

SYNOPSIS

Cash Book

Single column Cash Book

Two column Cash Book

Three column Cash Book

Cash book

In any business, there are numerous transactions involving the receipt or payment of cash. Examples of such cash transactions include cash sales, cash receipts from debtors, cash purchases, payments to creditors, and expenses such as salaries, rent, and taxes. These transactions are recorded in a dedicated book called the **Cash Book**.

The format of the cash book resembles that of a ledger account. All cash receipts are recorded on the debit side, while all cash payments are recorded on the credit side, effectively serving the function of a Cash Account. The cash book plays a dual role in accounting: it acts as both a book of prime entry and a ledger account. Consequently, when a cash book is maintained, there is no need to create a separate Cash Account in the ledger.

Businesses use various types of cash books depending on their needs, which include:

1. Simple or Single Column Cash Book
2. Two or Double Column Cash Book
3. Three or Triple Column Cash Book

Each type of cash book serves a specific purpose and is prepared and posted into the ledger in a systematic manner. The cash book also plays a crucial role in reconciling bank transactions through **Bank Reconciliation Statements**, ensuring accuracy and consistency between cash book records and bank statements.

Single column cash book

The Single Column Cash Book is the simplest form of a cash book and functions similarly to an ordinary Cash Account. Its structure consists of a debit side, used to record all cash receipts, and a credit side, used to record all cash payments. The particulars column specifies the name of the account associated with each transaction, while the ledger folio (L.F.) column notes the page number where the entry is posted in the ledger.

Posting the Single Column Cash Book: Since the cash book serves as both a book of original entry and a ledger account for cash transactions, there is no need to maintain a separate Cash Account in the ledger. The cash aspect of each transaction is already covered in the cash book. Posting is required only for the other accounts involved in the transaction to complete the double-entry system:

1. For transactions on the debit side of the cash book, the corresponding accounts in the ledger are credited, with "By Cash A/c" written in the particulars column.
2. For transactions on the credit side of the cash book, the corresponding accounts in the ledger are debited, with "To Cash A/c" written in the particulars column.

This ensures that all transactions recorded on the debit side of the cash book are posted to the credit side of the corresponding ledger accounts, and those on the credit side of the cash book are posted to the debit side of the corresponding ledger accounts.

Balancing the Single Column Cash Book: The balancing process for the Single Column Cash Book is similar to that of a Cash Account. Since cash payments cannot exceed the available cash, the cash book will always have a debit balance. The total of

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the debit side will always be greater than the total of the credit side, and the difference between the two represents the cash in hand. This balance reflects the amount of cash available at a given time.

## Two column cash book

The Two Column Cash Book is an extension of the Single Column Cash Book, designed to accommodate transactions involving **cash discounts**. A cash discount may be allowed to a debtor when cash is received, or received from a creditor when a payment is made. These discounts and cash amounts are recorded together in a compound entry in the journal. To streamline the recording process, the Two Column Cash Book includes an additional column on each side specifically for discounts.

On the debit side, the discount allowed to debtors is recorded alongside cash receipts. On the credit side, the discount received from creditors is recorded alongside cash payments. This arrangement results in two amount columns on each side: one for cash and one for discounts, giving the cash book its name.

**Posting the Discount Column:** The procedure for posting the discount column entries to the ledger involves:

1. Posting amounts in the discount allowed column to the credit side of the relevant debtor accounts in the ledger with "By Discount Allowed A/c" in the particulars column.
2. Posting amounts in the discount received column to the debit side of the relevant creditor accounts in the ledger with "To Discount Received A/c" in the particulars column.

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3. Opening separate accounts for Discount Allowed and Discount Received in the ledger.
4. Totaling the discount allowed and discount received columns in the cash book.
5. Posting the total of the discount allowed column to the debit side of the Discount Allowed Account with "To Sundries as per Cash Book".
6. Posting the total of the discount received column to the credit side of the Discount Received Account with "By Sundries as per Cash Book".

Unlike the cash column, which is posted only to the respective personal accounts, the discount columns require postings to both the relevant personal accounts and the respective discount accounts. This ensures the double-entry principle is adhered to, as the cash book itself does not serve as a discount account.

**Balancing the Two Column Cash Book:** Only the cash columns of the Two Column Cash Book are balanced, as they reflect the actual cash position. The discount columns are not balanced but are simply totalled because they pertain to different heads of accounts: Discount Allowed and Discount Received. These totals provide the aggregate amounts of discounts for a given period, which are then posted to their respective accounts in the ledger.

By maintaining a Two Column Cash Book, businesses can efficiently track cash transactions and discounts, ensuring accurate records and facilitating the preparation of ledger accounts.

### Three column cash book

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The Three Column Cash Book expands on the Two Column Cash Book by including an additional column for bank transactions, alongside the cash and discount columns. This format is especially useful for businesses where most transactions are conducted through banks rather than cash.

In the Three Column Cash Book:

- **Cash transactions** (receipts and payments) are recorded in the cash column.
- **Bank transactions** (deposits and withdrawals) are recorded in the bank column.
- **Discounts** are recorded in the respective discount column, either for discounts allowed or discounts received.

This format eliminates the need for a separate Bank Account in the ledger, as the bank column in the cash book serves this purpose. All deposits into the bank are recorded on the debit side of the bank column, and withdrawals are recorded on the credit side.

**Contra Entries:** Certain transactions, such as depositing cash into the bank or withdrawing cash from the bank, affect both the Cash Account and the Bank Account. These are recorded as contra entries, where one account is debited and the other is credited within the same cash book:

- When cash is deposited into the bank:
  - **Debit** the bank column on the debit side.
  - **Credit** the cash column on the credit side.
- When cash is withdrawn from the bank:
  - **Debit** the cash column on the debit side.

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- **Credit** the bank column on the credit side.

Contra entries are not posted to the ledger since the double-entry is completed within the cash book itself. These are marked with a "C" in the L.F. column to indicate they are contra entries.

**Posting the Three Column Cash Book:** All entries recorded in the Three Column Cash Book, except contra entries, are posted to their respective ledger accounts:

- For entries in the cash column (debit side): Credit the concerned ledger accounts with "By Cash A/c."
- For entries in the bank column (debit side): Credit the concerned ledger accounts with "By Bank A/c."
- For entries involving discounts:
  - Post the amounts in the discount allowed column to the credit side of the respective debtor accounts with "By Discount Allowed A/c."
  - Post the amounts in the discount received column to the debit side of the respective creditor accounts with "To Discount Received A/c."
  - Totals of the discount columns are posted to the Discount Allowed Account (debit side) and Discount Received Account (credit side) in the ledger.

**Balancing the Three Column Cash Book:** The cash and bank columns are balanced separately, like any ledger account:

- The Cash Account always shows a debit balance, as payments cannot exceed cash on hand.
- The Bank Account generally shows a debit balance, indicating funds in the bank. However, a credit balance in the bank column reflects an overdraft, indicating

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withdrawals exceeding deposits, typically with prior arrangement.

- The discount columns are not balanced; they are simply totalled to determine the total discount allowed and received during the period.

Special Notes on Cheque Transactions

1. Cheques Deposited in the Bank:

- a. If a cheque is deposited on the day of receipt, it is recorded in the bank column (debit side).
- b. If the cheque is kept temporarily in the cash box, it is first entered in the cash column (debit side). When later deposited, a contra entry is made:
 - i. Debit the bank column.
 - ii. Credit the cash column.

2. Endorsing Cheques to Creditors:

- a. A cheque received but not deposited may be endorsed to a creditor. In such cases:
 - i. Record the cheque in the cash column (debit side) when received.
 - ii. Record it in the cash column (credit side) when endorsed to the creditor.

3. Dishonoured Cheques:

- a. If a cheque sent to the bank is dishonoured, reverse the original entry:
 - i. Debit the debtor's account.
 - ii. Credit the bank column (credit side) to nullify the original deposit.

The Three Column Cash Book streamlines the recording of cash, bank, and discount transactions, ensuring efficiency and accuracy while maintaining the integrity of the double-entry system.

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