

CHAPTER-11

BOOKS OF ORIGINAL ENTRY- CASH BOOK

If the size of business is a small one, it may be possible to enter each and every transaction in one book only, ie Journal, which is generally known as the book of original entry. But when the size of the business grows and the number of transactions become very large, it is no longer possible to record all transactions in one Journal only. As such, the Journal is sub-divided into a number of Special Journals. These special journals are also known as day books or special purpose books or Subsidiary Books Or the Books of Original Entry'. Each subsidiary book is meant for recording all the transactions of a similar nature. For example, all cash transactions may be recorded in one book, all credit purchase transactions in another book and all credit sales transactions in yet another book, and so on Thus, the subsidiary books may be defined as books where the transactions are entered first and then ledger accounts are prepared on their basis. Following subsidiary books are most commonly used in a business:

1. **Cash Book**:-This book is used for recording all transactions relating to cash Receipts and cash payments. All banking transactions relating to receipts and payments are also recorded in this book.
2. **Purchase Book** : This book is used for recording the credit purchase of goods.
3. **Sales Book** :- This book is used for recording the credit sales of goods .
4. **Purchase Return Book or Return Outward Book** –When the goods previously purchased on credit are returned to the suppliers, such returns are recorded in this book.
5. **Sales Return Book or Return Inward Book**:- When the goods previously sold on credit are returned by the customers, , such returns are recorded in this-book.
6. **Journal Proper** - This book is used for recording the transactions which cannot be recorded in any of the above mentioned books.

Meaning and Importance-This book is used to record all transactions relating to cash receipts and cash payments. The number of cash transactions is quite large in over business and it is quite unpredictable and inconvenient to record all cash transactions in the journal. It is therefore, necessary to maintain a separate book for cash transactions. This book enables a businessman to know the balance of cash in hand and at bank at any point of time. It also gives information about the daily receipts, payments and the closing cash balance at the end of each day. Hence, this is a very popular book and is maintained by all the organization - big or small.

Cash Book - A Subsidiary Book and a Principal Book-

Cash book achieves a dual purpose-It is both a subsidiary book (book of original entry) and a principal book. When a cash book is maintained, transactions of cash are not recorded in the journal. As all the cash transactions are recorded for the first time in the cash book, it is therefore a book of original entry. But when a cash book is prepared, cash account in the ledger is not prepared. In this way, cash book represents the cash account and hence, becomes the principal book of accounts. As such, the cash book is a subsidiary book as well as principal book.

Distinction between Cash A/c and Cash Book

Infect, the Cash Book is a perfect substitute of Cash A/c. In both of these, Cash transactions are recorded date wise in order of occurrence. Both of these enable a businessman to know the Cash balance on any desired date. However, there are some differences between the two as follows:

S.NO.	Cash A/c	Cash Book
1.	It is an account in the Ledger.	It is a separate book maintained for recording Cash transactions.
2.	Cash account is opened in the ledger and posting is done in this account from journal.	It is a book of original entry because all cash transactions are first of all recorded in Cash book and then posted from Cash book to various accounts in the ledger.
3.	When transactions of Cash are recorded in in journal, it is necessary to open a Cash A/c in ledger.	When transaction of Cash are recoded in cash book ,there is no necessity to open a Cash A/c in the ledger.
4.	It only records one aspect of a transaction i.e., Cash.	It records both the aspect of a transaction.

Cash Book is a Journalised Ledger Sometimes a question arises whether Cash book is a journal or ledger? It is a journal since the transactions are recorded in it for the first time from the source documents and from there these are posted to the respective accounts in the ledger. The Cash book is also a ledger in the sense that it serves the purpose of a Cash account also.

When a Cash book is prepared, no separate Cash account is opened in the ledger. As such, the Cash book is a journal as well as a ledger and hence it may be called journalised ledger.

Similarities of Cash Book with Journal

1. Just like a journal, transactions in the Cash book are recorded for the first time from source documents.
2. Just like a journal, transactions in the Cash book are recorded datewise, i.e., in a chronological order, as and when they take place.
3. Just like a journal, transactions from Cash book are also posted to the relevant accounts (except Cash account) in the ledger.
4. Just like a journal, a Cash book also contains a Ledger Folio Column.

Similarities of Cash Book with Ledger

1. Form of Cash book closely resembles to a ledger account. It has two equally divided sides having identical columns. The left side (receipts side) is the debit side and the right side (payment side) is the credit side.
2. Cash book itself serves as a Cash account also and as such when a Cash book is maintained, Cash account is not opened in the Ledger. The Cash book, hence, is a part of ledger also.
3. Just like a ledger account, the words 'To' and 'By' are used in a Cash Book also.

4. It is balanced just like a ledger account.

Advantages of Maintaining a Cash Book

1. Cash book is a journal as well as a ledger. When a Cash book is maintained, no separate 'Cash Account' is opened in the ledger. Hence, it prevents duplication of work in recording Cash transactions in the journal and then posting them into the ledger.
2. Since Cash Account is not opened in the ledger, it prevents the size of the ledger from becoming too voluminous.
3. Both Cash and Bank transactions can be entered in the Cash book.
4. It enables a businessman to know the balance of Cash in hand and at bank at any point of time without waiting for posting from the journal.
5. It gives information about daily receipts, payments and the closing cash and bank balance at the end of each day.
6. The Cash balance, as shown in Cash Book, must be equal to the actual (physical) Cash in hand. By a regular verification of actual Cash in hand with the balance shown by the Cash book the possibility of defalcation is reduced to the minimum.

Cash book may be of four types

- (1) Single Column Cash Book or One Column Cash Book : for recording cash transactions only.
- (2) Double Column Cash Book having
 - (i) Cash and Discount Column, or
 - (ii) Bank and Discount Column, or
 - (iii) Cash and Bank Columns.

Bank allows interest on normal bank balance and charges interest on overdraft balance. It also charges a nominal amount as bank charges for rendering banking services to the customers.

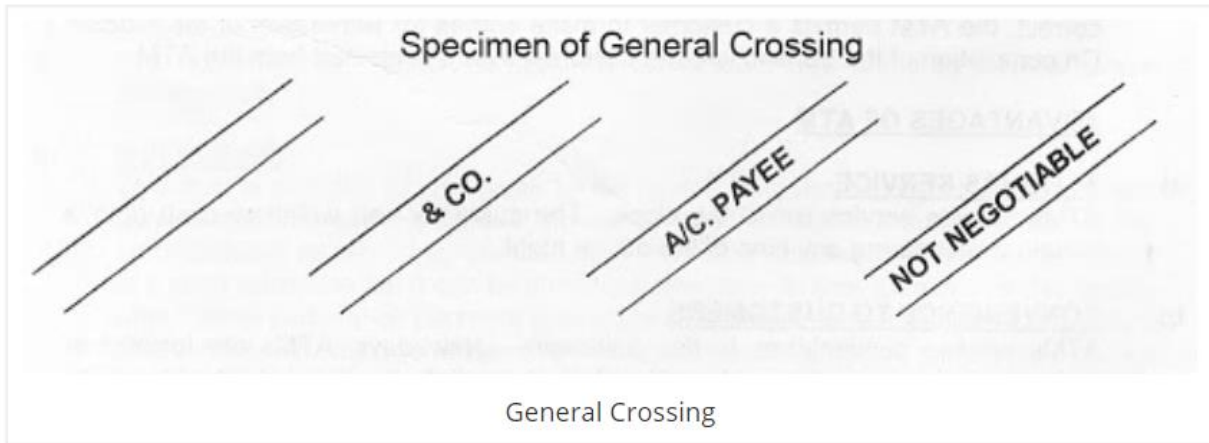
Documents used

Pay-in-slip: It is used to deposit cash and cheques of customers. Bank sent cheques of the customers for collection of payments. The detail of cheque is to be filled up on it. It has two portions, namely pay-in-slip and counter foil. The counter foil serves as a source document for preparing cash book

Cheques: Cheques are used either for withdrawing money by the account holder for office use or for making payment to suppliers, workers etc.

Crossing of a cheque: A cheque is said to be crossed when two parallel lines are drawn on the left hand top portion of the cheque. Bank does not give cash payment of such cheques. The crossed cheques are deposited in bank along with filled up pay-in-slip. The amount is deposited

into the account account holder on collection of payment of such cheques. They are more safe.
Specimen of Crossing



First two crossings are general crossings. Such cheques are either deposited by the account holders in their bank account for collection or they can be endorsed to others by signing on the back of cheque and ordering to pay other person whose name is specified on it.

The cheques having crossing of 'A/c payees only' cannot be endorsed. Only the person named in the cheque can get its payment by depositing it for collection. If the name of bank is written within crossing, payment of such cheques can be collected only by depositing the cheque for collection in the specified bank only.

(3) Triple Column Cash Book,

(4) Petty Cash Book

Imprest System of Petty Cash Book: Under this system, the petty cashier is given a definite sum, say 10,000, at the beginning of a certain period. This amount is called 'imprest amount'. The petty cashier goes on paying all petty expenses out of this imprest amount and records them in the petty cash book maintained by him. At the end of the given period, say after a month, the petty cashier submits the account to the main cashier who, after having examined the petty cash book, reimburses the amount actually spent by the petty cashier. Thus, on the first day of the next month, the petty cashier after including the balance already left with him, is found again with the same cash balance which he held on the first day of the preceding month.

A good imprest system should have the following essentials:

(1) The petty cashier should obtain proper receipts for all the payments made by him. All these receipts should be arranged datewise and numbered so that these may be checked up easily by the main cashier when he takes reimbursement of the amount spent by him.

(2) The petty cashier should himself prepare proper vouchers for those expenses for which proper receipts cannot be obtained. He should get these vouchers sanctioned from a proper authority.

- (3) There should be an upper limit of the amount of a single payment by the petty cashier. Payment above this limit should be made only by the main cashier.
- (4) Petty cashier should get the reimbursement of the amount spent by him only from the main cashier.
- (5) Petty Cashier should not be entitled to receive any cash coming from outside the business.
- (6) Great care should be taken while fixing the amount of imprest. It should be sufficient to cover the petty expenses for the month.

Advantages of the Imprest System:

- (1) Control over Misappropriation: Since the imprested sum is small, it does not provide a temptation either to the petty cashier or to other staff to misappropriate it.
- (2) Control over Petty Expenses: Petty expenses are kept within the limits of imprest since the petty cashier can never spend more than the available petty cash with him.
- (3) Control Exercised by Cashier: Main Cashier keeps a close watch on the amount refunded to the petty cashier from time to time. Hence, extravagance, if any, will be revealed.
- (4) Lesser Chances of Misuse of Cash by Petty Cashier: At any time, the amount of Cash in hand plus the total value of vouchers which have not been reimbursed must equal the imprest amount. Existence of this simple check reduces the chances of misuse of cash by petty cashier.
- (5) Advantageous to Petty Cashier: Imprest system is advantageous to petty cashier also because his liability to account for money spent can never exceed the imprest amount. Moreover, since his accounts are checked at regular intervals, say, weekly or monthly, he is not required to account for transactions which occurred in the far distant past.

Advantages of Petty Cash Book

- (1) **Saving of Time and Efforts of Chief Cashier:** As petty cashier handles the work of making all petty expenses and recording them as well, a lot of time and energy of the main cashier is saved. He is to record only the total of such expenses and that too only once, at the end of each month.
- (2) **Easiness in Posting:** Only the total of each head of expense is posted into the Ledger. As such, a lot of space is saved and the posting becomes very convenient.
- (3) **Easiness in preparing the Cash Book:** As the number of small payments in every business is quite large and as these are recorded in the petty cash book itself, the main cash book is not overburdened and can be more easily totalled.
- (4) **Control on Petty Expenses:** The main cashier keeps checking the petty cash book from time to time and a proper check is put on any unnecessary expenditure.

(5) Lesser chances of fraud: Petty Cashier obtains a receipt of every payment made by him and keeps a proper record of them. The receipts are duly signed by the main cashier while reimbursing the amount to the petty cashier. As such, it minimizes the chances of fraud.

(6) Simple Method: The maintenance of petty cash book does not require any specialised knowledge of accounting

VERY SHORT ANSWER QUESTIONS

1. What are special purpose books?

Ans. Special purpose books are the subsidiary books where transactions are recorded first and each subsidiary book is meant for recording all the transactions of a similar nature.

2. Give two advantages of sub-division of journal.

Ans. (i) Division of work according to ability.
(ii) Easiness in posting.

3. What is a Cash Book?

Ans. Cash book is a special journal in which all transactions relating to cash and bank are recorded directly from source documents.

4. Why Cash Book is called a book of original entry?

Ans. Since all cash transactions are recorded for the first time in the cash book, it is therefore called a book of original entry. When a cash book is maintained, transactions of cash and Bank are not recorded are journal.

5. Is Cash Book or a ledger?

Ans. It is a journal as well as a ledger. It is a journal since cash and bank transactions are first recorded in it and a ledger since it serves the purpose of a Cash Account is opened in the ledger.

6. Write one difference between Cash Account and Cash Book.

Ans. Cash Account is an account in the ledger whereas Cash Book is a separate book.

7. Give one advantage of maintaining a Cash Book.

Ans. It is a journal as well as a ledger. When a Cash book is maintained, there is no need of opening a separate cash account in the ledger.

8. Why a Cash Book always shows a debit balance?

Ans. Because a businessman cannot pay more cash than what he has got.

9. What are Contra Entries?

Ans. Contra entries means entries which are recorded on both side of cash book. These entries are made while depositing or withdrawn cash from the bank.

10. Define Bank Overdraft.

Ans. Bank Overdraft is the excess amount withdrawn from the bank account than the amount deposited in it.

11. What is a Petty Cash Book?

Ans. It is prepared to make a record of petty expenses.

12. Give two advantages of Petty Cash Book.

Ans. (i) Saving of time and efforts of Chief Cashier.
(ii) Easiness in posting.

13. What is 'Imprest System' of Petty Cash Book?

Ans. Under this system, the petty cashier is given a define sum, say Rs. 2,500, at the beginning of a certain period. This amount is called 'imprest amount. 'The petty cashier goes on paying all petty expenses out of this imprest amount and records them in the petty cash book maintained by him. At the end of the given period, say after a month, the chief cashier reimburses the amount actually spent by the petty cashier.

OBJECTIVE TYPE QUESTIONS

(A) State whether the following statements are true or false: -

- (i) Cash Account is a real account.
- (ii) Bank Account is a real account
- (iii) Cash Book is both a subsidiary book and a ledger account.
- (iv) A contra entry is one which does not require posting to the ledger account.
- (v) Assets and Liabilities are the two sides of Cash Book.
- (vi) A contra entry appears on both sides of Cash Book.

[Ans. True: (i); (iii); (iv); (vi).

False: (ii); (v).]

(B) Fill up the blanks: -

- (i) For cash deposited into bank,.....A/c will be debited andA/c will be credited.
- (ii) When cash is withdrawn from bank, the entry in the Cash Book is called.....entry.
- (iii) When a cheque deposited into bank is dishonoured, it is recorded onside of Cash Book in.....column.
- (iv) The word 'C' against an entry in the Cash Book signifies that this entry is not to be.....to the ledger.
- (v) When a firm maintains a Cash Book, it need not maintain.....A/c in the Ledger.

[Ans.: (i) Bank, Cash; (ii) Contra; (iii) Credit Bank; (iv) Posted; (v) Cash.]

(C) Choose the best Alternate

1. When a firm maintains a cash book, it need not maintain.....
 - (a) Journal proper
 - (b) Purchases Book
 - (c) Sales Book
 - (d) Cash and Bank Accounts is Ledger

2. The balance of bank column of cash book always shows a.....balance.
 - (a) Debit
 - (b) Credit
 - (c) Either Debit or Credit
 - (d) Neither Debit nor Credit
3. Which of the following will be recorded as Contra –entry:
 - (a) Cash directly deposited into bank by a customer.
 - (b) Payment made to creditor by cheque
 - (c) Cash deposited into bank
 - (d) Cash sales

4. A cheque received and deposited into bank the same day will be recorded in cash book in
 - (a) Cash column on debit side
 - (b) Cash column on credit side
 - (c) Bank column on debit side
 - (d) Bank column on credit side

5. When a cheque deposited into bank is dishonoured by bank, it will be recorded in cash book in:
 - (a) Bank column on debit side
 - (b) Bank column on credit side
 - (c) Cash column on debit side
 - (d) Cash column on credit side

6. Which of the following is not recorded in cash book:
 - (a) Trade Discount
 - (b) Bad Debts
 - (c) Credit Purchases
 - (d) All of the above

7. Which is not contra entry in the cash book:
 - (a) Cash deposited into bank
 - (b) Cash withdrawn from bank
 - (c) Cash withdrawn from bank for personal use

(d) None of these

8. If the debit as well as credit aspects of a transactions are recorded in the cash book, it is called.....

- (a) Contra Entry
- (b) Compound Entry
- (c) Opening Entry
- (d) Adjustment Entry

9. Cash book is a type of.....but can be treated as a.....of account.

- (a) Subsidiary Book, Principal Book
- (b) Principal Book, Subsidiary Book
- (c) Subsidiary Book, Subsidiary Book
- (d) Principal Book, Principal Book

10. Which of the following may have both Dr. or Cr. Balance

- (a) Only Cash column of a cash Book
- (b) Only bank column of cash book
- (c) Both cash and bank column
- (d) Neither bank nor cash column

11. Salary due for the month of March will appear in.....side of the cash book

- (a) Receipt
- (b) Payment
- (c) contra
- (d) None of the above

[Ans.

1.(d)	2.(c)	3.(c)	4.(c)	5.(b)	6.(d)	7.(c)	8.(a)	9.(a)	10.(b)
11.(d)									