



PIPSO

Pacific Islands Private Sector Organisation

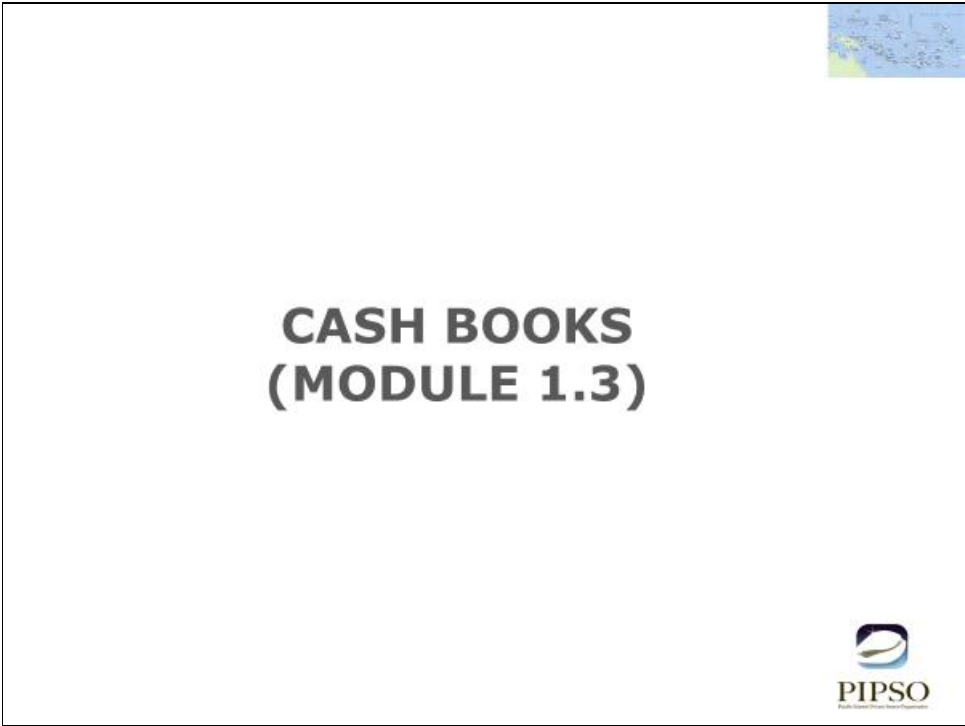
CASH
BOOKS

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This Module introduces participants to the single most important accounting document that a small business may prepare for the internal recording of business transaction. It introduces the cash receipts & payments books & shows how entries are made.

MODULE
1.3



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PURPOSE

This Module is devoted to the preparation of the primary internal record, the cash book. If the business does not have a bank account, this may be the only record available to assess the success of the business.

The cash book has two parts as follows:

- Cash receipt book, &
- Cash payments book

Remember that if credit is granted to customers or received from suppliers, in addition to this record, some debtor & creditor records are also necessary to manage working capital where goods or services are bought & sold. Some form of inventory records is also required regardless to prepare financial statements.

The following points are drawn out:

- Recording of cash sales & purchases should be separated from credit sales & purchases to best enable calculation of collection ratios
- Using a cheque, receipt number or invoice number as a cross reference to the source document for receipts & payments
- Use of cash book headings to group similar transactions
- Recording of VAT/GST where applicable only for a registered business.
- Being aware of what transactions attract VAT/GST or not as these may vary from one country to another

Participants have an opportunity to record entries in the cash book.

The Module is completed by a look at the reconciliation process with the bank account. A business must always do the reconciliation on a regular basis. The frequency depends on the volume & size of business transactions being processed.



On completion of this Module participants should be able to keep a cash book for their business & regularly reconciling it with the business bank statement.

WHY A CASH BOOK?

WHY A CASH BOOK

Because it:

- records all income and expense transactions
- is referred to as a journal in sophisticated systems
- records information that is required for completing the tax & other financial (e.g. customs) returns
- there are two components to a cash book:
 - cash receipts book– records all **amounts received** by the business
 - cash payments book – records all **amounts paid** by the business.



PIPSO
Public Income Processing Organization

The cash book must be a complete record of all business transactions, in & out of the business. It must be separate from the personal activities of the owner, or owners.

The cash book must be reconciled periodically with the bank statement. This procedure is considered later in this Module. In a full double entry accounting system the cash book is referred to as a Journal.

It includes all cash flows for:


- Assets
- Liabilities
- Equity
- Revenues
- Expenses

IMPORTANT: For a business paying taxes on a cash basis, the cash book plus the original source documents provide sufficient evidence for tax purposes, financial reporting & cash budgeting or forecasting. This meets the minimum standard of reporting required for a small or micro business.

CASH RECEIPTS BOOK

The following is a typical cash book format. It may be kept in a booklet or on computer spreadsheet.

CASH RECEIPTS BOOK							
Prestige Suppliers							
Cash Receipts Journal							
Date	Details	Inv No	VAT Received	Cash Sales	Credit Sales	Interest Earned	Bank



The desirable components of a cash receipts book include:

- Date
- Details of the transaction or customer
- Number of the invoice or receipt issued to the customer as a cross reference
- A series of columns for similar business transactions types
- Receipts from debtors are recorded as credit sales as there is no formal prior record of the sales except for working capital management purposes
- A bank, or total, column
- The total column must agree with the sum of amounts across the page & the bank statement when transactions are reconciled.

The cash receipts book records all business cash inflows.

All sales, including accounts receivable, include VAT for registered businesses. VAT on credit sales needs to be recorded & collected using the source documents, i.e. tax invoices, in the same way as cash sales.

CASH RECEIPTS BOOK



The following cash business transactions occur:

1. On 2 January 2014 Prestige Suppliers receives interest on a term deposit with Mia Banco of \$135.20
2. On 3 January 2014, Prestige Suppliers is paid \$499.00 including VAT at 15%, by Sigatoka Biz, for a credit sale re our Invoice No 269

How would these be shown in the cash receipts book?



Let us consider how to record the transactions above.

CASH RECEIPTS BOOK



Prestige Suppliers							
Cash Receipts Journal							
Date	Details	Inv No	VAT Received	Cash Sales	Credit Sales	Interest Earned	Bank
2-Jan	Interest					135.20	135.20



Interest does not normally attract Vat/GST, therefore the amount entered in the column for interest is the same as in the total bank column. Note also that for a transaction with the bank there is no receipt number or invoice cross reference as the information comes from the bank statement.

CASH RECEIPTS BOOK



Prestige Suppliers							
Cash Receipts Journal							
Date	Details	Inv No	VAT Received	Cash Sales	Credit Sales	Interest Earned	Bank
2-Jan	Interest					135.20	135.20
3-Jan	Sigatoka Biz	269	65.09		433.91		499.00



Sigatoka Biz is a debtor paying their account, therefore there is both VAT/GST to be recognised plus a receipt number to be recorded (or an invoice number if preferred).

CASH PAYMENTS BOOK



The following cash business transactions occur:

1. On 13 January 2014 Prestige Suppliers pays wages of \$746.75
2. On 15 January 2014, Prestige Suppliers makes a cash purchase from A Wholesaler, Invoice No 112, for \$1,202.95

How would these be shown in the cash payments book?



Let us consider how to record the transactions above.

CASH PAYMENTS BOOK



Prestige Suppliers							
Cash Payments Journal							
Date	Details	Ch No	VAT Paid	Cash Purchases	Credit Purchases	Wages	Bank
13-Jan	Wages					746.75	746.75



Wages are a regular payment for a business employing workers. It is a payment that generally does not attract VAT/GST.

CASH PAYMENTS BOOK



Prestige Suppliers							
Cash Payments Journal							
Date	Details	Ch No	VAT Paid	Cash Purchases	Credit Purchases	Wages	Bank
13-Jan	Wages					746.75	746.75
15-Jan	Purchases	112	156.91	1,046.08			1,202.99



A cash purchase of goods for sale will attract VAT/GST. The sum of the VAT/GST plus the cash purchases column must equal the total in the bank column.

CASH BOOK EXERCISE


Once you understand the process of recording transactions you are requested to attempt the exercise below.

CASH BOOK EXERCISE

Group exercise (Activity 1.3.1) – complete a few cash book entries & balance the cash book.

Working in small groups, complete the entries required by the exercise provided.

What is the cash book balance at the end of the month?



Note the following issues arising from the exercise:

- Not all transactions attract VAT, including:
 - a. Interest
 - b. Bank fees
 - c. Salaries & wages, all payments related to payroll
 - d. Taxes
 - e. Owner's injections of cash or drawings
- Are there other transactions not attracting VAT? This may vary from country to country.
- Amount in bank column must equal the total amount on the invoice
- The cash book provided assumes that business is running cash book only, not other journals, hence the treatment of receipts from debtors & payments to creditors.
- In a full double entry accounting system there could be up to seven journals, including separate sales & purchases journals & the cash book vary a little from the above.

NOTE:

1. Periodically, preferably monthly, the cash receipts & payments records need to be balanced, i.e. all columns added downwards & across the bottom the balances must add to the bank column total.

- The balancing of the cash book (both receipts & payments) must be completed before any reconciliation to the bank statement occurs.

Activity 1.3.1

A: Preparing a Cash Book

You are employed as an accounts clerk by Prestige Suppliers which is owned by George Mua. The business is a retail organization specialising in the sale of high quality office supplies. Prestige Suppliers is registered for VAT.

The following information was derived from the cheque butts:

Date May	Ch No	Particulars	Amount
5	1099	Cash Purchases	1,122.00
14	1100	Wages	900.00
27	1101	Home Electricity A/c	341.00
29	1103	Nala Ltd	1,050.00

The following cash receipts were recorded:

Date May	Rec No	Particulars	Amount
6	D489	B Knight	100.00
18	D490	Office Equipment	2,627.30
31	T267	Cash Sales	1,650.00
31		Interest Earned	210.00


Amounts are taken from cheque butts and cash receipts, hence they include VAT, where applicable. The interest received has been identified from the Bank Statement for May.

Prepare the cash book entries for May using the template provided. If the business had cash of \$1,045.30 on 30 April 2013, what is the cash balance at 31 May 2013?


BANK RECONCILIATION

The bank reconciliation that follows will pick up the cash balance from the exercise above. It is therefore important that all participants have a sound understanding of the recording process before moving on.

BANK RECONCILIATION



- Regular bank reconciliations should be completed to ensure the correct cash position is recorded.
- It is good practice for businesses to complete monthly bank reconciliations.
- Completing monthly bank reconciliations will assist with completing business activity statements and tax returns.



The frequency of doing the bank reconciliation depends on the size & volume of transactions being processed by a business & the owner's perceived risk of error or fraud. It should match the management reporting period to make it easier to check to business records & to ensure reliability of financial information.

BANK RECONCILIATION



Process

1. Calculate cash book balance at end of period
2. Check bank account balance
3. Check deposit entries for differences
4. Check payment entries for differences
5. Adjust cash book for bank interest or charges
6. Prepare reconciliation statement



The process, the 6 Steps listed, is described in greater detail below:

1. Calculate cash book balance at end of period (as per Activity 1.3.1 above)

Process

- a. Subtract the total of cash payments from cash receipts.
- b. Add last period's opening balance.
- c. The total is your new end of period closing cash book balance.
- d. This is your record of cash transactions, keep it for the period handy to use in Step 3.

2. Check bank account balance

Collect hard copy, or downloaded soft copy, of bank records & keep this record for the period ready to use in Step 3.

3. Check deposit entries for differences between your cash book & the bank statement

Remember that deposits in the bank may be for multiple receipts from the cash book. You may need your deposit book to match all deposits.

Process

- a. If a deposit from last month was missing check (tick) it off as the first entry
- b. Tick off each deposit from deposit book once agreed
- c. For any deposits not recorded in business records, refer Step 5
- d. If the bank has credited your account with interest during the period that is not included in your cash receipts, usually at month end, refer Step 5 hereafter

4. Check payment entries for differences between your cash book & the bank statement

This is the same process as applied in 3 above only this time for payments.

- a. Check off all unpresented cheques for the last reconciliation statement to the bank statement
 - b. Any still outstanding are to be listed in the new reconciliation statement refer Step 6
 - c. Tick off all cheques or other payments as agreed with business records
 - d. Cheques issued in your cash payments but not presented on the bank statement are to be listed in the reconciliation, refer Step 6
 - e. For bank charges not recorded in your cash payments, refer Step 5
5. Adjust cash book for your errors, if any, bank interest or charges

There may be direct deposits not recorded in business records & bank charges or interest paid on the bank statement that you are unaware of until you undertake Steps 3 & 4 above. If so, record these receipts & payments in your cash receipts or payments & rebalance the cash book before you prepare the bank reconciliation statement.

NOTE:

- I. Amounts in the bank statement are on the opposite side as in your cash book because the bank looks at transactions from its point of view, not yours.*
 - II. In addition to any differences in Steps 3 & 4 above, errors may be corrected at the same time so it is only necessary to balance the cash book once.*
6. Prepare reconciliation statement

Complete the reconciliation statement starting with the bank balance, adding any deposits not recorded & subtracting any cheques drawn or remaining outstanding on the prior reconciliation that have not been presented to the bank. A template is provided for this purpose.

At the end of this process there can be no other differences between the bank statement & your cash book than a late deposit unrecorded & cheques unpresented as all other entries must now have been matched & ticked.

Process

- a. Date the reconciliation
- b. State the account being reconciles
- c. Start with the bank balance, noting whether it is a debit or credit
- d. Add any deposit recorded in business books but not in bank statement
- e. Subtract unpresented cheques
- f. Equals business cash book balance, noting whether it is a debit or credit

NOTE: if you are a business bookkeeper you are aware that a credit on the bank statement must equal a debit in the business cash book & a debit on the bank statement must equal a credit in the business cash book.

BANK RECONCILIATION



Once the bank statement & bank account have been checked & entries in bank statement posted to the business cash book, the only differences must be:

- Any late deposit in the cash book not in the bank statement
- Unpresented cheques in the cash book not the bank statement



NOTE FOR FACILITATOR

Re-enforce the fact that any differences identified in the processes identified in Steps 3 & 4 must either be corrected as per Step 5 or listed in the bank reconciliation as per Step 6. There are no other options.

A format for the bank reconciliation follows.

BANK RECONCILIATION



Bank Reconciliation Statement				
For the month ended (date)				
Bank statement balance (date)				
Add				
Outstanding deposits				
Date	Amount			
Less				
Unpresented cheques				
Date	Cheque no.	To	Amount	
Cash book balance at (date)				



BANK RECONCILIATION

Group exercise (Activity 1.3.2) – complete a bank reconciliation.

Working in pairs, complete the Template provided.



It is time now for participants to do the reconciliation for the bank account used in Activity 1.3.1. Participants are to complete the reconciliation that follows using the template provided.

Activity 1.3.2

Bank Reconciliation

Consider the Cash Book as prepared in Activity 1.3.1.

From an inspection of the Bank Statement of your bank on the morning of 1 June 2013, you have collected the following additional information.

1. The deposit of the \$1,650 was banked on 31 May, but has not been processed by the bank.
2. Cheque number 1103 has not been presented yet.
3. An old cheque number 1079 dated 2 March 2013 for \$546.90 to A Solomon, which was not presented as at the end of April, remains outstanding.
4. Your cash at bank at 31 May 2013 according to the Bank Statement is a credit balance of \$2,166.50

Using this information complete the bank reconciliation format provided for the month of May 2013.

What actions, if any, would you take as a result of the information you now have available?



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ACTIVITY 1.3.2

Bank Reconciliation Statement								
For the month ended 31 May 2013								
Bank statement balance 31 May 2013								
Add								
Outstanding deposits								
	Date	Amount						
Less								
Unpresented cheques								
	Date	Cheque no.	To	Amount				
Cash book balance at 31 May 2013								


This exercise ends this Module.

ANSWERS TO ACTIVITIES

Activity 1.3.1

								ACTIVITY 1.3.1
								VAT/GST 15%
 PIPSO <small>Pacific Islands Private Sector Organisation</small>								
Prestige Suppliers								
CASH RECEIPTS JOURNAL								
Date	Details	Rec No	VAT/GST Received	Cash Sales	Credit Sales	Interest Earned	Other	Bank
2013			\$	\$	\$	\$	\$	\$
06-May	B Knight	D489	13.04		86.96			100.00
18-May	Office Equipment	D490	342.69				2,284.61	2,627.30
22-May	Cash Sales	T267	215.22	1,434.78				1,650.00
31-May	Interest Earned					210.00		210.00
			570.95	1,434.78	86.96	210.00	2,284.61	4,587.30
CASH PAYMENTS JOURNAL								
Date	Details	Ch No	VAT/GST Paid	Cash Purchases	Credit Purchases	Wages	Drawings	Bank
2013			\$	\$	\$	\$	\$	\$
05-May	Cash Purchases	1099	146.35	975.65				1,122.00
14-May	Wages	1100				900.00		900.00
27-May	Drawings	1101					341.00	341.00
29-May	Nala Ltd	1103	136.96		913.04			1,050.00
			283.31	975.65	913.04	900.00	341.00	3,413.00
								Cash balance at 30 April 2013 1,045.30
								Cash balance at 31 May 2013 2,219.60

Activity 1.3.2

					ACTIVITY 1.3.2	
 PIPSO <small>Pacific Islands Private Sector Organisation</small>						
Bank Reconciliation Statement						
For the month ended 31 May 2013						
Bank statement balance 31 May 2013					Credit	\$ 2,166.50
Add						
Outstanding deposits						
	Date			Amount		
	31-May			\$ 1,650.00		
						\$ 1,650.00
Less						
Unpresented cheques						
	Date	Cheque no.	To	Amount		
	02-Mar	1079	A Solomon	\$ 546.90		
	28-May	1103	Nala Ltd	\$ 1,050.00		
						\$ 1,596.90
Cash book balance at 31 May 2013					Debit	\$ 2,219.60