

FACULTY: ADMINISTRATIVE SCIENCES

SEMESTER: (2)

COURSE TITLE: FINANCIAL ACCOUNTING-2

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CHAPTER

13

CASH BOOKS

Learning objectives



After you have studied this chapter, you should be able to:

- Explain the format of two-column and three-column cash books
- Enter up and balance-off cash books
- Use folio columns for cross-referencing purposes
- Make the entries for discounts allowed and discounts received both in the cash book and, at the end of a period, in the discount accounts in the general ledger

What is the cash book?



- The cash book is the cash account and the bank account put together in one book.
- This means we can record all money received and paid out on the same page.
- In the cash book, the debit column for cash and the debit column for bank are together, and the credit column for cash and the credit column for bank are together

The cash account and bank account

Exhibit 13.1

Cash

2012		£	2012		£		
Aug	2	T. Moore	33	Aug	8	Printing	20
	5	K. Charles	25		12	C. Potts	19
	15	F. Hughes	37		28	Office stationery	25
	30	H. Howe	<u>18</u>		31	Balance c/	<u>9</u>
			<u>113</u>				<u>113</u>
Sept	1	Balance b/d	49				

Bank

2012		£	2012		£		
Aug	1	Capital	10,000	Aug	7	Rent	205
	3	W. P. Ltd	244		12	F. Small Ltd	95
	16	K. Noone	408		26	K. French	268
	30	H. Sanders	<u>20</u>		31	Balance c/d	<u>10,104</u>
			<u>10,672</u>				<u>10,672</u>
Sept	1	Balance b/d	10,104				

Folio columns

- Just like in a T-account, the cash book has a details column that contains the name of the account in which the other part of the double entry has been entered.
- More information can be given by using folio columns.
- A folio column is drawn up in the cash book and the name of the other book and the page number is entered against every entry.

The cash book with folio

Cash book

(page 1)

			<i>Folio</i>	<i>Cash</i>	<i>Bank</i>				
				£	£				
2012						2012			
Sept	1	Capital	GL1		10,940	Sept	6	Rent	
	2	M. Boon	SL98		315		7	Bank	
	4	Sales	GL87	802			23	S. Wills	
	7	Cash	¢		50		29	Cash	
	15	Sales	GL87		490		30	Wages	
	29	Bank	¢	120			30	Balances	
				<u>922</u>	<u>11,795</u>				
Oct	1	Balances	b/d	219	11,398				
				<u>922</u>	<u>11,795</u>				

Cash discounts



To encourage early payment of accounts, a business may accept a smaller sum in full settlement if payment is made within a certain period of time.

- **Discounts allowed** – cash discounts allowed by a business to its customers when they pay their accounts quickly.
- **Discounts received** – cash discounts received by a business from its suppliers when it pays what it owes them quickly.

Posting discount allowed



W. Clarke owed us £100. He pays us in cash on 2 September 2012, which is within the time limit applicable for a 5% discount.

Debit	Cash	£95
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Credit	W. Clarke	£95
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Debit	Discount allowed	£5
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Credit	W. Clarke	£5
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Posting discount received

The business owed S. Small £400. It pays him by cheque on 3 September 2012, which is within the time limit laid down by him for a 2.5% cash discount.

Debit	S. Small	£390	
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	Credit	Bank	£390
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Debit	S. Small	£10	
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	Credit	Discount received	£10
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How the entries would look

Cash book								(page 32)			
			<i>Folio</i>	<i>Cash</i>	<i>Bank</i>				<i>Folio</i>	<i>Cash</i>	<i>Bank</i>
				£	£					£	£
2012						2012					
Sept	2	W. Clarke	SL12	95		Sept	3	S. Small	PL75		390

Discounts received

(General Ledger page 18)

			<i>Folio</i>	£
2012				
Sept	2	S. Small	PL75	10

Discounts allowed

(General Ledger page 17)

			<i>Folio</i>	£
2012				
Sept	2	W. Clarke	SL12	5

W. Clarke

(Sales Ledger page 12)

			<i>Folio</i>	£				<i>Folio</i>	£
2012					2012				
Sept	1	Balance	b/d	100	Sept	2	Cash	CB32	95
				<u>100</u>		2	Discount	GL17	<u>5</u>
									<u>100</u>

S. Small

(Purchases Ledger page 75)

			<i>Folio</i>	£				<i>Folio</i>	£
2012					2012				
Sept	3	Bank	CB32	390	Sept	1	Balance	b/d	400
	3	Discount	GL18	<u>10</u>					<u>400</u>
				<u>400</u>					<u>400</u>

Discount columns in the cash book



- To reduce the number of entries in the general ledger, discount columns can be added to the cash book.
- The **discount allowed** column is added to the **debit** side of the cash book and the **discount received** column is added to the **credit** side of the cash book.
- The total of these columns will be posted to the relevant discount accounts.

Discount columns in the cash book



How the cash book would look with a discount column

Cash book					(page 32)				
	<i>Folio</i>	<i>Discount</i>	<i>Cash</i>	<i>Bank</i>		<i>Folio</i>	<i>Discount</i>	<i>Cash</i>	<i>Bank</i>
2012		£	£	£	2012		£	£	£
Sept 2 W. Clarke	SL12	5	95		Sept 3 S. Small	PL75	10		390

What happens if there is an overdraft?

Cash book

(page 64)

	<i>Discount</i>	<i>Cash</i>	<i>Bank</i>		<i>Discount</i>	<i>Cash</i>	<i>Bank</i>
	£	£	£		£	£	£
2012				2012			
May 1 Balances b/d		29	654	May 8 R. Long	5		95
2 B. King	3		117	11 Cash			100
11 Bank		100		25 Office			
16 N. Campbell	7		273	expenses		92	
28 D. Shand	2	38		29 U. Barrow	3		57
31 Balance c/d				30 A. Allen	11		1,429
			<u>637</u>	31 Balance c/d		<u>75</u>	
	<u>12</u>	<u>167</u>	<u>1,681</u>		<u>19</u>	<u>167</u>	<u>1,681</u>
Jun 1 Balance b/d		75		Jun 1 Balance b/d			637