

8

The cash book and the petty cash book



The following facts are discussed in this chapter.

8.1 Cash book

- j Introduction of cash book
- j Dual function of cash book
- j Recording transaction in the cash book
- j Balancing off the cash book and other accounts
- j Recording transactions related to cash discounts

8.2 Petty cash book

- j Petty cash imprest
- j Preparation of a petty cash book with analysis columns

8.1 Cash book

This is the prime entry book in which the receipts and payments of cash (currency) are recorded. A business has various sources of cash as well as different ways of payments.

Examples for sources of cash of a business

- * The owner's capital
- * Cash sales
- * Cash received from debtors
- * Borrowing money
- * Cash receipts for rent income, investment income and income on commissions

Examples for payments a business makes

- * Repayment of loans
- * Purchase of goods for cash
- * Cash payment to creditors
- * Payments made for expenses such as salaries for employees, electricity, etc.
- * Payments made for purchasing fixed assets such as furniture, equipment, etc.
- * Withdrawal of cash by the owner for his personal use (drawings)

The receipts and payments of cash by the business are recorded in the cash book using receipts and payment vouchers respectively as source documents.

Receipts

When a business receives cash the business would issue a document called a 'receipt' to the party who gave money to the business, as evidence for such a receipt.

A serial number in consecutive order is printed on it. Further, this receipt is issued with the details such as date of cash receipt, the reason why it was received, the amount received and the signature of the cashier. This is also known as the cash receipt or cash memo. Receipt is the written evidence of cash received by the business. A duplicate of the receipt should be received by the accounts branch and it should be used as a source document to record the receipt of cash in the cash book. Receipts can be prepared in different formats according to the nature and requirement of the business. There is no specific format for a receipt. A business could use a receipt that has a general format as indicated below. Please refer them.

Receipt

Serial No. 20513

Anoma books shop
82, Araliya Road,
Maharagama.
T. P. No: 0112090278
Date:

Received with thanks , the sum of Rs.....(in words) receivable
for the invoice No. by cash/cheque.

Rs. (in number)

Prepared by

Checked by

.....

Signature of the
Authorized Officer

CASH MEMO

Serial No.4856

Damindu Enterprise
245, Sahana Mawatha, Maharagama.
T. P. No: 011-2266782

Date

Name

Item No.	Description	Quantity	Unit Price Rs.	Total Value Rs.
Total				

Prepared by.....

Checked by

.....

Signature of the
Authorised Officer



Activity 01

When you or your family members buy goods by paying money from various businesses you are issued different types of receipts.

01. Collect such receipts.
02. See whether the above mentioned contents of a receipt are there in those receipts.

Payment voucher

The payment voucher is a document prepared by businesses with the relevant details as an evidence that cash payments are made, which also should be authorized by a responsible officer.

Every payment voucher is given a consecutive serial number. This is a written evidence of such payments, because it should be authorized by a responsible person.

There is no commonly accepted format for payment vouchers, but a voucher could be prepared based on the following general format.

Priyani Company Ltd. Maharagama.		
Serial No. 1255	Date.	
To pay Mr./Mrs.		
Details	Amount paid	
Cheque No.		
..... Signature of the Prepare Signature of the Officer who Authorized the Payment Signature of Certifying Officer

Dual function of the cash book

Cash book functions as a prime entry book as business records the receipts and payments of cash at first in the cash book in a sequential order using the receipts and payment vouchers as source documents.

Cash book also functions as a ledger account as it has both the debit and the credit sides. Therefore, cash book performs two functions.

- * Performs the function as a prime entry book
- * Performs the function as a ledger account

Recording of cash transactions

Cash is an asset of the business. The receipt of cash increases assets and the payment of cash decreases assets. Therefore, the double entry rule for asset accounts should be applied for recording cash transactions in the cash book.

Cash received - Cash book debit [the rule, the increase of asset - debited]

Payment of cash - Cash book credit [the rule, the decrease of asset - credited]

Accordingly, all the cash receipts should be debited and all the cash payments should be credited in the cash book.

Since the cash book functions as a ledger account, when the business receives cash, the debit entry of the double entry for that transaction entered in the cash book and therefore is completed in the cash book itself. Only the credit entry of the relevant account has to be posted in the ledger. Similarly, the payment of cash is credited in the cash book and the credit entry of the double entry entered in the cash book and therefore is completed in the cash book itself as it functions as a ledger account. Only the debit entry of the relevant account has to be posted in the ledger.

Accordingly,

- * The values that are debited in the cash book should be credited to the relevant accounts in the ledger
- * The values that are credited in the cash book should be debited to the relevant accounts in the ledger

Example:-

Following transactions in cash took place during the month of January in Lakshini's business which was commenced on the 01st of January 20xx.

Date	Receipt no.	Voucher no.	Details
01.01.20xx	01		Capital invested Rs. 80 000
02.01		001	Bought goods for resale Rs. 45 000
04.01	02		Obtained a bank loan Rs.50 000
08.01		002	Bought furniture for Rs. 8 000
15.01		003	Rent paid Rs. 6 000
18.01	03		Goods sold for cash Rs.40 000
20.01	04		Cash received from a debtor, Pawan Rs. 30 000
24.01		004	Cash paid to creditor, Surath Rs.34 000
25.01		005	Cash taken for personal use Rs. 5 000
26.01	05		Interest income received Rs. 3 000
28.01		006	Repayment of bank loan Rs. 6 000

The transactions which are given in the example above are recorded in the cash book and the relevant ledger accounts of Lakshini's business is presented below.

Dr.					Cr.				
Cash book									
Date	Receipt No.	Description	L.F.	Amount Rs.	Date	Voucher No.	Description	L.F.	Amount Rs.
01.01.20xx	01	Capital		80 000	02.01.20xx	001	Purchases		45 000
04.01	02	Bank loan		50 000	08.01	002	Furniture		8 000
18.01	03	Sales		40 000	15.01	003	Shop rent		6 000
20.01	04	Debtor- Pawan		30 000	24.01	004	Creditor-Surath		34 000
26.01	05	Interest income		3 000	25.01	005	Drawings		5 000
					28.01	006	Bank loan		6 000

Dr.				Cr.			
Capital account							
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
				01.01.20xx	Cash		80 000

Dr.			Purchase account			Cr.	
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
02.01.20xx	Cash		45 000				

Dr.			Bank Loan account			Cr.	
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
28.01.20xx	Cash		6 000	04.01.20xx	Cash		50 000

Dr.			Furniture account			Cr.	
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
08.01.20xx	Cash		8 000				

Dr.			Rent expense account			Cr.	
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
15.01.20xx	Cash		6 000				

Dr.			Sales account			Cr.	
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
				18.01.20xx	Cash		40 000

Dr.			Pawan			Cr.	
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
				20.01.20xx	Cash		30 000

Dr.				Cr.			
Surath							
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
24.01.20xx	Cash		34 000				

Dr.				Cr.			
Drawings account							
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
25.01.20xx	Cash		5 000				

Dr.				Cr.			
Interest income account							
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
				26.01.20xx	Cash		3 000

Balancing off the accounts

The value of transactions are debited and credited in the accounts according to the principle of double entry. At the end of the period, the difference of the total values of debit and credit entries in accounts should be calculated. This difference is known as the balance of the account. Balancing off of an account is required to calculate the balance of that account.

Example :-

The total receipt of cash is Rs. 50 000. The total payment of cash is Rs. 33 000. Then the balance of cash is Rs. 17 000. This is considered to be the balance of the cash book.

Examine how the following accounts have been balanced.

Dr.				Cr.			
Capital account							
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
31.01.20xx	Balance c/d *		80 000	01.01.20xx	Cash		80 000
			<u>80 000</u>				<u>80 000</u>
				01.02.20xx	Balance b/f *		<u>80 000</u>

* Balance c/d - Balance carried down

* Balance b/f - Balance brought forward

Dr.				Leasing account		Cr.	
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
03.01.20xx	Cash		18 000	31.01.20xx	Balance c/d		18 000
			18 000				
01.02.20xx	Balance b/f		18 000				

Dr.				Cash account		Cr.	
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
01.01.20xx	Capital		80 000	03.01.20xx	Leasing		18 000
				31.01.20xx	Balance c/d		62 000
			80 000				80 000
01.02.20xx	Balance b/f		62 000				

Accordingly,

- ✳ If the value of the debit side of an account is higher than the value of the credit side, the balance we get is a debit balance
- ✳ If the value of the credit side of an account is higher than the value of debit side, then the balance we get is a credit balance



Activity 02

Following are the details of the cash transactions of the business started by Purnima on 01.05.20xx. Following are the transactions that took place during the month ended on 31.05.20xx.

Date	Rec. No	Vou. No.	Description
01.05.20xx	001		Started business investing Rs. 60 000
02.05		01	Bought stock of goods for Rs. 35 000
04.05	002		Obtained a bank loan Rs. 40 000
08.05	003		Cash sales Rs. 13 000
12.05		02	Paid wages Rs. 5 000
15.05		03	Bought equipment for business use Rs. 12 000
20.05	004		Received rental income Rs. 6 000
22.05	005		Cash sales Rs. 18 000
25.05		04	Repayment of part of the bank loan Rs. 5 000
30.05	006		Commission income received Rs. 14 000

Required :-

01. Post the transactions to the ledger accounts and balance them off.

Discounts

A discount can be explained in brief as the deduction of value from the value of a transaction (i.e. listed price) when it takes place. Discounts can be classified into two main categories as trade discounts and cash discounts. Cash discounts are further classified as discount received and discount allowed.

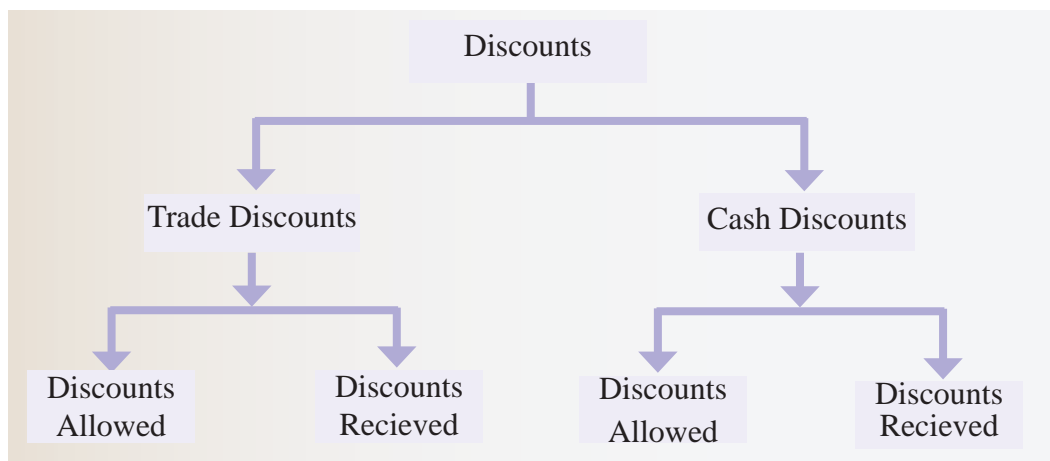


Figure 8.1 - Discounts

Trade Discounts

Most businesses sell goods deducting a certain amount from the listed price. The deduction which was made from the listed price is called the trade discount. This deduction is a trade discount allowed from the point of view of the seller and a trade discount received from the buyer's point of view.

The value to be recorded in the sales or the purchase accounts should be the net value after deducting the trade discount. Therefore, trade discounts are not recorded in accounts.

Example :-

Listed price of goods	= Rs. 20 000
Trade discount to be deducted	= 10%
According to that,	
the value of trade discount: $20\,000 \times \frac{10}{100}$	= Rs. 2 000
Net value paid after the trade discount	= Rs. 18 000

This Rs. 18 000 should only be recorded in the accounts.

Dr.		Purchase account				Cr.	
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
	Cash		18 000				

Dr.		Cash account				Cr.	
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
					Purchase account		18 000

Cash discounts

Debtors are created when goods are sold on credit. The amount receivable should be entered in a debtors account. Likewise, creditors are created when goods are purchased on credit by the business. The amount payable to creditors should be recorded in a creditors account. Cash discounts come in to being when these amounts are received or settled.

There are certain instances where a condition is included in the invoice to encourage the customers to settle their outstanding balances such that a percentage from the outstanding balance would be deducted from the amount due if that amount is paid within a specific period of time set by the business. This amount which is deducted from the amount due for making payments within the given period is called a cash discount.

Cash discounts can be classified into two,

- * Discounts allowed
- * Discounts received

Discounts allowed

The deduction made on the amount receivable from the debtors, if such amount is settled within a time allowed by the business, is called a discount allowed. It is an expense from the point of view of the business. Accordingly, since discounts allowed are generated when cash is received from debtors, it is easy to record the discount allowed in the cash book when the business receives cash from debtors (after deducting the cash discount). A separate column for discounts allowed is drawn in the debit side of the cash book and discounts allowed are recorded in it.

Discounts received

Discount received is the amount deducted by the creditors from the amount payable to them if it is paid by the business within the time allowed by the creditors. It is an income in the point of view of the business. Discounts received are created when creditors are paid. Therefore it is easy to record the discount received in the cash book as and when the amount is paid to creditors and is credited in the cash book. Discounts received are recorded in the discount received column, which is separately drawn in the credit side of the cash book.

These discount columns are considered as memorandum columns. These columns serve only the purpose of a prime entry book. Since discount columns do not serve the purpose of a ledger account, mere recording a value in them do not complete even one entry of the double entry. Therefore the double entries for these items in the discount columns should be entered in the ledger accounts separately.

Recording of discounts in the accounts

The total of the debit side discount column in the cash book should be debited in discount allowed account which is opened in the ledger. Debiting of discount allowed account conforms to the double entry principle on increase of an expense. Credit entries should be made in each of the debtors accounts. This is done because the decrease of asset is credited in that account as per the rules of double entry.

Accordingly, the double entry for discount allowed is,

Discount allowed accounts	Dr.
Debtors' accounts	Cr.

The total of credit side discount column in the cash book is credited in the discount received account opened in the ledger. Discount received is an income and increase of income is credited according to the double entry rule for income. Debit entries for these should be made in each of the creditor's account. This is due to decrease of liability should be debited in the liability account.

Therefore, the double entry for the discount received is as follows.

Creditors accounts	Dr.
Discount received account	Cr.

Example :-

Saranga's business had the following balances as at 01.03.20xx

Debtor's balances	Rs.
Buddhi	40000
Sanod	30000
Creditor's balances	
Maneesha	45000
Sithumini	35000
Cash in hand	50000

Following transactions took place during the month of March.

05.03 Cash received from Buddhi Rs. 12500
 Discount deducted Rs. 2500

08.03 5% discount deducted when cash is received from Sanod in respect of Rs. 10 000 receivable from him.

10.03 Cash paid to Maneesha Rs. 12600
 Discount deducted Rs. 1400

15.03 5% discount deducted when Sithumini was paid for Rs. 20 000

The following show how the above transactions are recorded and balanced of the cash book and other relevant ledger accounts.

Dr.					Cash Book		Cr.		
Date	Description	L. F.	Discou. received	Cash	Date	Description	L. F.	Discou. received	Cash
01.03.20xx	Balance b/f			50 000					
05.03	Buddhi		2 500	12 500	10.03.20xx	Maneesha		1 400	12 600
08.03	Sanod		500	9 500	15.03	Sithumini		1 000	19 000
					31.03	Balance c/d			40 400
			3 000	72 000				2 400	72 000
01.04	Balance b/f			40 400					

Dr.				Buddhi (Debtors) account		Cr.	
Date	Description	L. F.	Value	Date	Description	L. F.	Value
01.03.20xx	Balance b/f		40 000	05.03.20xx	Cash		12 500
				05.03	Discount allowed		2 500
				31.03	Balance c/d		25 000
01.04	Balance b/f		40 000				40 000
			25 000				

Dr.

Sanod (Debtors) account

Cr.

Date	Description	L. F.	Value	Date	Description	L. F.	Value
01.03.20xx	Balance b/f		30 000	08.03.20xx	Cash		9 500
				08.03	discount allowed		500
				31.03	Balance c/d		20 000
			<u>30 000</u>				<u>30 000</u>
01.04	Balance b/f		<u>20 000</u>				

Dr.

Maneesha (Creditor) account

Cr.

Date	Description	L. F.	Value	Date	Description	L. F.	Value
10.03.20xx	Cash		12 600	01.03.20xx	Balance b/f		45 000
10.03	Discount received		1 400				
31.03	Balance c/d		31 000				
			<u>45 000</u>				<u>45 000</u>
				01.04	Balance b/f		<u>31 000</u>

Dr.

Sithumini (Creditor) account

Cr.

Date	Description	L. F.	Value	Date	Description	L. F.	Value
15.03.20xx	Cash		19 000	01.03.20xx	Balance b/f		35 000
15.03	Discount received		1 000				
31.03	Balance c/d		15 000				
			<u>35 000</u>				<u>35 000</u>
				01.04	Balance b/f		<u>15 000</u>

Dr.

Discount allowed account

Cr.

Date	Description	L. F.	Value	Date	Description	L. F.	Value
31.03.20xx	Debtors		3 000	31.03.20xx	Balance c/d		3 000
			<u>3 000</u>				<u>3 000</u>
01.04	Balance b/d		<u>3 000</u>				

Dr.

Discount received account

Cr.

Date	Description	L. F.	Value	Date	Description	L. F.	Value
31.03.20xx	Balance c/d		2 400	31.03.20xx	Creditors		2 400
			<u>2 400</u>				<u>2 400</u>
				01.04	Balance b/f		<u>2 400</u>

Example :-

Sapumalee's business has the following balances as at 01.03.20xx

Debtors balance (Dr.)	Rs. 40 000
Creditors balance (Cr.)	Rs. 50 000
Cash balance (Dr.)	Rs. 30 000

05.03.20xx Cash received from debtors Rs. 7 600. Discount deducted Rs. 400

08.03 Cash is received from debtors to settle Rs. 10 000 had been subject to 5% discount.

10.03 Cash paid to creditors Rs. 4 700 and discount received Rs. 300

15.03 Cash is paid to creditors to settle Rs.12 000 had been subject to 10% discount.

The following show how the above transactions are recorded and balanced in the cash book and the relevant ledger accounts.

Dr.				Cash book				Cr.			
Date	Description	Discount allowed	Cash	Date	Description	Discount allowed	Cash				
01.03.20xx	Balance b/f		30 000	10.03.20xx	Creditors	300	4 700				
05.03	Debtors	400	7 600	15.03	Creditors	1 200	10 800				
08.03	Debtors	500	9 500		Balance c/d		31 600				
				31.03							
		900	47 100			1 500	47 100				
01.04	Balance b/f		31 600								

Dr.				Debtors account				Cr.			
Date	Description	L.F.	Cash	Date	Description	L.F.	Cash				
01.03.20xx	Balance b/f		40 000	05.03.20xx	Cash		7 600				
				05.03	Discount Allowed		400				
				08.03	Cash		9 500				
				08.03	Discount Allowed		500				
				31.03	Balance c/d		22 000				
			40 000				40 000				
01.04	Balance b/f		22 000								

Dr.

Creditors account

Cr.

Date	Description	L.F.	Cash	Date	Description	L.F.	Cash
10.03.20xx	Cash		4 700	01.03.20xx	Balance b/f		50 000
10.03	Discount received		300				
15.03	Cash		10 800				
15.03	Discount received		1 200				
31.03	Balance c/d		33 000				
			<u>50 000</u>	01.04	Balance b/f		<u>50 000</u>
							<u>33 000</u>

Dr.

Discount allowed account

Cr.

Date	Description	L.F.	Cash	Date	Description	L.F.	Cash
31.03.20xx	Debtors		900	31.03.20xx	Balance c/d		900
01.04	Balance b/f		900				
			<u>900</u>				<u>900</u>

Dr.

Discount received account

Cr.

Date	Description	L.F.	Cash	Date	Description	L.F.	Cash
31.03.20xx	Balance c/d		1 500	31.03.20xx	Creditors		1 500
			<u>1 500</u>	01.04	Balance b/f		<u>1 500</u>
							1 500

A business receives cash as well as cheques from the debtors. At the same time cheques may also be received from outright sales. If the cheques so received are not banked on the same day then they can be used as currency notes for transactions. Therefore, cheques received and issued should be recorded in the cash book similar to recording of receipts and payments of cash. There will be discounts allowed when cheques are received from debtors. These discounts are recorded in the discount column of the debit side of the cash book.

Example :-

Hiruni's business has the following balances as at 01.03.20xx

		Rs.
Capital		100 000
Creditors -	Suranga	25 000
	Tharanga	15 000
Cash		80 000
Debtors -	Malka	40 000
	Imalka	20 000

The following transactions took place during the month of march

Date	Recei- pt No.	Vou- cher No.	Description
02.03.20xx	65		Received from Malka Rs. 8 000.
05.03		40	Bought goods for cash Rs. 35 000.
08.03		41	Paid Suranga Rs. 6 000.
10.03	66		Gave 5% discount to Imalka to settle the amount due Rs. 12 000.
12.03		42	8% discount received when settling a creditor Tharanga Rs. 10 000.
15.03	67		Cheque received from sale Rs. 16 000.
18.03	68		Received cash from Malka Rs. 6 650 and discount allowed Rs. 350.
20.03		43	When the amount owed to Suranga Rs. 8 000 was settled. The discount Rs. 400 was received from him.
24.03	69		Cash and cheque received from sale of goods Rs. 16 000 and Rs. 7 000 respectively
29.03	70		Hiruni brought an additional capital of Rs. 20 000

The following show how the transactions given in the above example are recorded in the cash book with discount columns and in the appropriate ledger accounts.

Dr.				Cash book		Cr.			
Date	Re. No.	Description	Disc out	Cash	Date	Vou. No.	Description	Disc out	Cash
01.03.20xx		Balance b/f		80 000	05.03.20xx	40	Purchase		35 000
02.03	65	Malka		8 000	08.03	41	Suranga		6 000
10.03	66	Imalka	600	11 400	12.03	42	Tharanga	800	9 200
15.03	67	Sale (cheque)		16 000	20.03	43	Suranga	400	7 600
18.03	68	Malka	350	6 650	31.03		balance c/d		97 250
24.03	69	Sale		6 000					
		Sale (cheque)		7 000					
29.03	70	Capital		20 000					
			950	155 050				1200	155 050
01.04		Balance b/f		97 250					

Dr.				Capital account		Cr.	
Date	Description	L.F.	Value	Date	Description	L.F.	Value
				01.03.20xx	Balance b/f		100 000
				29.03	Cash		20 000

Dr.				Discount allowed account		Cr.	
Date	Description	L.F.	Value	Date	Description	L.F.	Value
31.03.20xx	Debtors		950				

Dr.				Malka (Debtor)		Cr.	
Date	Description	L.F.	Value	Date	Description	L.F.	Value
01.03.20xx	Balance b/f		40 000	02.03.20xx	Cash		8 000
				18.03	Cash		6 650
				18.03	Discount allowed		350

Dr.				Imalka (Debtor)		Cr.	
Date	Description	L.F.	Value	Date	Description	L.F.	Value
01.03.20xx	Balance b/f		20 000	10.03.20xx	Cash		11 400
				10.03	Discount allowed		600

Dr.				Discount received account				Cr.			
Date	Description	L.F.	Value	Date	Description	L.F.	Value				
				31.03.20xx	Creditors		1 200				

Dr.				Suranga (creditor) account				Cr.			
Date	Description	L.F.	Value	Date	Description	L.F.	Value				
08.03.20xx	Cash		6 000	01.03.20xx	Balance b/f		25 000				
20.03	Cash		7 600								
20.03	Discount received		400								

Dr.				Tharanga (creditors) account				Cr.			
Date	Description	L.F.	Value	Date	Description	L.F.	Value				
12.03.20xx	Cash		9 200	01.03.20xx	Balance b/f		15 000				
12.03	Discount received		800								

Dr.				Sales account				Cr.			
Date	Description	L.F.	Value	Date	Description	L.F.	Value				
				15.03.20xx	Cash		16 000				
				24.03	Cash		13 000				

Dr.				Purchases account				Cr.			
Date	Description	L.F.	Value	Date	Description	L.F.	Value				
05.03.20xx	Cash		35 000								



Activity 03

Anuradha's business has the following balances as at 01.07.20xx

	Rs.
Cash	70 000
Debtors-Hasala	22 000
Raveesha	28 000
Capital	75 000
Creditors - Sahasra	25 000
Kawmadi	20 000

Following transactions were taken place during the month of July.

- 03.07.20xx Bought goods for cash Rs. 28 000
- 08.07 Cash received from Hasala Rs. 7 000
- 12.07 Cash Sales Rs. 12 000
- 16.07 10% discount was allowed when the amount owed to Kawmadi of Rs. 8 000 was settled.
- 18.07 5% discount was allowed to Raveesha when he settled his due of Rs. 10 000.
- 20.07 Shop rent paid Rs. 4 000.
- 25.07 Rs. 500 discount was deducted when Kawmadi was settled of Rs. 8 000
- 26.07 Raveesha had sent a cheque of Rs. 7 200 after deducting Rs. 8 00 as discount
- 28.07 A 5% discount received when Rs. 2 000 was settled with Kawmadi

Required :-

01. Write up the cash book with discount column and balance off as at 31.07.20xx

02. Write up the ledger accounts that involved the above cash transactions

8.2 Petty Cash Book

Out of the payments made by a business, some of the payments are of small in nature and would occur frequently.

Examples :-

Payment of cleaning expenses of Rs. 150

Payment of postal charges of Rs. 60

Payment of transport charges of Rs. 70

Accordingly, postal charges, cleaning expenses, travelling expenses, entertainment expenses and stationary expenses are some examples for the day to day expenses of small values.

The petty cash book is the prime entry book in which the payments of cash with small values that occur frequently are recorded.

The responsibility of maintaining a petty cash book is assigned to a petty cashier, who is under the main cashier. A voucher has to be prepared for each and every petty cash payment. It is known as the petty cash voucher. It is the source document for the payments to be recorded in the petty cash book.

Petty cash imprest

For purpose of carrying the petty cash payments with a control, a specific amount of cash is given to the petty cashier by the main cashier to make petty cash payments, which is known as the petty cash imprest. It is the duty of the petty cashier to make petty cash payments out of this petty cash imprest as well as and to maintain the petty cash book.

Reimbursement of petty cash imprest

The petty cashier has to request again cash from the main cashier before the petty cash imprest is over. The petty cashier should be given the amount equivalent to the amount of payments made at that time and with that the imprest will be reimbursed. This is known as reimbursement of the petty cash imprest.

Example :-

The petty cash imprest of the business of Lihini was Rs. 2 000. The following payments were made out of this imprest received.

	Rs.
Stationary expenses	250
Cleaning expenses	600
Entertainment expenses	400
Travelling expenses	350
Total petty cash expenses	<u>1 600</u>

Accordingly, total petty cash expenses was Rs. 1 600. When the petty cashier request again for cash from the main cashier, the main cashier will give the petty cashier only Rs. 1600, which is the amount spent. This is reimbursement of the petty cash imprest.

Then,

Petty cash balance in hand	Rs. 400
Petty expenses reimbursed	Rs. 1 600
Petty cash imprest	Rs. 2 000

The petty cashier should submit a payment voucher that includes all petty cash vouchers to date relevant to the petty cash payments to the main cashier for the reimbursement.



Activity 04

Sarasi Co. Ltd. maintains a petty cash book under a petty cash imprest system for making petty cash payments. Particulars related to the petty cash transactions are as follows.

As at 1st January 20xx, the petty cash-in-hand balance was Rs. 330. In the petty cash voucher, total expenses during the month of January was Rs. 1 670.

Answer following questions using the above information.

01. How much is the petty cash imprest ?
02. How much will be the reimbursement made by the main cashier as at 31.01.20xx
03. If the petty cash imprest was decided to be increased by Rs. 500 on 01.02.20xx, then how much will be the value of reimbursement?
04. If the petty cash balance was Rs. 729 as at the 01.03.20xx. Then, how much should to be reimbursed?

Preparation of petty cash book

Different columns are maintained to record similar types of payments, so that the payments can be posted to the ledger easily. These columns are known as analysis columns.

Examples :-

Stamp charges, registered postal charges, purchases of envelopes and other similar type of expenses could be identified and recorded in the analysis column named as postal charges.

If any petty cash payments cannot be entered in any of the analysis columns, a separate column known as the sundry expense column could be drawn for such payments. Any other expenses, which cannot be included in any of the analysis columns but need to be separately posted to the relevant ledger accounts are recorded in the column named as the other ledger account column.

Examples :-

Cash paid to creditors, purchase of assets of small value, carriage inwards.

Study the format of a petty cash book given below.

Petty Cash Book

Receipt Rs.	L. F.	Date	Description	V. N.	Pay ments Rs.	Analysis columns				Other Ledger account	L. F.
						Stationaries	Postage	Travel	Sundry		

Like the cash book, the petty cash book also performs a dual function. Accordingly, both the functions of a prime entry book and a ledger account is fulfilled by the petty cash book.

W As the receipt of petty cash imprest and the payment of petty cash payments are first recorded in the petty cash book, it performs the task of a book of prime entry.

W Petty cash book also has both debit and credit sides, and entries are recorded according to the principle of double entry for assets. Therefore, it performs the function of a ledger account.



Petty cash transactions are recorded based on the following double entries.

When the petty cash imprest is received and the reimbursement is made,

Petty Cash book	Debit
Cash book	Credit

The payments credited in the petty cash book should be debited in the relevant ledger accounts. The totals of each analysis column should be posted to the relevant ledger accounts. Accordingly, the double entry is,

Relevant expense account	Debit
Petty Cash book	Credit

The values recorded in the other ledger account column should be separately debited to the relevant ledger accounts.

When the petty cash book is balanced at the end of a time period, the total of the debit side is transferred to in the total of the credit column and the difference should be brought forward as the b/f balance.

Example :-

Following are the information regarding payments of petty cash payments of the business of Nethmi during the month of March 20xx.

Petty cash imprest was Rs. 2 000 which was received on 01.03.20xx

Date	Voucher No.	Description	Rs.
04.03.20xx	01	Postal charges	120
05.03	02	Travelling expenses	160
08.03	03	Refreshment expenses	260
10.03	04	Stamps	140
15.03	05	Travelling	60
18.03	06	To Vimukthi	200
22.03	07	Trishow charges	240
25.03	08	Carriage inwards	200
26.03	09	Refreshment expenses	180
28.03	10	Pens and Pencils	150
30.03	11	Cleaning expenses	200
01.04		Expenses reimbursed	

How the petty cash book is prepared with the analysis columns of postal charges, travelling expenses, entertainment expenses, miscellaneous expenses and other ledger accounts and how they are posted to the ledger accounts are depicted as follows.

Dr.		Petty Cash book								Cr.	
Received Rs.	L/F	Date	Descriptions	Voucher No.	Payments Rs.	Analysis Columns					Page No.
						Postal Rs.	Travelling Rs.	Entertainment Rs.	Miscellaneous Rs.	Ledger Acc. Rs.	
2 000		01.03.20xx	Cash								
		04.03	Postal charge	1	120	120					
		05.03	Travelling	2	160		160				
		08.03	Refreshments	3	260			260			
		10.03	Stamps	4	140	140					
		15.03	Travelling	5	60		60				
		18.03	Vimukthi	6	200					200	12
		22.03	Trishow charges	7	240		240				
		25.03	Carriage inwards	8	200					200	13
		26.03	Refreshment	9	180			180			
		28.03	Pen and Pencils	10	150				150		
		30.03	Cleaning expenses	11	200				200		
					1 910	260	460	440	350	400	
		31.03	Balance c/d		90	L.P.	L.P.	L.P.	L.P.		
2 000					2 000						
90		01.04	Balance b/f								
1 910		01.04	Cash								

Dr.

Cash book

Cr.

Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.
				01.03.20xx	Petty cash		2 000
				01.04	Petty cash		1 910

Dr.

Postal charges account

Cr.

Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.
31.03.20xx	Petty cash		260				

Dr.

Travelling expense account

Cr.

Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.
31.03.20xx	Petty cash		460				

Dr.

Entertainment expenses account

Cr.

Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.
31.03.20xx	Petty cash		440				

Dr.

Miscellaneous expenses account

Cr.

Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.
31.03.20xx	Petty cash		350				

Dr.		Vimukthi's account				Cr.	
Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.
31.03.20xx	Petty cash		200				

Dr.		Carraige Inwards account				Cr.	
Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.
31.03.20xx	Petty cash		200				



Activity 05

Harini's business has the following details.

- S Petty cash imprest of Rs. 3 000
- S Total payment for petty cash expenses for the month of January 20xx is Rs. 2 400.
- S Petty cash expenses were reimbursed on 01.02.20xx and 01.03.20xx

Petty cash expenses for the month of February 20xx are as follows.

Date	Description	
03.02.20xx	Stationaries bought	60
05.02.20xx	Travelling expenses	125
08.02.20xx	Two pens were bought	40
12.02.20xx	Trishow charges	300
15.02.20xx	Bought two cakes of soap	60
18.02.20xx	Bought half-sheets	250
23.02.20xx	Cleaning expenses	150
24.02.20xx	Entertainment expense	350
25.02.20xx	For soft drinks	220
26.02.20xx	Bus fare	170
27.02.20xx	Paid to Viran	500

Required :-

01. Prepare a petty cash book that is based on the imprest system by limiting to four analysis columns and balance it as at 28.02.20xx.
02. Prepare the relevant ledger accounts.