

Lesson 10

The Cash Book

On completing this lesson you will have covered the following Knowledge and Understanding criteria:

- Petty cash procedures (24)
- Use of the petty cash book as part of the double -entry system or as books of prime entry (26)
- Importance of reconciling bank statements, control accounts and petty cash records (28)

The Cash Account

Businesses do not always wish to pay by cheque, especially for small transactions. Quite often they will cash a cheque and use the money to pay for individual items. When this happens, money is taken out of the bank account and put into a cash account. The double-entry bookkeeping entries will be as follows:

Main (or Nominal) Ledger

Bank Account (1)

Date	Details	fo	£	Date	Details	fo	£
200X Jan 8	Balance b/d		4350	200X Jan 10	Cash	c	100

Cash Account (7)

Date	Details	fo	£	Date	Details	fo	£
200X Jan 10	Bank	c	100				

Hence money has been taken out of the bank account and put into the cash account. The folio numbers are sometimes entered as 'c' for contra entry, but the account numbers are often used.

Once the cash account has been set up, it can be used in a similar way to the bank account. Simply record items going in and out and make the double-entry in the appropriate other account.

EXAMPLE

January 12 Paid out £15 cash for sundry items.

January 13 Received £25 cash for a small sale (i.e. job done).

The entries would be:

Cash Account (6)

Date	Details	fo	£	Date	Details	fo	£
200X Jan 10	Cash	c	100	200X Jan 12	Sundries	8	15
13	Sales	7	25		Balance c/d		110
			125				125
	Balance b/d		110				

Sales (7)

Date	Details	fo	£	Date	Details	fo	£
				200X Jan 12 13	Bal b/d Cash Balance	6	150 25 <u>175</u>

Sundries (8)

Date	Details	fo	£	Date	Details	fo	£
200X Jan 12	Cash	6	15				

Now attempt **Practice Questions 1 and 2** on pages 23-24.

The two-column Cash Book

Earlier in this lesson you met the concept of the cash account as a separate entity from the bank account. As these two accounts contain many entries, and take up a lot of room in the main (or nominal) ledger, they are often both removed from there and given their own separate book.

The two-column Cash Book is used to keep account of both cash and bank transactions in one book, and side by side on the same page. By tradition the cash column *always* appears to the left of the bank column.

Although the accounts for cash and bank are brought together, they still remain completely separate accounts, laid side-by-side so that both accounts are visible at once. For this reason it is very important to label the columns clearly and you must be careful to make entries in the correct columns.

As a cashier will normally look after both, it is more convenient to put them together. This type of business will keep cash to pay small expenses and only pay into the bank from time to time.

When payments are made by a business for any reason, they are first entered into the cash payments book as a book of prime entry. The entries made are the credit entries in the cash account of the main ledger and are produced from the cheque counterfoils or list of cheques written.

On the next page is an example of a two-column Cash Book which shows an analysed cash payments book.

CASH BOOK

Date	Detail	fo	Cash	Bank	Date	Detail	fo	Cash	Bank
Jan 2	Balance	b/d	120	2150	Jan 3	Van Expenses	NL2	40	
Jan 3	F. Winter	SL1		200	Jan 4	Rent	NL3		300
Jan 4	M Baker	SL2		95	Jan 4	Purchases Office	NL4		1000
Jan 4	T. Letts	SL3		360	Jan 5	Expenses	NL5	15	
Jan 5	Sales	NL1	200		Jan 5	Wages	NL6	35	
Jan 6	Cash	c		100	Jan 6	Bank	c	100	
Jan 7	Sales	NL1		700	Jan 6	Rates	NL7		120
Jan 10	Bank	c	50		Jan 6	Telephone	NL8		40
					Jan 6	Purchases	NL4	60	
					Jan 10	Cash	c		50
						Balance	c/d	120	2095
			370	3605				370	3605
Jan 11	Balance	b/d	120	2095					

NOTE: The following:

- The date and details columns are common to both the cash and the bank account, as is the folio column (if used).
- Entries are made in either the cash or the bank account column for receipts and payments. For example, the debit entries on Jan 4 record receipts from debtors which were paid into the bank, whereas the cash receipt for Jan 5 records cash sales paid into the cash till. The payment out on Jan 3 records vehicle expenses paid out in cash, whereas the item on Jan 4 records the payment of rent by cheque.
- Where there are contra items these are noted by a 'c' in the folio column. These represent either cash drawn from the bank (debit cash and credit bank) or cash banked (debit bank and credit cash).

NOTE: 'c' indicates that the double-entry is to be found on the other side of the account or book

To balance a two-column Cash Book treat the two accounts completely separately and balance as normal. Ensure however that the total figures are on the same row of the table and bring the balance down accordingly.

NOTE: A cash account cannot have a credit balance.

When dealing with cash sales, sometimes the sale is recorded as money into the cash account, which can later be banked as a contra item, and sometimes as a direct payment into the bank account. It depends on the situation and how the business wishes to treat the transaction (or how the question is written in an examination).

EXAMPLE – Lee Chu

Lee Chu buys and sells small electrical items, recording his transactions in a two-column cash book. On August 1 he has the following balances: cash £50.00, bank £865.50 overdrawn. All cash received from sales is placed in the till and recorded in the cash book. Cheques are normally banked on the day of receipt and are posted directly to the bank account. He often pays out small items of expenditure from the cash till. Cash is banked on a regular basis.

During the first week of August, he recorded the following transactions.

August

- 1 Sold goods for £350 cash.
- 3 Takings amounted to £400, of which £65 was in cheques. The latter were paid directly into the Bank Account. Paid to have the shop windows cleaned, £15 in cash.
- 4 Paid £400 cash into the bank. Takings of £200 during the day made up of £150 cash and £50 in cheques. Paid out £30 in cash for sundry expenses during the day. Sent a cheque to Holbornes Ltd for £489.99 to pay for some credit purchases that had been delivered the previous month.
- 5 Sales of £580, made up of £250 in cheques and the rest in cash. Withdrew £300 out of the cash till for his own personal expenses.
- 6 Withdrew £500 in cash. At the end of the day he banked all cash in the till with the exception of a £50 float.

Required:

Open a two-column Cash Book with the brought down balances. Enter all the transactions for the first week of August. Balance the Cash Book, ensuring that the brought down balance on the cash account is £50, which will form the float for the next week's trading. Bring down the balances for the start of the next week. (Note: Lee is not registered for VAT and there is no need to complete the other half of the double-entry of the main (or nominal) ledger.)

ANSWER – Lee Chu

Cash Book

Date	Detail	fo	Cash	Bank	Date	Detail	fo	Cash	Bank
Aug 1	Bal b/d		50.00		Aug 1	Bal b/d			865.50
1	Sales	NL1	350.00		3	Cleaning	NL3	15.00	
3	Sales	NL1	335.00	65.00	4	Bank	c	400.00	
4	Cash	c		400.00		Sundries	NL2	30.00	
	Sales	NL1	150.00	50.00		Holbornes	PL1		489.99
5	Sales	NL1	330.00	250.00	5	Drawings	NL4	300.00	
6	Sales	NL1	500.00		6	Bank	c	920.00	
	Cash	c		920.00		Bal c/f		50.00	329.51
			1715.00	1685.00				1715.00	1685.00
Aug 8	Bal b/d		50.00	329.51					

Note on balancing:

When leaving a float in the cash account, first balance the cash account as follows: add up the debit column and enter the total (£1,715) on both sides of the cash account. Next enter the balance c/f (£50) into the credit side of the account and bring down the balance—then calculate the missing figure in the credit column of the cash account (£920). This will be the amount banked. Enter this as a contra entry in both accounts, and finally, balance the bank account as normal.

Now attempt **Practice Question 3** on page 24.

Cash discounts

Cash discounts are offered by suppliers as an incentive to pay invoices promptly. The idea is that it is better to receive 95% (say) of the invoice within 7 days than to wait for 30 days or more and receive the whole amount. It means that the supplier has the money in his or her bank account and can use it, for example, to pay bills, or to buy more stock.

You have met the concept of trade discount already. Trade discount is shown on the invoice before the net price is calculated. Cash discount is treated differently, especially when VAT is involved.

If a supplier offers a cash discount on condition that payment is made immediately or within a specific time the VAT may be calculated on the basis that the discount will

be taken, whether or not the customer in fact takes advantage of it. This is because if a discount is offered, and is taken by the customer, then the customer cannot be charged VAT on that part of the invoice that is discounted. However, because the discount may not be taken, it is not shown on the invoice itself.

The cash discount percentage is shown on the invoice under a heading 'Terms'. For example the comment: '*Terms: Cash Discount 2% 7 days*' means that the customer can deduct 2% of the net invoice price if payment is made within seven days. The VAT **must** then be added to the discounted figure. This can be very confusing and students should take great care when calculating an invoice containing cash discount.

EXAMPLE

The list price of a standard VAT-rated product is £200.00. A cash discount of 10% is offered for prompt payment. The invoice price would be calculated as follows:

Goods (net value)		200.00
VAT calculations		
Goods net	200.00	
Less cash discount 10%	<u>20.00</u>	
Goods after cash discount	<u>180.00</u>	
VAT—17.5% of £180.00		<u>31.50</u>
Gross invoice total		<u>£231.50</u>

If the cash discount is claimed, the customer will pay £180 for the goods and VAT of £31.50, giving a total of £211.50. If the discount is not taken, the amount due will be £200 for the goods, but still with £31.50 VAT (£231.50 in total). Note that the VAT amount is the same and is calculated on a discounted sale price of £180.

The invoice will show the following:

INVOICE	
Goods at list price	200.00
VAT at 17.5%	31.50
Gross	231.50
Terms: 10% 7 days	

If a trade discount is also offered, this is deducted first.

EXAMPLE

Goods are sold at a list price of £650 and a trade discount of 10% is offered plus a

further cash discount of 2.5% if payment is made within seven days. VAT at 17.5% is added.

The invoice would appear thus:

Goods	650.00
Less trade discount 10%	65.00
Goods (net value)	585.00
Plus VAT	<u>99.81</u>
GROSS invoice total	<u>£684.81</u>

The VAT on the above was calculated as follows:

Net value	585.00
Less 2.5% Cash discount	<u>14.63</u>
	<u>570.37</u>
VAT at 17.5%	99.81

NOTE: It is normal to round discount up if the third decimal place is five or greater. It is normal to round VAT down in all cases. HMRC will accept either provided that you are consistent.

Double-entry and cash discounts

Remember when posting invoices to either the ledgers or to the day books, you can only post what has been sent out.

So if the sales invoice above had been sent out then the double-entry would be:

Credit sales account	585.00	
Credit VAT account	99.81	
Debit debtors' accounts		684.81

Payment for invoices with cash discount

The amount of cash discount is recorded at the time that the invoice is paid. If the debtor concerned does not take the cash discount, then he or she will pay the full amount of £684.81 and the double-entry would be

Debit bank	684.81	
Credit debtor		684.81

And the debtor's account will be cleared.

However if the debtor takes advantage of the cash discount and pays £670.18 (570.37 plus £99.81 VAT) then the debtor's account will appear thus:

A. Debtor

Date	Details	£	Date	Details	£
Mar 13	Sales	684.81	Mar 30	Bank	670.18

Although the account has been cleared according to the terms offered, the account shows an outstanding balance of £14.63 (the amount of the cash discount calculated earlier). To overcome this, the discount is 'written-off' by crediting the debtor's account and debiting a **discounts allowed account**.

A. Debtor

Date	Details	£	Date	Details	£
Mar 13	Sales	684.81	Mar 30	Bank	670.18
				Discounts allowed	14.63

Discounts Allowed

Date	Details	£	Date	Details	£
Mar 30	A. Debtor	14.63			

If there are only a few discounts offered and taken, then all discounts could be entered as above. However, if the business is large and there are a lot of discounts offered and taken, then the discounts allowed account will soon become very full. To avoid this happening, the details are recorded elsewhere in a Cash Book and the total of the discounts allowed is posted to the account. This method should be familiar as it is the same system as used by the day books to record sales and purchases, etc.

The three-column Cash Book

The three-column Cash Book has a similar format to the two-column Cash Book but has an additional column specifically for the recording of cash discount. The 'discount' column is therefore simply a memorandum column.

Consider the following transactions:

- Mar 1 Opening balances: cash £145.00 Cr bank £1569.03 Dr
 Mar 5 Paid invoice of £350 from P Armstrong, by cheque, taking £15 as cash discount.
 Mar 10 Receives cash payment of £95.00 for invoice sent to D. Reynolds. This is in full settlement of the invoice which was originally for £100.
 Mar 15 Paid telephone bill of £35 by cheque.
 Mar 20 Received cheque from S. Minter for £500 in part payment of the account.
 Received cheque from A. Salmon for £445 in full settlement of an invoice for £450.
 Mar 31 Sent cheque to M. Norman for £2,750 in full settlement of an invoice for £2,800.
 Banked £150 in cash.

Three-Column Cash Book

Date	Detail	Disc	Cash	Bank	Date	Detail	Disc	Cash	Bank
Mar 1	Bal b/d		145.00	1569.03					
					Mar 5	Armstrong	15.00		335.00
Mar 10	Reynolds	5.00	95.00		Mar 15	Telephone			35.00
Mar 20	Minter			500.00					
	Salmon	5.00		445.00					
Mar 31	Cash			150.00	Mar 31	Norman	50.00		2750.00
						Bank		150.00	
	Bal c/f			455.97		Bal c/f		90.00	
		10.00	240.00	3120.00			65.00	240.00	3120.00
Apr 1	Bal b/d		90.00		Apr 1	Bal b/d			455.97

NOTE:

- That the discounts are entered in the appropriate discount column and the two columns are then totalled at the end of the month.
- The discount columns are NOT balanced-off against each other. The total of each column is then posted to the relevant account in the main (or nominal) ledger.
- The double entry for discount received is:

DR Cash account
CR Discount received

- In addition, in the subsidiary (purchases) ledger, the discount received is entered into the suppliers account but there is no corresponding entry in the discount received account as this has already been posted.

Totals of the discount columns will be posted as follows:

Discounts Allowed Account

Date	Details	£	Date	Details	£
Mar 31	Totals for March	10.00			

Discounts Received Account

Date	Details	£	Date	Details	£
			Mar 31	Totals for March	65.00

Individual items are posted to the debtors' and creditors' accounts as shown earlier.

When an entry involves VAT, if the invoice has been entered in the Purchase Day Book, then that amount of VAT will already have been dealt with in the Purchase Day Book and posted from the VAT account at that time. Otherwise the VAT element of the cash purchase must be analysed in the VAT column of the cash book.

Now attempt **Practice Questions 4 and 5** on pages 25-27.

Don't forget, your tutor is there to help you!

Other payments

Other payments (for example, standing orders and direct debits) must also be entered into the cash payments books before it is totalled. With such entries there is no cheque to use as the original document but most receivers of standing orders and direct debits issue statements showing the amount that will be deducted from the bank account and when – it is this document that is used to write the Cash Book.

Using the three-column Cash Book format, a standing order for electricity is to be shown and a direct debit payment to the local council for rates. The purchase ledger will now show two additional entries.

DR

CR

Date	Detail	Ref	Disc	Cash	Bank	Date	Detail	Ref	Disc	Cash	Bank
Mar 1	Bal b/d			145.00	1569.03	Mar 5	Armstrong		15.00		335.00
Mar 10	Reynolds		5.00	95.00		Mar 15	Telephone				35.00
Mar 20	Minter Salmon		5.00		500.00 445.00	Mar 24	W Dorset Council	DD			247.00
Mar 31	Cash				150.00	Mar 26	SWEB	STO			50.00
	Bal c/f				752.97	Mar 31	Norman Bank		50.00	150.00	2750.00
			10.00	240.00	3417.00		Bal c/f			90.00	
Apr 1	Bal b/d			90.00		Apr 1	Bal b/d		65.00	240.00	3417.00
											752.97