

CHAPTER OUTLINE

- ❖ Purpose of the cash book
- ❖ Types of cash book
- ❖ Main cash book
- ❖ Petty Cash book
- ❖ Trade and cash discounts
- ❖ Posting of cash book to ledger

Learning Objectives

At the end of this chapter, the student should be able to:

- Explain the meaning of a cash book
- Identify and explain the source documents of a cash book
- Identify the different types of cash book
- Explain the basic principles of posting transaction to the cash book
- Demonstrate how to extract information from a cash book to the ledger
- Explain the relationship among different columns of the cash book.
- Differentiate between trade and cash discounts.

### 5.1 PURPOSE OF THE CASH BOOK

The cashbook is a unique subsidiary book as it serves dual purpose. It is seen as a subsidiary book and equally a ledger account that forms an integral part of the double entry system. The cash book is used to record every transaction involving cash receipt or cash payment. Any transaction that involves immediate cash or cheque is recorded in the cash column or the bank column of the cash book.

### 5.2 TYPES OF CASH BOOK

There are two basic types of cash book namely;

1. Main cash book
2. Petty cash book

### 5.3 MAIN CASH BOOK

The main cash book can be differentiated by the nature of the transactions it is meant to accommodate. Consequent upon this, we have Single Column, Two Column and Three Column cash books. The difference among these is the number of columns contained in the cash book as will be seen in the illustrations below. The general format of the main cash book remains the same except for the differences in the number of columns.

#### Single column cash book

This is the simplest form of cash book whenever transaction is done purely with cash. The page is divided into two halves. The left hand side is known as debit (Dr) side while the right hand side is known as credit (Cr) side. The basic principle is to debit every cash receipt and credit every cash payment or cash disbursement. The single column cash book may sometimes be called simple cash book

#### Format of a simple cash book

Dr				Cr			
DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT

### Illustration 5.1

Mr Ekwe's business transaction for the Month of January, 2011 is as follows:

		N
January 1:	Cash balance b/f	500,000
3:	Cash received from Happiness	200,000
4:	Purchased goods for cash	150,000
10	Bought stationery for cash	50,000
12	Purchased goods for cash	45,000
13	Cash sales to date	65,000
15	Cash withdrawn	10,000
18	Cash sales to date	12,000
22	Purchased goods for cash	100,000
25	Cash sales to date	70,000
30	Paid wages in cash	15,000
31	Paid rent in cash	40,000

You are required to prepare a simple cash book of Mr Ekwe from the above transactions.

Mr Ekwe's  
Simple Cash Book

#### Solution 5.1

DATE	PARTICULARS	FOLIO	AMOUNT N	DATE	PARTICULARS	FOLIO	AMOUNT N
Jan 1	Bal b/d		500,000	Jan 4	Purchases		150,000
3	Happiness		200,000	10	Stationery		50,000
13	Sales		65,000	12	Purchases		45,000
18	Sales		12,000	15	Withdrawal		10,000
25	Sales		70,000	22	Purchases		100,000
				30	Wages		15,000
1				31	Rent		40,000
				31	Bal c/d		437,000
			847,000				847,000

Feb 1 Bal b/d 437,000

#### Points to note:

Date: This indicates the date of transaction.  
Particulars: This is a simple guide to the source of income or cause of the expenditure.

Folio: A reference to where the transaction is further posted or where the corresponding entries can be found in the subsidiary book.

Amount: The value of the transaction.

### TWO/THREE COLUMN CASH BOOK

A cash book is referred to as two column or double column when it is ruled to contain columns for both cash and bank transactions while the three column cashbook contains cash, bank and discount (allowed and received) columns. The principle in each of the divisions remains the same i.e. debit (Dr) the receiver and credit (Cr) the giver. In the three column cash book, the third column is for cash discount (discount allowed on the debit side and discount received on the credit side).

When the customers settle their debts and are allowed cash discounts, the cash discounts are listed in the discount allowed column. This is immediately credited to the customer's account but the corresponding debit entry will remain until a specified period when the total of the discount allowed column will be posted to the debit side of the discount allowed account in the ledger.

Again, when the suppliers' debt is settled and cash discounts are obtained, these are listed in the discount received column and immediately debited to the suppliers account while the corresponding credit entry would be posted to the credit of discounts received account at specified interval.

**Illustration 5.2:** The following transactions are listed in the books of John Bull Enterprises for the Month of June, 2010.

June	1	Cash balance	N
		Cash at bank	18,330
	3	Settled Abdulahi account of	306,240
		by cheque after deducting 5% cash discount.	640
	5	Cash sales to date paid into the bank	51,060
	7	Received and banked cheque for	870
		from Eze in settlement of his account of	900
	10	Paid Mbachhu ₦57,500 by cheque and he	
		allowed ₦250 cash discount	
	15	Cash sales paid into Bank	46,590
	18	Ekene remitted cash of ₦490 after	

		he had deducted 4% cash discount	800
21		Withdrew cash from bank to office	16,750
22		Bought good for cash	650
27		Cash sales to date	200
		Paid cash into bank	
28		Paid wages ₦500; and general expenses	
		₦130 all in cash	

You are required to enter the above transactions in a three-column cash book of John Bull Enterprises.

### Solution 5.2

#### John Bull Enterprises' Three Column Cash Book

Date	Particulars	Folio	Discount allowed N	Cash	Bank N	Date	Particulars	Folio	Discount received N	Cash N	Bank N
June 1	Balances			18,330	306,240	June 3	Abdullahi		32		608
5	Sales				51,060	10	Mbachu		250		57,500
7	Eze		30		870	21	Cash	©			800
15	Sales				46,590	22	Purchases			16,750	
18	Ekene		10	490		27	Bank	©		200	
21	Bank	©		800		28	Wages				500
27	Cash	©			200	28	Gen. Expenses			130	
27	Sales			650		30	Bal C/d			2,690	346,052
									282	20,270	404,960
			40	20,270	404,960						
				2,690	346,052						

Note: Contra-entries: These are those transactions or movement of cash within the firm from either bank to cash till or vice versa. When such occurs, there will be double entry of the same transactions as noticed on 21<sup>st</sup> and 27<sup>th</sup> respectively.

### Illustration 5.3

Enter the following transactions in the in a double column cash book of Chiekwe, a sole trader. February, 2014.

1	Cash balance in the office safe	N
	Cash balance at the bank	26,000
2	Cash sales to date	50,000
5	Received and banked cheque from Kenny	300,000
6	Paid cash into bank	450,000
10	Paid Hilary by cheque	100,000
12	Purchased goods for cash	30,000
13	Withdrew cash for office use	200,000
14	Bought stationeries for cash	50,000
20	Purchased goods for cash	40,000
25	Cash sales to date	100,000
28	Paid rent by cheque	60,000
28	Paid wages in cash	35,000
		15,000

### Solution 5.3

Chiekwe's

Double Column Cash Book for the Month of February, 2014.

Date	Particulars	Folio	Cash (N)	Bank (N)	Date	Particulars	Folio	Cash (N)	Bank (N)
Feb 1	Bal B/d		26,000	50,000	Feb 6	Bank	©	100,000	
2	Cash sales		300,000		10	Hillary			30,000
5	Kenny			450,000	12	Purchases		200,000	
6	Cash	©		100,000	13	Cash	©	50,000	
13	Bank	©	50,000		14	Stationery		40,000	
25	Cash sales		60,000		20	Purchases		100,000	
					28	Rent			35,000
					28	Wages		15,000	
	Bal c/d		19,000		28	Bal c/d		455,000	600,000
			455,000	600,000				455,000	600,000

March 1. Bal b/d

485,000

Bld

19,000

### Illustration 5.4

You are required to record the transactions below in a three column cash book of Tope and show the balance brought down as at 31<sup>st</sup> March, 2011.

March 1.	Cash in hand brought forward	N
	Cash at Bank brought forward	270,000
3	Settled Owolabi's account of	600,000
	By cheque after deducting 5% cash discount	200,000
5	Cash sales to date paid into bank	150,000
7	Received and banked cheque of	7,000
	From Ofuonye in settlement of his account of	9,000
10	Paid Hilary N100,000 by cheque and who allowed	
	N2,500 cash discount.	300,000
15.	Cash sales paid to bank	
19.	Adepoju remitted cash of N80,000 after deducting	
	20% cash discount.	7,000
20.	Withdrew cash for office use	15,000
21.	Bought goods for cash	45,000
31.	Cash Sales to date	100,000
31.	Paid wages by cash.	40,000
31.	Paid rent by cash	

### Solution 5.4

TOPE'S

Three Column Cash Book for the Month of March, 2011

Particulars	Folio	Disc. All N	Cash N	Bank N	Date	Particulars	Folio	Disc. Received N	Cash N	Bank N
Bal. B/d			270,000	600,000	Mar. 3	Owolabi		10,000		190,000
Sales				150,000	10	Hillary		2,500		100,000
Ofuonye		2,000		9,000	20	Cash	©			7,000
Sales				300,000	21	Purchases			15,000	
Adepoju		20,000	80,000		31	Wages			100,000	
Bank	©		7,000		31	Rent			40,000	
Sales			45,000		31	Bal C/d			247,000	760,000
		22,000	402,000	1,057,000				12,500	402,000	1,057,000

April 1: Bal b/d 247,000 760,000

Workings: March 3<sup>rd</sup>  $5/100 \times 200,000 = 10,000$ . Discount N10,000.

Amount Paid = ₦190,000.

**Illustration 5.5** Mr. Eneje commenced business on 1<sup>st</sup> January, 2009 by transferring ₦720,000 from his private current into a bank which he had opened for the business. His transactions for the Month of January, 2009 were as follows:

**JANUARY**

1. Bought goods on credit from Yemi	₦ 120,000
2. Withdrew cash from the bank for office use	18,000
3. Sold goods on credit to Dominic	150,000
4. Bought goods on credit from Benjamin	180,000
5. Sold goods to Okechukwu on credit	220,000
6. Paid rent by cash	2,500
7. Withdrew cash from office till for personal use	3,000
8. Bought goods from Bolongo on credit	100,000
9. Goods returned by Dominic	17,000
10. Sold goods on credit to Anthony	140,000
11. Cash purchases from Ekpo	40,000
12. Goods returned to Yemi	8,200
13. Cost of goods taken for private use	5,000
14. Goods returned by Okechukwu	20,000
15. Sold goods on credit (normal selling price ₦20,000) to Akin giving trade discount of 10%	
16. Receiving cheque of ₦95,000 from Okechukwu after he had deducted cash discount 5%	
17. Purchased second hand car from Maza Maza motors by cheque	100,000
18. Paid cheque to Yemi in full settlement of his account	110,000
19. Cash sales to Taribo received by cash	25,000
20. Goods returned to Bolongo	5,000
21. Purchased good worth ₦70,000 on credit from Aminu at a trade discount of 10%	
22. Paid cash of ₦18,000 to Bolongo after deducting discount of 10%	
23. Received cash from Dominic in full settlement of his account	130,000
24. Cheque received from Anthony	50,000

25. Deposited cash into Bank account	80,000
26. Paid salaries by cash	5,000
27. Withdrew cash from bank to pay his son's school fees	3,000
28. Paid Benjamin by cheque	80,000

**Required:** Write up the three column cash book (Ignore other subsidiary books)

**SOLUTION 5.5**

Mr. Eneje's

Three Column Cash Book for the Month of January, 2009.

Date	Particulars	Folio	Disc. Allowed N	Cash		Date	Particulars	Folio	Disc. Received N	Cash	
				N	N					N	N
Jan 1	Capital				720,000	Jan 2	Cash	©			180,000
2	Bank	©		180,000		6	Rent			2,500	
2						7	Drawing			3,000	
16	Okechukwu		5,000		95,000	11	Purchases				40,000
22	Sales			25,000		17	Motor Vehicle				100,000
23	Dominic		3,000	130,000		18	Yemi		1,800		110,000
24	Anthony				50,000	22	Bolongo		2,000	18,000	
25	Cash ©				80,000	25	Bank ©			80,000	
						26	Salaries			5,000	
						28	Drawings				3,000
						28	Benjamin				80,000
						31	Bal C/D			64,500	594,000
			8,000	173,000	945,000				3,800	173,000	945,000
<b>February 1, Bal b/d</b>					64,500	594,000					

**5.4 PETTY CASH BOOK.**

This is the second type of cash book used to record and account for small payments that are made by cash. Such small payments are not directly recorded in the main cashbook. The petty cash book is usually analytical in nature i.e expenses are analysed into appropriate headings; hence it is ruled to show columns with each bearing appropriate expense headings. The only source of cash inflow to the petty cash book is the imprest.

The petty cash book system of operation is such that the petty cashier is given a specified amount known as the imprest. The petty cashier disburses the imprest through the petty cash voucher duly authorized. When the imprest or cash float reaches a pre-determined level, the petty cashier will apply for re-imburement for an amount equal to the amount disbursed. Such application is supported with the petty cash vouchers.

**CONTROL:** The available cash in the petty cash till plus the total disbursed as recorded in the petty cash vouchers must at all times equal the cash float. This makes it easier for the management to monitor and effect control of the cash of the enterprise.

### Illustration 5.6

Nwakaego maintains an imprest of ₦60, 000. The re-imburement is continually made as soon as the cash float is exhausted within a specified period. During May, 2012 the following petty cash transactions took place:

1 May	Cashier received float of	N
	The following payments were made:	60, 000
2 May	Transport expenses	10, 000
3	Entertainment to visitors	2, 500
4	Stationeries purchased	1, 000
5	Vehicle repairs	4, 500
6	Petrol	5, 000
7	Repairs of security light	1, 200
12	Driver's medical bill	5, 000
14	Stationery purchased	7, 500
16	Transport expenses	2, 500
28	Cleaner's medical bill	2, 000
31	Re-imburement was made	

You are required to prepare an analytical petty cash book of Nwakaego as at 31 May, 2012.

### SOLUTION 5.6

Nwakaego's  
Petty Cash book as at 31<sup>st</sup> May, 2012.

Receipt ₦	Date	Details	PAYMENTS							
			Total ₦	Transport ₦	Entertain- ment ₦	Stationery ₦	Repairs ₦	Petrol ₦	Medical bills ₦	
60,000	May 1	Cash float								
	2	Transport	10,000	10,000						
	3	Entertainment	2,500		2,500					
	4	Stationery	1,000			1,000				
	5	Repairs	4,500				4,500			
	6	Petrol	5,000						5,000	
	7	Repairs	1,200					1,200		
	12	Medical Bill	5,000							5,000
	14	Stationery	7,500			7,500				
	16	Transport	2,500	2,500						
	28	Medical bill	2,000							2,000
	30		41,200	12,500	2,500	8,500	5,700	5,000	7,000	
41,200	30	Re-imburement								
	30	Bal cld	60,000							
101,200			101,200							
60,000	June 1	Bal b/d								

### 5.5 TRADE AND CASH DISCOUNTS

There is need for the student to realize the meaning and differences between trade and cash discounts.

**Trade Discount:** This is a discount given to a customer who buys goods in large quantity. It is aimed at encouraging the customer to buy more. Note that the invoice price remains the same for all the customers whether they qualify for the discount or not but the net selling price differs by the value of trade discount enjoyed by different customers. Trade discount is not

recorded in the books of accounts; rather it ends up at the point of sale or purchase. It is merely used to calculate the net selling price of the goods.

**Cash Discount:** This is also called settlement discount. It is given to encourage prompt payment from the debtors. It can be referred to as discount allowed if it is on sales or discount received if it is on purchases. Cash discount is recorded in the books of accounts when the customer has fulfilled the terms of payment specified in the invoice.

### 5.6 POSTING FROM PETTY CASH BOOK TO THE GENERAL LEDGER.

The procedure is to post the totals of the analysis column to the debit side of the account in the general ledger. Example, the total of stationery in illustration 5.6 above which is N8,500 is posted to debit side of stationery account in the general ledger. This applies to other accounts. The method helps in decongesting the expenses account in the general ledger as only the totals will be periodically posted.

### Illustration 5.7

Odumegwu Enterprises maintain an imprest of N50,000. The sole trader re-imburses the imprest as soon as the imprest level drops to 10% or less of the float. During December, 2013 the following petty cash transactions took place.

December,		N
1.	Cash float given to Cashier	50,000
2.	Bought stationery for	3,000
3.	Travelling expenses	1,000
4.	Bought postage stamp	2,500
5.	Entertainment expenses	1,500
6.	Repair of security lights	3,150
7.	Repair of vehicle	6,850
8.	Purchase of notebook	5,000
9.	Transport expenses	2,500
10.	Repair of furniture	350
11.	Purchase of stationery	5,000
12.	Entertainment expenses	4,000
13.	Medical bill expenses	6,000
30.	Purchase of stationery	8,000

**Required:** Prepare, showing balance and re-imburement as at 31<sup>st</sup> December, 2013 a petty cash book with analysis column.

### Solution 5.7

#### Odumegwu Enterprises' Petty Cash Book

Receipt	Date	Details	Total	Payments						
				Stationery	Postage	Entertainment	Repairs	Repair of light	Transport	Medical bill
N	Dec		₦	₦	₦	₦	₦	₦	₦	₦
50,000	1	Cash float								
	2	Stationery	3,000	3,000						
	3	Traveling expenses	1,000						1,000	
	4	Postage stamp	2,500		2,500					
	5	Entertainment	1,500			1,500				
	7	Vehicle repair	10,000				6,850			
	6	Repair of Light	3,150					3,150		
	8	Notebook	5,000	5,000						
	9	Transport	2,500						2,500	
	10	Repairs	350				350			
	11	Stationery	5,000	5,000						
	12	Entertainment	4,000			4,000				
	13	Medical	6,000							6,000
	30	Stationery	8,000	8,000						
			48,850		2,500	5,500	7,200	3,150	3,500	6,000
48,850	31	Re-Imbursement		21,000						
	31	Bal c/d	50,000							
98,850			98,850							
50,000	1/1/09									

To post the transactions from the petty cash book to the ledger, the total expenses is posted to the debit side of the account i.e. total expenses made on any item is posted to debit side of that account. For example, the total of stationery account which is 21,000 is posted to the debit side of stationery account in the general ledger. This applies to all other accounts or expense headings.