses are totaled up and directly posted in ledger with the total amount at the end of certain period. At the end of a certain period the petty cash book is balances and the same is carried to trail balance or the balance sheet.

Out of these two methods, the second method is the best because this method reveals total amount spent on various types of expenses during a particular period. It is also known as columnar petty cash book. A specimen of petty cash book is given below :

Dr. Petty Cash Book Cr.

Receipts	Date	Particulars	V.No.	Total Amount	Printing & Stationery	Postage & Telegram	Wages	Carriage	Refreshment	Sundry Exp.
1	2	3	4	5	6	7	8	9	10	11

Note : Analytical payment columns of petty cash book may be increased or decreased as per the requirement.

Imprest System of Petty Cash Book –

Under this system of petty cash book a certain sum is given to the petty cashier by the chief cashier in advance which is called Imprest money. Petty Cashier makes payment of petty expenses out of this imprest money. At the end of the month, vouchers are checked and an amount equal to the amount spent is again given to the petty cashier. Thus the next period again begins with the fixed sum of money. This method of petty cash book is called Imprest System.

In short, this system may be understood as follows –

Under this system the petty cashier is given a definite sum at the beginning of a certain period. At the end of the period the amount of expenses paid by petty cashier are reimbursed so that the petty cashier possess the same amount of advance the beginning of new period.

Essentials of a good Imprest System :

- (i) The petty cashier should possess a sufficient sum of money to make payment of petty expenses.
- (ii) The petty cashier should obtain proper receipt for all the payments made by him, which should be arranged date wise.
- (iii) All payments made by him should be recorded date wise.
- (iv) Petty cashier fails to obtain receipt for a particular payment, he should prepare a voucher himself the same and obtain approval from related officer.
- (v) There should be a upper limit of the amount of a single payment by the petty cashier. Payment above this limit should be made only by the head/main cashier.
- (vi) Petty cashier should receive the reimbursement of the a amount spent by him only from the main cashier so that he may have the original amount at the beginning of next month.

Advantages of Imprest System :

- (i) Division of Work : Accounting work is completed immediately due suitable division of cash transactions.
- (ii) Control over misappropriation and mistake : Since the chief cashier keeps a close watch over the expenses, any mistake or misappropriation is caught immediately.
- (iii) Checking of Record : All vouchers are arranged date wise as such the test of correctness of transactions is easy to conduct.
- (iv) Control over Petty Expenses : Petty expenses are kept within the limit of imprest money, the petty cashier can never spend more than the available petty cash with him.

Recording in Petty Cash Book :

In the beginning of the month chief cashier pays a certain sum of money to petty cashier in two ways. Either he pays advance money in cash or by means of a cheque. If petty cashier receives cash, he will write 'To cash' in particulars column and in cash of cheque 'To Bank' and the amount is written in receipt column and date is written on the date of receipt in the column for date. No other entry recorded on debit side. If the amount so received is totally spent during the month, additional amount is received by him for which same entry is made.

Balancing of Petty Cash Book :

For ascertaining the balance of Petty Cash Book first we should sumup the total column on credit side along with other columns should totaled. A point should be kept in mind that the total of all totals of various columns should be equal to the total of total column.

Thereafter, find out the balance of receipt column by deducting the total amount of expenses column from the total of Receipt column which is written in particular column on credit side as 'By Balance c/d'. This balance of amount will be carried forward in the beginning of next month and should be written as 'To Balance b/d'. In the beginning of next month total amount spent as expenditure will be reimbursed by the main cashier, as per imprest system. Thus the total amount of imprest in the next month will be the same as it was in the beginning of last month.

Illustration 8 : On 1st January, 2017 ₹ 1,000 were given to petty cashier for petty cash expenses. The petty cashier made the following payments during the month :

2017

Jan. 1	Stationary ₹ 50, postage ₹ 45 and Wages ₹ 55.
Jan. 6	Thela hire ₹ 60, Coolie expenses ₹ 50
Jan. 8	Telegram ₹ 70, Railway freight ₹ 80.
Jan. 10	Wages paid ₹ 90.
Jan. 15	Postage expenses ₹ 30, Printing expenses ₹ 40, thela hire ₹ 30.
Jan. 20	Railway freight ₹ 70, refreshment ₹ 50.
Jan. 25	Stationary ₹ 30, thela hire ₹ 40.
Jan. 30	Printing expenses ₹ 50, wages ₹ 80.

Solution :

Dr.

Petty Cash Book
(For the month of Jan. 2017)

Cr.

Rece- ipts	Date	Particulars	V. No.	Total Amount	Printing & Stationery	Postage & Telegram	Wages	Refres- hment	Carriage	Sundry Exp.
1	2	3	4	5	6	7	8	9	10	11
	2015			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1000	Jan 1	To Cash a/c								
	Jan 1	By Stationery a/c		50	50					
	Jan 1	By Postage a/c		45		45				
	Jan 1	By Wages a/c		55			55			
	Jan 6	By Thela Hire a/c		60					60	
	Jan 6	By Coolie Charges a/c		50			50			
	Jan 8	By Telegram a/c		70		70				
	Jan 8	By Railway Freight a/c		80						80
	Jan 10	By Wages a/c		90			90			
	Jan 15	By Postage a/c		30		30				
	Jan 15	By Printing Exp. a/c		40	40					
	Jan 15	By Thela hire a/c		30					30	
	Jan 20	By Railway Freight a/c		70						70
	Jan 20	By Refreshment a/c		50				50		
	Jan 25	By Stationery a/c		30	30					
	Jan 25	By Thela Hire a/c		40					40	
	Jan 30	By Printing Exp. a/c		50	50					
	Jan 30	By Wages a/c		80			80			
				920	170	145	275	50	130	150
	Jan 31	By Balance c/d		80						
1000				1000						
	2015									
80	Feb 1	To Balance b/d								
920	Feb 1	To Cash a/c								

Posting of Petty Cash Book :

Petty cash book is not directly posted in the Ledger. For posting the petty cash book, a petty cash book, a petty cash account is opened in the Ledger. This account is debited with the amount given to the petty cashier as an advance. Petty cash book is balances weekly or fortnightly or monthly and a Journal entry is first passed on the basis of petty cash book, debiting each expenses account individually as per total revealed by respective expenses columns and crediting the petty cash account with the total expenses incurred during the period. Thereafter on debit side of every expenses account 'To Petty Cash Account' is written for posting in Ledger and on Credit side of Petty Cash A/c . We should write 'By Sundries as per Petty Cash Book'. Thus ledger posting is done for total expenses.

Illustration 9 : Continuing Illustration 8, pass necessary Journal entries and post them in the Ledger.

Journal

Solution :

Date	Particulars	L.F.	Amount (₹)	
			Dr.	Cr.
2015				
Jan 1	Petty Cash A/c Dr. To Cash A/c (For Cash paid to Petty Cashier)		1000	1000
Jan 31	Printing & Stationery A/c Dr. Postage & Telegram A/c Dr. Wages A/c Dr. Refreshment A/c Dr. Carriage A/c Dr. Sundry Exp A/c Dr. To Petty Cash A/c (For Petty Expenses posted to Petty Cash A/c)		170 145 275 50 130 150	920
Feb 1	Petty Cash A/c Dr. To Cash A/c (For Cash Paid to Petty Cashier)		920	920

Dr.

Suspense Account

Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
Jan 1	To Cash A/c		1000	Jan 31	By Sundries as per Petty Cash Book		920
				Jan 31	By Balance c/d		80
			1000				1000
Feb 1	To Balance b/d		80				
Feb 1	To Cash A/c		920				

Printing & Stationery Account

2017 Jan 31	To Petty A/c		₹ 170				
----------------	--------------	--	----------	--	--	--	--

Postage & Telecom Account

2017 Jan 31	To Petty Cash A/c		₹ 145				
----------------	-------------------	--	----------	--	--	--	--

Wages Account

2017 Jan 31	To Petty Cash A/c		₹ 275				
----------------	-------------------	--	----------	--	--	--	--

Carriage Account

2017 Jan 31	To Petty Cash A/c		₹ 130				
----------------	-------------------	--	----------	--	--	--	--

Sundry Expenses Account

2017 Jan 31	To Petty Cash A/c		₹ 150				
----------------	-------------------	--	----------	--	--	--	--

Banking Transactions :

Bank is an institution which receives money from the public as deposit and gives money to the depositors when needed and lend money to the persons of repute or to the Business houses. Thus banks are those institutions which provide cash and credit transactions for their customers. Banks not only reduce the risk of a trader but give interest also to its depositors apart from the other important services rendered by them. Thus Banks have become a vital part of present business age.

Services rendered by the Banks :

1. To accept deposits.
2. To lend money on credit.
3. To provide facility of overdraft i.e. drawing more amount than the amount on deposit.
4. To keep in its safe custody the valuable articles and ornaments etc. of its customers.
5. To purchase and sale of securities.
6. To provide information about the financial position of its customers.
7. To provide facilities of letter of credit and traveler's cheque.
8. To make payment of Bill payable on due date after deducting discount.
9. To work of transmitting cash from one place to another.
10. To assist in exchanging foreign trade and foreign currency.
11. To make payment of insurance premium, rent etc. on behalf of customers.

Kinds of Bank Account : Usually following types of accounts can be opened in Banks :

1. **Bank Current Account** : There is no restriction on cash deposits and withdrawals in this account. Business enterprises usually open this account. No interest is paid by bank in this account but charges some fees for providing various services which is called bank charges or fee.

2. **Fixed Deposit Account :** The amount of cash in this account, is deposited only once and usually the amount of deposit can be withdrawn on the expiry of certain period. Bank gives interest in this account relatively at higher rate (9to 12 percent) On opening of this account bank of given a Receipt to the customer on which name of Depositor, his address, amount of deposit, rate of interest and due date are mentioned. Many times the Banks may require fixed deposits of certain amount to provide overdraft.
3. **Savings Bank Account :** The amount of cash may deposited in this account at anytime. The main purpose of this type of account is to inculcate the habit of savings in people. But as regards withdrawals from this account. There is some restriction of more than certain number of times. Some amount of interest usually at very low is given on the balance in this account. A pass book is given by Bank on opening this account, in which entries of deposits, withdrawals and interest etc. are made.
4. **Recurring Deposit Account :** A certain sum of money is deposited in this account regularly every month for a certain period which may be before 12, 24, 48 or 60 months etc. The interest rate in this account is higher than that of savings bank account. A sum of ₹ 10 or ₹ 50 or ₹ 100 or ₹ 500 or ₹1,000 or ₹ 2,000 etc. may be deposited in this account regularly for a certain period of time.

Journal entries for Banking transactions are passed as below :

Bank A/c Dr.

(Being Cash deposited in the Bank)

Bank A/c Dr.

(Being Cash/Cheque/Draft deposited by a debtor)

Bank A/c Dr.

- To Cash A/c
(Being cheque/draft deposited into bank)
-
- 4. When Cash is withdrawn from Bank for office use**
Cash A/c Dr.
To Bank A/c
(Being amount with drawn for office use)
-
- 5. When Creditor s are paid by cheques**
Creditor's Personal A/c Dr.
To Bank A/c
(Being Payment made by cheque to a creditor)
-
- 6. When Expenses are paid by Cheque**
Expenses A/c Dr.
To Bank A/c
(Being Expenses paid by cheques)
-
- 7. When customers cheque deposited in to Bank for personal use**
Drawing A/c Dr.
To Bank A/c
(Being amount with drawn for personal use)
-
- 8. When customers cheque deposited in to Bank is dishonoured**
Debtor's Personal A/c Dr.
To Bank A/c
(Being customers cheque dishonoured)
-
- 9. When Bank charges interest on overdraft**
Interest A/c Dr.
To Bank A/c
(Being interest allowed by Bank)
-
- 10. When Bank allows interest on Deposit**
Bank A/c Dr.
To Interest A/c
(Being interest allowed by Bank)
-
- 11. When charges some amount for proving certain services**
Bank charges A/c Dr.
To Bank A/c
(Being amount charged by Bank)
-
- 12. When fixed deposit Account is opened by issue of cheque**
Fixed Deposit A/c Dr.
To Bank A/c
(Being amount transferred to F.D. A/c)
-

13 On the expiry of F.D. Account period

Bank A/c Dr.
 To Fixed Deposit A/c
(Being amount of FD A/c & interest transferred)

14 When the amount for Loan received from Bank

Bank A/c Dr.
 To Bank Loan A/c
(Being bank Interest is paid by cheque)

15 When Bank Interest is paid by cheque

Interest on Loan Paid Dr.
 To Bank A/c
(Being interest on Loan paid)

16 When Bank Loan is paid

Bank Loan A/c Dr.
 To Bank A/c
(Being bank loan paid off)

Illustration 10 : Journalise the following bank transactions and post them in bank current and fixed deposit accounts :

2016		₹
June 1	Opening Balance of Bank current account	10,000
June 2	Cash deposited in Bank current account.	15,000
June 3	Amount deposited into bank by Debtors.	7,000
June 4	Purchase goods and paid by Cheque	5,000
June 5	Purchase furniture and paid by cheque	3,000
June 6	Sold goods to Ram and payment received by Cheque	5,000
June 8	Received Ram's cheque deposited into bank.	5,000
June 10	Amount withdrew from Bank for personal use.	2,000
June 12	Bank charged for collection charges.	50
June 14	Transferred from current a/c to fixed deposit account.	5,000
June 15	Ram's cheque dishonored and returned by bank.	
June 18	Interest credited by bank.	100
June 20	Interest credited by bank on fixed deposit account.	250
June 25	Salary paid by cheque	1,000
June 28	Sold goods to Rashmi, Payment received by cheque and deposited into bank.	4,000
June 29	Paid Jolu by cheque	3,000
June 30	Rent paid by cheque	2,000

Solution :

Journal

Date	Particulars	L.F.	Amount (₹)	
			Dr.	Cr.
2014 June 2	Bank A/c Dr. To Cash A/c (For Cash deposited into current A/c)		15000	15000
June 3	Bank A/c Dr. To Debtors A/c (For Amount deposited Direct by Debtor)		7000	7000
June 4	Purchase A/c Dr. To Bank A/c (For Purchased goods and paid by Cheque)		5000	5000
June 5	Furniture A/c Dr. To Bank A/c (For Purchased Furniture and paid by Cheque)		3000	3000
June 6	Cash A/c Dr. To Sales A/c (For Goods sold and amount received by Cheque)		5000	5000
June 8	Bank A/c Dr. To Cash A/c (For Ram's Cheque deposited into Bank)		5000	5000
June 10	Drawings A/c Dr. To Bank A/c (For Withdraw from Bank for personal use)		2000	2000
June 12	Bank Charges A/c Dr. To Cash A/c (For Bank Charges Charged by Bank)		50	50
June 14	Fixed deposit A/c Dr. To Bank A/c (For Transferred from Current A/c to Fixed deposit A/c)		5000	5000
June 15	Ram's A/c Dr. To Bank A/c (For Ram's Cheque returned dishonoured by Bank)		5000	5000
June 18	Bank A/c Dr. To Interest A/c (For Interest deposited by Bank)		100	100

Date	Particulars	L.F.	Amount (₹)	
			Dr.	Cr.
June 20	Fixed deposit A/c To Interest A/c (For Interest Credited by Bank on Fixed deposit)	Dr.	250	250
June 25	Salary A/c To Bank A/c (For Paid Salary by Cheque)	Dr.	1000	1000
June 28	Bank A/c To Sales A/c (For Goods sold and amount deposited into Bank)	Dr.	4000	4000
June 29	Jolu's A/c To Bank A/c (For Jolu Paid by Cheque)	Dr.	3000	3000
June 30	Rent A/c To Bank A/c (For Rent Paid by Cheque)	Dr.	2000	2000

Ledger

Dr.

Bank Account (Current A/c)

Cr.	Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
	2014			Rs.	2014			Rs.
	June 1	To Balance b/d		10000	June 4	By Purchase A/c		5000
	June 2	To Cash A/c		15000	June 5	By Furniture A/c		3000
	June 3	To Debtors A/c		7000	June 10	By Drawings A/c		2000
	June 8	To Cash A/c		5000	June 12	By Bank Charges A/c		50
	June 18	To Interest A/c		100	June 14	By Fixed deposit A/c		5000
	June 28	To Sales A/c		4000	June 15	By Ram's A/c		5000
					June 25	By Salary A/c		1000
					June 29	By Jolu A/c		3000
					June 30	By Rent A/c		2000
					June 30	By Balance c/d		15050
				41100				41100
	2014							
	July 1			15050				

Dr.

Fixed Deposit A/c

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2014			Rs.	2014			Rs.
June 14	To Bank a/c		5000	June 30	By Balance c/d		5250
June 20	To Interest a/c		250				
			5250				5250
2014							
July 1	To Balance b/d		5250				

Summary

1. **Cash Book :** Cash transactions of a business are recorded in a book called cash book.
2. **Cash book are of three types :** (i) Single Column Cash Book, (ii) Double Column Cash Book and (iii) Triple column Cash Book.
3. **Contra Entries :** When cash is deposited into Bank or When cash is withdrawn from bank for office use each of these two transactions affects both cash and bank columns and recorded on both sides of cash book. As such these entries are called contra entries.
4. Petty cash book is maintained for petty expenses.
5. **Advantages of cash book :** (i) Recording cash transactions separately, (ii) Knowledge of cash in hand, (iii) Knowledge of cash at bank, (iv) Knowledge ledger of discount allowed and discount received, (v) facilities ledger posting, (vi) no separate cash and bank accounts are required to be maintained, (vii) Ease in presenting evidence, (viii) control over cash.
6. Cash book is a part of ledger since cash and bank accounts need not to be opened in ledger.
7. Petty cash book is kept by petty cashier for petty day to day expenses.
8. Different types of bank accounts are (i) Current a/c, (ii) Fixed Deposit A/c., (iii) Savings Bank A/c and (iv) Recurring Deposit A/c.
9. Cash Book is a subsidiary book as well as the main book.
10. Cash and bank columns of cash book serves the purposes ledger accounts, also, so these accounts are not required to be opened in ledger. Thus it serves the purpose of Ledger also.

Important Words

Cash Book – This book is used for recording all transactions relating to cash receipts and cash payments.

Petty Cash Book – This book is used to record petty expenses for a certain period.

Imprest System – Denotes a system under which amount of petty expenses incurred in a month are reimbursed by the main cashier.

Contra Entry – Refer to record a transaction on both the sides of cash book.

Current Account – It is a type of account opened usually by businessmen for recording transaction relating to bank.

Fixed deposit account – It is also a type of account which is opened for a fixed period of time.

Savings Bank account – It is also a bank account which is opened usually by general public persons for depositing small savings by the people.

Recurring Deposit Account – It is also a type of Bank account in which a certain sum of money is regularly deposited for a certain period of time.

Questions for Exercise

1. The balance of simple cash book is –
(a) Always debit (b) Always credit
(c) Sometimes debit, sometimes credit (d) Equal of both sides
2. The bank will make entry of its customers deposit –
(a) In pass book (b) In cash book
(c) In cheque book (d) In pay in slip
3. Three column cash book will show bank overdraft, if –
(a) Balance of Bank Column is credit
(b) Balance of cash column is credit
(c) Balance of cash column is debit
(d) Balance of Bank Column is debt.
4. The cash book having discount column also is called –
(a) Two column cash book (b) Petty cash book
(c) Simple cash book (d) Three column cash book
5. Which of the following transaction will be recorded as contra entry –
(a) Amount deposited in bank
(b) Withdrew from Bank for personal use
(c) Wages paid by cheque
(d) Paid salary by cheque
6. Which of the following transactions will not be recorded in cash book –
(a) Cash loan (b) Deposited in Bank
(c) Commission Received (d) Sales Return

7. The main objective of keeping cash book is –
 - (a) To find out cash value of business
 - (b) To find out capital employed in Business
 - (c) To know balances of cash and bank of business
 - (d) To find out cash sales of business
8. When a current account is opened, Bank gives to customer –
 - (a) Cheque Book
 - (b) Pay in Slip
 - (c) Pass Book
 - (d) All the above
9. Sold goods for ₹ 15,000 at 10% trade discount will be –
 - (a) On debit side with ₹ 16,500
 - (b) On credit side with ₹ 13,500
 - (c) On credit side with ₹ 16,500
 - (d) On debit side with ₹ 13,500
10. Total number of columns for the amount in simple cash book are –
 - (a) Two
 - (b) Four
 - (c) Three
 - (d) One
11. A trader has sold goods for cash, the payment was received by cheque which was kept with him. In which column of cash book will it be recorded-
 - (a) In Cash and Bank Columns
 - (b) In Bank Column
 - (c) In Cash Column
 - (d) In none of the columns
12. Which of the following transactions does not need ledger posting –
 - (a) Paid expenses by cheque
 - (b) Received cash from a customer
 - (c) Withdrew from bank for office use
 - (d) Bought goods and paid by cheque

Answers : 1 (A), 2 (A), 3 (A), 4(A), 5 (A), 6 (D), 7 (C), 8 (D), 9 (D), 10 (A), 11 (C), 12 (C)

Very short answer type questions :

1. What is meant by Contra entries ?
2. Imprest system is used in which cash book ?
3. How many columns are there in three column cash book ?

4. Which of the columns is not be balanced of cash book ?
5. State the names of two transactions of contra entries ?
6. How many columns of amount are there in three columns cash book ?
7. Which of the columns of cash book may reveal either debit or credit balance ?
8. When a businessman withdraw money from his bank account more than his deposit, what is it called ?
9. Give a specimen proforma of double column cash book ?
10. State two merits of petty cash book.
11. What is a cash book ?
12. Name the cash book in which bank column and discount columns are included ?
13. What types of transactions are recorded in simple cash book ?
14. Enumerate different types of cash book ?
15. State one point of difference between cash book and cash account.
16. Who does open bank current account ?

Short answer type :

1. Cash column of cash book always shows a debit balance. Why ?
2. What is meant by Imprest system of Petty Cash Book ?
3. Which will be the balance of Bank Column of cash book in case of bank overdraft ?
4. Give a specimen proforma of three column cash book ?
5. Which account is debited on receipt of cheque or a bank draft ?
6. Name two such transactions of contra entries ?
7. Received a bank draft from Ganga Dhar for 3,000. Give journal entry.
8. Which accounts are affected by contra entries ?
9. What will be the Journal entry of withdrawing cash 1,000 from bank for personal use ?
10. Narrate main features of petty cash book.
11. Distinguish between cash book and petty cash book.
12. Give a proforma pf petty cash book.
13. What is meant by Bank overdraft ?
14. On which side of Three column cash book the entry for endorsement of cheque is made ?
15. Where is the entry passed in three column cash book for cash directly deposited by a customer in bank ?

Essay Type Questions :

1. Explain types of Cash Book ? Give the short description of each of them.

2. What do you mean by petty cash book ? What is its imprest system ? By taking imaginary transactions prepare a petty cash book ?
3. Why is it necessary to keep cash book ? What is its advantages ?
4. What do you mean by three column cash book. By taking imaginary figures, prepare three column cash book.

Numerical Questions :

1. Enter the following transactions in simple Cash Book :

Jan. 2017		₹
Jan. 1	Started business with cash	5,000
Jan. 5	Furniture Purchased	1,000
Jan. 8	Cash Purchase	2,500
Jan. 12	Cash Sales	4,000
Jan. 18	Interest Received	200
Jan. 20	Paid Carriage	100
Jan. 22	Sundry Expenses Paid	300
Jan. 30	Paid Salary	500
Jan. 31	Goods solds to Mahesh	1,000

Ans. : Cash Balance ₹ 3800)

2. Enter the following transaction in simple cash book and post into ledger :

April 2016		₹
April 1	Cash Balance	24,000
April 2	Cash Purchases	4,000
April 4	Travelling Expenses Paid	400
April 5	Salary Paid	2,000
April 6	Cash Sales	10,000
April 7	Paid Wages	400
April 8	Furniture Purchased	2,000
April 10	Machinery Purchased	8,000
April 15	Paid Rent	1,000
April 18	Goods Purchased from Ram	4,000
April 25	Goods sold to X	6,000
April 31	Office Expenses Paid	600

(Ans. : Cash Balance 15,600)

3. Enter the following transaction in simple cash book and post into Ledger :

2016		₹
May 1	Cash in hand	25,000
May 4	Paid to Harish	1,200
May 7	Cash Purchase	1,600
May 12	Cash Received from Amit	3,920
May 16	Cash Sales	1,600
May 20	Paid to Manish	1,180
May 25	Paid Carriage	200
May 31	Paid Salary	2,000

(Ans. : Cash Balance 24340)

4. Enter the following transactions in Cash Book with Discount Column :

2016		₹
May 1	Cash in Hand	5,000
May 4	Cash Purchase	400
May 6	Cash Sales	750
May 10	Cash Received from Ram 950. Discount Allowed	50
May 15	Salary Paid	200
May 18	Paid to Suresh 480, discount received 20.	
May 20	Paid Rent	550
May 28	Cheque Received from Mahesh 2250, Discount Allowed 80	
May 28	Paid Wages	300
May 30	Cash Received from Rakesh	1,250
May 31	Received Commission	130

(Ans. Cash Balance 8400 Discount Dr. 130 Discount Cr. 20)

5. Prepare the following transaction in two column cash book and post them into Ledger :

2017		₹
Feb. 1	Cash in hand	62,500
Feb. 4	Paid to Madhu	10,000
	Discount received	625
Feb. 8	Cash Purchases	45,000
Feb. 12	Cash Received from Bhamu	24,500
	Discount Allowed	500

Feb. 15	Goods sold to Dinkar for Cash	20,000
Feb. 17	Paid to Bhaskar	9,500
	Discount Received	500
Feb. 20	Cash Received from Dinesh	13,750
	Discount Allowed	1,250
Feb. 21	Cash Sales	7,500
Feb. 27	Goods Sold to Neha	22,500
Feb. 28	Paid Rent	18,500

(Ans. Cash Balance 45250, Discount Dr. 1750, Discount Cr. 1125)

6. From the following transactions write up the cash book of Ashok Kumar having Cash and Discount column and also post it into Ledger :

2016		₹
Nov. 1	Cash in Hand	40,000
Nov. 2	Cash Purchases	2,400
Nov. 4	Cash Sales	2,000
Nov. 5	Received cash from Udai 1500 and allowed him Discount 50	
Nov. 6	Bought Furniture for Cash	2,400
Nov. 8	Paid for petty cash exp.	300
Nov. 9	Received Interest on Investment	240
Nov. 12	Paid 1120 to Mohan in full settlement of his account for 1200	
Nov. 14	Paid for Advertisement	400
Nov. 15	Received from Raj Kumar 3000 and Discount Allowed 40	
Nov. 18	Cash Purchases	1200
Nov. 20	Sold goods to Hema for Cash	800
Nov. 25	Withdrew cash for personal use	700
Nov. 26	Paid to Ishwar 1340 and Discount Allowed 60	
Nov. 28	Received from Jay 1680 and Discount Allowed 40	
Nov. 30	Paid Salaries	500

(Ans. : Cash Balance 38860, Discount Dr. 130, Discount Cr. 140)

7. From the following particulars, prepare a three column cash book and also complete the posting into Ledger :

2016		₹
April 1	Cash in Hand	3,000

April 1	Bank overdraft	10,000
April 6	Goods sold to 'K' and received cheque	4,000
April 8	K's cheque deposited into bank.	
April 9	Received from Pal in full settlement on his account 4000	3,900
April 12	K's cheque proved dishonored	
April 16	Cheque issued to Kailash	2,000
April 22	Rent paid	2,000
April 26	Deposited into Bank	2,000
April 27	Purchase goods and cheque issued	4,000
April 28	Withdrew from Bank	1,400
April 30	Salaries paid	1,000
April 30	Sundry Expenses Paid	600
April 30	Withdrew from bank for personal use	400

(Ans. : Cash Balance Dr. 2700, Bank Balance Cr. 15800)

8. From the following transactions prepare a three column cash book and also post it into Ledger :

2016	₹
June 1 Bank Balance	200
June 2 Cash Received from sale of shares	12,000
June 3 Deposited into Bank	10,000
June 4 Paid 'J' by cheque discount allowed 100 by him	2,400
June 6 Received cheque from M discount allowed 40	1960
June 8 Paid wages	500
June 10 Bought goods for cash	1,200
June 12 Paid to stationary in cash	300
June 15 Paid Jay by cheque allowed 50 by him.	740
June 18 Withdrew from Bank	640
June 20 Received from Cash Sales	340
June 24 Cash withdraw from Personal use	400
June 24 Received from Ram allowed him discount 150	3,600
June 25 Deposited into Bank	400
June 26 Issued cheque for purchases	400
June 26 Drew cheque for personal use	200

June 27	Paid Salary	650	
June 28	Received Cheque from Sohan		800
June 30	Withdraw Cheque for office use	600	

(Ans. Cash Balance 6690, Bank Balance 5420, Discount Dr. 190, Discount Cr. 150)

9. Prepare three column cash book of Mahesh Bros. from the following transactions and post them into the Ledger :

2017		₹
Jan. 1	Cash in Hand	2,000
Jan. 1	Bank Overdraft	800
Jan. 2	Received cheque from Hari 550 and Discount allowed 20	
Jan. 3	Deposited the above cheque into bank.	
Jan. 4	Given a cheque 1400 to Shyam after deducting discount 15	
Jan. 7	Received a cheque from Chandra and deposited into Bank 850	
Jan. 9	Drew cash from bank 800	
Jan. 10	Received a bank draft for 500 from Jain and discount allowed 20 deposited the draft into bank	
Jan. 15	Received a Darshani Hundi from Lal for 3000 and it was duly encashed.	
Jan. 24	Purchased goods from Sita for 1200 subject to 15% trade discount and payment made to him by cheque after deducting 5% cash discount.	
Jan. 30	Paid wages by cheque 250	

(Ans. : Cash Balance 5800, Bank Balance Cr. 2319, Discount Dr. 40, Discount Cr. 66)

10. Prepare three column cash book of Suresh from the following transactions and post them into the ledger :

2016		₹
March 1	Cash in Hand	3,000
March 1	Cash at Bank	6,800
March 2	Cash Received from Ashok	12,000
March 3	Deposited into Bank	6,000
March 5	Paid Carriage	160
March 7	Cash Purchased	1,000
March 10	Paid to Ganesh by Cheque 3600 and Discount Received 30	

March 12	Withdraw Cash from Bank.	1,600
March 15	Cash Sales	2,700
March 18	Received cheque from Satish and Deposited into Bank	1960
March 20	Satish's cheque dishonored and returned by the bank.	
March 21	Paid to Madan by Cheque ₹3000 and Discount Received ₹ 60	
March 23	Received from Kumar ₹1900 and Discount allowed ₹ 20	
March 25	Kumar's cheque deposited into bank.	
March 27	Withdraw from Bank for Personal use	540
March 28	Salary paid by cheque	1,000
March 29	Deposited into bank.	2,000
March 31	Paid Rent	400

(Ans. : Cash Balance 9340, Bank Balance 6960, Discount Dr. 20, Discount Cr. 90)

11. Journalise the following bank transactions and post them in bank current account :

2017	₹
Jan. 1 Opening balance of bank current a/c	10,000
Jan. 2 Purchase goods and paid by cheque	7,000
Jan. 3 Furniture purchased and paid by cheque	2,000
Jan. 4 Cash deposited in Bank current a/c	20,000
Jan. 5 Amount deposited into bank by a debtor	16,000
Jan. 6 Sold goods to Mahesh and payment received by cheque	4,000
Jan. 8 Received Mahesh's cheque deposited into bank.	4,000
Jan. 10 Withdrew from bank for personal use	2,000
Jan. 13 Mahesh's cheque dishonored and Returned by bank	
Jan. 15 Bank charged for collection charges	40
Jan. 20 Interest Credited by Bank	100
Jan. 25 Salary paid by cheque	2,000
Jan. 27 Sold goods to Madan payment received by cheque and deposited into bank.	10,000
Jan. 30 Rent paid by cheque	4,000

(Ans. : Bank Balance ₹ 39160)

12. On 1st January 2017 the Bharat Stores deposited 12000 in Current account in Baroda Bank, Nawalgarh and 3000 in Fixed Deposit account. Other transactions during the month were follows :

2017	₹
Jan. 1 Purchased goods from Ajay and paid by cheque	4,000
Jan. 5 Paid Harish by Means of a Bank draft 1000 and Commission debited by Bank on the draft in Current A/c 15	
Jan. 10 Received a cheque from Satish & Co. deposited into Bank	3040
Jan. 15 Received a cheque from Bharat	960
Jan. 17 Endorsed Bharat's Cheque to Mohan Bros.	
Jan. 20 Satish & Co. cheque returned dishonored by the Bank	
Jan. 25 Paid House tax by Cheque	50
Jan. 27 Transferred from Current A/c to Fixed deposit 2,000	
Jan. 30 Bank charges	20
Jan. 31 Interest allowed on Fixed deposit	30

Journalise the above transactions and prepare a current a/c and fixed deposit a/c.

(Ans. : Bank Current a/c 4900, Fixed deposit A/c 32030)

13. Record the following transactions in Petty Cash book and Post into Ledger:

2016	
June 1	700 were given the Petty Cashier who made the following payments.
June 2	Stationary 25, Postage 30, Printing 80
June 5	Tonga Hire 25, Coolie Wages 40, Telegrams 30
June 12	Thela Hire 25
June 15	Coolie Wages 30 Printing 40
June 20	Tonga Hire 40, Printing 40
June 25	Postage 45, Railway Freight 60
June 30	Telegrams 45, Tonga Hire 50, Coolie Wages 15

(Ans. : Cash Balance 85)

14. Prepare Petty Cash Book from the following transactions. The imprest amount is 1000.

2017	₹
Jan. 1 Paid Charges	50
Jan. 2 STD charges	40

Jan. 2	Bus Fare	20
Jan. 3	Postage	30
Jan. 4	Refreshment of Employees	80
Jan. 8	Courier Charges	30
Jan. 10	Refreshment of Customers	50
Jan. 12	Cartage	35
Jan. 15	Taxi fare to Manager	70
Jan. 18	Stationary	65
Jan. 20	Bus Fare	70
Jan. 22	Fax Charges	30
Jan. 25	Telegrams Charges	35
Jan. 27	Postage Stamps	100
Jan. 30	Cartage	65
Jan. 31	Miscellaneous Expenses	100

(Ans. Cash Balance 230)