

LESSON 14:

CASH BOOK, PASS BOOK, BANK RECONCILIATION STATEMENT

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14.1. INTRODUCTION

Every entrepreneur should have knowledge of cash book and pass book as from these books, he may check how much balance is available to him for meeting his expenses and liabilities and what are the details of receipts and payments of a particular period. With the details of payments it can be checked that whether the payments are of reasonable amount or not. If the expenses are unreasonably high he may take steps to control them. An

entrepreneur who regularly checks his cash and bank balances would never face problems like dishonor of cheques or cash crisis etc. Entrepreneur, who doesn't distinguish between his revenue and profits, may spend all his receipts for his personal purposes subsequently resulting in deficiency of cash for business purposes and lead to cash crisis.

14.2. OBJECTIVES

After going through this lesson you should be able to

- Explain the meaning of Cash Book, Pass Book, and Petty Cash Book.
- Discuss the types of cash book.
- Enter the transactions in Cash Book.
- Explain the meaning, need and importance of bank reconciliation statement.
- Discuss the causes for difference between the balances of Pass Book and Cash Book.
- Prepare bank reconciliation statement.

14.3 CASH BOOK

In business most of the transactions relate to receipt of cash, payments of cash, sale of goods and purchase of goods. So it is convenient to have separate books for each such class of transaction, one for receipts and payments of cash, one for purchase of goods and one for sale of goods. These books are called subsidiary books.

Cash book is a subsidiary book which records the receipts and payment of cash. With the help of cash book cash and bank balance can be checked at my point of time.

(Ref.: T.S. Grewal, “*Double Entry Book Keeping*”)

14.4. TYPES OF CASH BOOK

Cash book can be of four types:

1. Simple Cash Book.
2. Two column cash book.
3. Three column cash book.
4. Petty cash book

14.4.1 SIMPLE CASH BOOK

A simple cash book is prepared like any ordinary account. The receipts are recorded in the Dr Side and the payments are recorded in the Cr side of the cash book. The specimen Performa of a simple cash book is given as follows:

Simple Cash Book

Dr.	Receipts			Payments	Cr.
Date	Particulars	Amt.	Date	Particulars	Amt
		Rs.			Rs.

Balancing the Cash Book

The Cash book is balanced like any other account. The receipts column total will be more than the payments column total. The difference will be written on the Cr. Side as “By Bal c/d”.

Example 1

Enter the following transactions in a simple cash Book.

2006		Rs.
Jan 1	Cash in hand	12,000
Jan 5	Received from Ram	3,000
Jan 7	Paid Rent t	300
Jan 8	Sold goods	7000
Jan 10	Paid Shyam	2000

Simple Cash Book

Dr.	Receipts			Payments	Cr.
Date	Particulars	Amt.	Date	Particulars	Amt
2006		Rs.	2006		Rs.
Jan 1	To Bal b/d	12,000	Jan 7	By Rent	300
Jan 5	To Ram	3,000	Jan 10	By Shyam	2,000
Jan 8	To Sales	7,000	Jan 31	By Bal C/d	17,000
		<u>22,000</u>			<u>22,000</u>

Check your progress

Activity I

Find out the monthly expenses and incomes of your family and prepare a cash book for a particular month.

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Q 1. Enter the following transactions in the simple cash book.

2005		Rs.
Dec 1.	Cash in Hand	10,000
Dec 2	Received from Ramesh	13,000
Dec 3	Purchased Furniture	15,000
Dec 4	Machinery Sold	10,000
Dec 5	Goods sold	20,000
Dec 6	Salaries paid	1,000

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14.4.2. TWO COLUMN CASH BOOK

A two – column cash book records discount allowed and discount received along with the cash payments and cash receipts.

Discount allowed is the concession given by the businessman to its customers or debtors e.g. if a debtor has to pay Rs. 10,000 and he is allowed 10% discount, now he will pay only Rs. 9000 to the firm. This is called discount allowed, it is a type of loss for the business so it is to be debited and recorded in Dr. Side of the cash book. Discount received is the concession received by the business man from the creditors. e.g. if a firm has to pay Rs. 50,000 to its creditors and discount received is 20% then the firm has to pay only Rs. 40,000 to the creditor. This is called discount received, it is a gain or profit for the firm so it is to be credited and recorded in the Cr. side of the cash book the specimen Performa of a two column cash Book is given as under –

Two column Cash Book

Dr		Receipts		Payments			Cr
Date	Particulars	Amount Dis.	Amount Cash	Date	Particular	Amt. Dis.	Amt. Cash

Note:

Discount columns are not balanced they are merely totaled.

Example 2:

Enter the following transactions in a two column ash Book.

2005		Rs.
Jan 1	Cash in hand	15,000
Jan 5	Paid to Ram	3,000
Jan 5	Discount allowed by him	100
Jan 6	Purchased goods	4,000
Jan 10	Received from R. Gupta	9,800
Jan 10	Discount allowed	200
Jan 11	Sold goods	4,000
Jan 12	Paid to S. Sharma	2,950
	Discount received Rs. 50	50
Jan 13	Paid wages	500
Jan 14	Paid to Naresh in full settlement of his Account which shows a Cr. Balance of Rs. 4000	3900

Two Column Cash Book

Dr	Receipts		Payments		Cr		
Date 2005	Particulars	Amt Dis. Rs	Amt Cash Rs	Date 2005	Particulars	Amt Dis.	Amt Cash
Jan 1	To Bal b/d	-	15,000	Jan 5	By Ram	100	3,000
Jan 10	To R. Gupta	200	9,800	Jan 6	Purchases	-	4,000
Jan 11	To sales	-	4,000	Jan 12	By S. Sharma	50	2,950
				Jan 13	By Wages		500
				Jan 14	By Naresh	100	3,900
				Jan 31	By Bal c/d		14,450
		<u>200</u>	<u>28,800</u>			<u>250</u>	<u>28,800</u>

Check your progress

Q 2. X started business on 1.4.2005 with Rs. 20,000 as Capital. He had following cash transactions in the month of April 2005.

2005		Rs.	2005		Rs.
April 1	Purchased Furniture	2,500	April 7	Paid for petty exp.	150
April 2	Purchased Goods	3,000	April 8	Cash Purchases	1,500
April 3	Sold Goods for Cash	1,500	April 9	Cash Sales	2,000
April 4	Purchased Goods	2,000	April 10	Recd from Mohan Bros.	6,000
April 5	Paid Cash to Ram	5,600	April 11	Paid for Typewriter	8,000
	Discount allowed by him	100	April 12	Paid for Telephone	2,000
April 6	Received Cash from Krishna andCo.	6,000	April 13	Paid Ali and Sons	4,000
	Allowed Discount	200		They allowed dis.	80

Make out two column cash Book

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14.4. 3 THREE COLUMN CASH BOOK

A three column cash Book is a cash book which contains bank column along with cash and discount columns.

A firm normally keeps the bulk of its funds at a Bank; money can be deposited and withdrawn at will if it is a current account. Probably payments into and out of the bank will be more numerous than strict cash transactions. They're in only a little difference between cash in hand and cash at bank. Therefore it is very convenient if in the cash book on each side another column is added – to record moneys deposited at bank and payments out of the bank. The specimen Performa of a three column cash book is given as under: -

Three Column Cash Book

Dr					Cr				
Receipts					Payments				
Date	Particular	Dis. Rs.	Cash Rs.	Bank Rs.	Date	Particulars	Dis. Rs.	Cash Rs.	Bank Rs.

Balancing: The discount columns are totaled but not balanced. The cash columns are balanced exactly in the same manner as indicated for the simple

cash book. The process is similar for balancing the bank columns also. It is possible, however, that the bank may allow the firm to withdraw more than the amount deposited, i.e. to have an overdraft. In such a case the total of the bank column on the credit side will be bigger than the one on the debit side. The difference is written on the debit side as “To Bal c/d”. Then the totals are written on the two sides opposite one another; the balance is then entered on the credit side as “By Bal b/d”.

However the usual case is that payments into the bank will exceed the withdrawals or payments out of the bank. Then the bank columns are balanced just like the cash columns.

(Ref.: T.S. Grewal, “*Double Entry Book Keeping*”)

Example 3:

Enter the following transactions in a Three-column cash book. Cheques are first treated as cash receipts

2005		Rs.
Jan 1	Cash in hand	20,000
Jan 2	Paid into Bank	19,000
Jan 3	Receives cheques from Kirti and Co.	600
Jan 4	Pays into bank Kirti and Co’s Cheque	600
Jan 5	He pays Ratan and Co. by Cheque and is allowed discount of Rs. 20	330

Solution

Three Column Cash Book

Dr					Cr				
Receipts					Payments				
Date	Particular	Dis. - Rs.	Cash Rs.	Bank Rs.	Date	Particulars	Dis. - Rs.	Cash Rs.	Bank Rs.
2005					2005				
Jan 1	To Bal b/d	-	20,000	-	Jan 2	By Bank A/C (c)	-	19,000	-
Jan 2	To Cash A/C (C)	-	-	19,000	Jan 4	By Bank A/C (c)	-	600	-
Jan 3	To Kirti and Co	-	600	-	Jan 5	By Ratan and Co (c)	20	-	330
Jan 4	To Cash A/C (c)	-	-	600	Jan 31	By Bal C.d	-	1000	18670
			<u>20,600</u>	<u>19,600</u>			<u>20</u>	<u>20,600</u>	<u>19,600</u>

Note

1) When cash is paid into bank the entry passed is

Bank A/C Dr.	(Bank balance increased)
To Cash A/C	(Cash balance decreased)

This type of transaction affects both cash and bank, these are called contra transactions

2) When cheque is received two entries are passed

Cash A/C Dr.	(When cheque is received)
To Debtors	

Bank A/C Dr.	(When cheque is deposited into Bank)
To Cash	

Check your progress

Q 3. Enter the following transactions into a three column cash book.

2005		Rs.
Feb 1	Cash in hand	10,000
Feb 2	Receives cheques from Warsi and allows him discount Rs. 300	4,700
Feb 3	Pays by cheque for cash purchases	2,000
Feb 4	Sundry exp. paid in cash	500
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14.5 PETTY CASH BOOK

A business house makes a number of small payments like telegram, textiles, cartage etc. If all these transactions are recorded in cash book the cash book may become bulky and the main cashier's work will also increase therefore usually firms appoint a petty cashier who makes these small payments and keep record of these payments in a separate cash book which is called Petty Cash book.

14.5.1. IMPREST SYSTEM OF PETTY CASH BOOK.

The petty cashier is given a sum of money in the beginning of the period. During the period he makes payment out of this money. At end the firm reimburses him the amount paid by him so that the balance of cash with him

remains same in the beginning of the period as well as at the end of the period. This is called the Imprest system of petty cash Book. The specimen Performa of a petty cash book is given as under.

Petty Cash Book

Receipts	Date	Voucher No.	Particular	Total	Conveyance	Cartage	Stationery	Postage and Telegram	Sundries

Example 4

Prepare a petty cash book on the Imprest system from the following:

		Rs.
2005		
March 1	Received Rs. 1000 for petty cash	
March 2	Paid bus fare	10
March 3	Paid Cartage	25
March 4	Paid for postage and telegram	50
March 5	Paid for stationery	40
March 6	Paid for postage and telegram	50
March 7	Paid for sundry exp.	40

Solution

Petty Cash Book

Receipts	Date	V. No.	Particulars	Total Rs.	Conveyance	Cartage	Stationary	Postage Telegram	Sundries
	2005								-
1000	March-1	1	To Cash A/C						-
	March-2	2	By conveyance	10	10	-	-	-	-
	March-3	3	By cartage	25	-	25	-	-	-
	March-4	4	By postage and telegram	50	-	-	-	50	-
	March-5	5	By stationery	40	-	-	40	-	-
	March-6	6	By postage and telegram	50	-	-	-	50	-
	March-7	7	By postage and telegram	40	-	-	-	-	40

			By sundry exp.						
1000	March 31		By Bal c/d	215	10	25	40	100	40
=====				785	====	====	=====	=====	=====
				=====					
785	April 1		To Bal b/d						
215			To Cash						

14.5.2. ADVANTAGES OF PETTY CASH BOOK

There are mainly four advantages:

- (i) Saving of time – Saving of time of the chief cashier.
- (ii) Saving of labour – saving in labour in writing up the cash book.
- (iii) Control – It provides control over small payments.
- (iv) Convenience in preparing ledger amounts.

(Ref.: T.S. Grewal, “*Double Entry Book Keeping*”)

Check your progress

Q 4. Prepare a Petty cash book on the Imprest System. From the following:

2005

Jan 1	Received Rs500 for Petty Cash	
Jan 2	Paid bus fare	20
Jan 3	Paid for stationery	130
Jan 4	Paid for postage and telegrams	170
Jan 5	Paid for Cartage	100

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14.6 PASS BOOK

Pass Book is a book issued by Bank to an accountholder. It is almost a copy of the account of the customer in the books of bank. The bank keeps the customer informed of the entries made in his account through Pass Book. It is the customer’s duty to check the entries and immediately inform the bank of any error that he may have noticed. The form of the Pass Book is given as below

PASS BOOK

Messers

Date	Particulars	Withdrawals Dr	Deposits Cr.	Dr or Cr	Balance

Check you progress

Activity 2

Find out what are the similarities and dissimilarities between a Cash Book and Pass Book.

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14.7 BANK RECONCILIATION STATEMENT

It may be illustrated under following heads

14.7.1. MEANING

The cash Book and Pass Book are prepared separately. The Businessman prepares the Cash Book and the Pass Book is prepared by the Bank (here by cash book we mean three column cash Book). But as both the books are related to one person and same transactions are recorded in both the books so the balance of both the books should match i.e. the balance as per Pass Book should match to balance at bank as per cash book. But many a times these two balances do not agree then, it becomes necessary to reconcile them by preparing a statement which is called Bank Reconciliation Statement. A BANK RECONCILIATION STATEMENT may be defined as a statement showing the items of differences between the cash Brook balance and the pass book balance, prepared on any day for reconciling the two balances.

14.7.2 CAUSES FOR DIFFERENCES

A transaction relating to bank has to be recorded in both the books i.e. Cash Book and Pass Book but sometimes it happens that a bank transaction is recorded only in one book and not recorded simultaneously in other book this

causes difference in the two balances. The causes for difference may be illustrated in detail as follows:

	Causes	Cash Book	Pass Book
1.	Cheques issued but not yet presented for payment	Entry is made Balance =Decreased	No entry is made till the cheques are presented for payment. Balance= Same as before
2.	Cheques paid into the bank but not yet cleared.	Entry is made Balance = Increased	No entry is made till the cheques are cleared Balance = same
3.	Interest allowed by the Bank	No entry is made till the Pass Book is checked Balance = Same	Entry is made Balance = Increased
4.	Interest and Expenses Charged by the Bank	No entry is made till the Pass Book is checked Balance = Same	Entry is made Balance = Decreased
5.	Interest and dividends collected by Bank	No entry is made till the Pass Book is checked Balance = Same	Entry is made Balance = Increased
6.	Direct payments by the bank	No entry is made till the Pass Book is checked Balance = Same	Entry is made Balance = decreased
7.	Direct payments into the bank by a customer	No entry is made till the Pass Book is checked Balance = Same	Entry is made Balance = Increased
8.	Dishonor of a bill discounted with the bank	No entry is made till the pass Book is checked Balance = Same	Entry is made Balance = decreased
9.	Bills collected by the bank on behalf of the customer	No entry is made till the Pass Book is checked Balance = Same	Entry is made Balance = Increased
10	Errors committed either in Cash Back or Pass Book		

14.7.3 NEED AND IMPORTANCE OF BANK RECONCILIATION STATEMENT

The need and importance of the bank reconciliation statement may be given as follows:

1. The reconciliation process helps in bringing out the errors committed either in cash Book or Pass Book.
2. Bank reconciliation statement may also show any undue delay in the clearance of cheques.
3. Sometimes the cashier may have the tendency of cheating like he may made entries in the Cash Book only but never deposit the cash into bank. These types of frauds by the entrepreneur's staff or bank staff may be detected only through bank reconciliation statement. So this way bank reconciliation statement acts as a control technique too.

(Ref.: T.S. Grewal, "Double Entry Book Keeping")

14.7.4. PROCEDURE FOR PREPARATION OF BANK RECONCILIATION STATEMENT

A. bank reconciliation statement is prepared to reconcile the two balances of Cash Book and Pass Book. So, when you will prepare a bank reconciliation statement you will start it with one balance make adjustments and then you will reach to the other balance. This way both the balances will agree. The way the adjustments should be made may be illustrated as follows:

	Particulars	Amount
		Rs.
	Balance at Bank as Per Cash Book	Xxx
Add		
(i)	Cheques issued but not yet presented for payment Xx	
(2)	Interest allowed by the bank Xx	
(3)	Interest and dividend collected by the bank Xx	
(4)	Direct payments into the bank by a customer Xx	
(5)	Bills collected by the bank on behalf of the customer <u>Xx</u>	(+) xx
Less :		
(1)	Cheques paid into the bank but not yet cleared Xx	
(2)	Interest and expenses charged by the bank Xx	
(3)	Direct payment by the Bank Xx	
(4)	Dishonor of a bill discounted with the bank <u>Xx</u>	(-) xx

Balance as per Pass Book

Xxx

Note: If you start the question with balance as per pass book all the adjustments will be reversed.

Example 5. :

From the following prepare a bank reconciliation statement on 31st March 2005.

1.	Balance as per Cash Book	1,80,000
2.	Cheques paid into Bank March 2005 but credited by the bank in April 2005	7,900
3.	Cheques issued in March 2005 but cashed in April 2005	11,000
4.	Cheques entered in the Cash Book in March 2005 but paid into bank in April 2005	1,000
5	Interest allowed by the bank	2500
6	Interest charged by the bank	500

Solution

Bank Reconciliation Statement

As on March 31, 2005

	Particulars	Amount
	Balance as per Cash Book	1,80,000
Add. 1.	Cheques issued but not cashed	11,000
2.	Int. allowed by bank	<u>2500</u>
		<u>+ 13,500</u>
		1,93,500
Less: 1.	Cheques paid into bank but not yet cleared	7,900
2.	Cheques entered into Cash Book	1,000
3.	Interest charged by Bank	500
		<u>9,400</u>
	Balance as per Pass Book	<u>1,84,100</u>

Check your progress

Q. 1. Prepare a bank reconciliation statement from the following information

1.	Balance as per pass book	3,357
2.	Cheques deposited but not yet collected	790
3.	Cheques issued but not yet presented for	650

	payment	
4.	Expenses paid by the bank directly	1,000
5.	Bill dishonored (discounted with the bank)	500
6.	Commission charged by the bank	13
7.	Interest allowed by the bank	10

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14.8. SUMMARY

Cash book is the record of cash and bank transaction prepared by the entrepreneur and the pass book is the statement of accounts prepared by the bank. There are a lot of reasons due to which the balances of cash book and pass book do not match, and then bank reconciliation statement is prepared to reconcile both the balances

Preparation of cash book, petty cash book and pass book helps the entrepreneur to exercise control over the expenses, the bank reconciliation statement facilitates checking of errors and frauds in these books.

14.9 GLOSSORY

Presentation of cheque – Depositing the cheque into bank for receiving payment.

Clearing of cheque – Collection of the amount of cheque by the bank.

Bills Receivable - An instrument in writing containing an unconditional order, signed by the maker directing a certain person to pay a certain sum of money to certain person or the bearer of the instrument.

Dishonor of Bill – A situation when the acceptor of the bill refuse to pay the amount or otherwise unable to do so.

14.10 SELF ASSESSMENT QUESTIONS

Q.1 what do you mean by a petty Cash Book? What are its main advantages?

Q.2 what is Bank Reconciliation Statement? Why the preparation of Bank Reconciliation statement is necessary?

Q.3 Explain the reasons on account of which the balance as shown by the pass book does not agree with the balance as shown by the bank column of the cash book.

14.11 ANSWER TO CHECK YOUR PROGRESS

Q-1. Cash balance = Rs. 37000

Q-2. Cash balance = Rs. 6750

Q-3. Cash balance = Rs. 9500

Cash at Bank = Rs. 2700

Q-4. Petty cash balance = Rs. 80

Q-5. Balance as per Cash Book = Rs. 5000

14.12 FURTHER READINGS

T.S. Grewal, "*Double Entry Book Keeping*", Sultan Chand and sons. 28 Daryaganj, New Delhi.

Jain and Narang, "*Financial Accounting*". Kalyani Publishers, New Delhi.