

FINANCIAL ACCOUNTING (PART-5)

PETTY CASH BOOK

1. INTRODUCTION

Hello Viewers,

Welcome to the lecture series on Financial accounting.

Today in this lecture we shall cover the topic - Petty cash book. Petty cash book is one of the forms of cash book. In our previous lecture we have learnt about various types of cash book - single column cash, double columnar cash, three columnar cash book and the last one is petty cash book. As the name suggests the petty cash book- the accounting of small transactions shall be done under petty cash book.

The objective of this lecture is to have understanding of the preparation of the petty cash book, the need of preparation of petty cash book and the need of preparing the petty cash book and how it is useful in the business organization and what the ways in which petty cash book can be prepared and useful to the business organization and what are the types of accounts which are being affected by it and what is meant by imp rest system of maintaining the petty cash book.

2. MECHANISM OF PREPARING PETTY CASH BOOK

The petty cash book is prepared for the small expenditure that is those expenditures which are of very nominal amount but they are required to be kept in the books of account. So rather than putting the posting in cash book or bank book we need to keep a separate record of these small expenditures. The person who is responsible for maintaining this record is

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known as the petty cashier and he has to submit this account to the head cashier or the chief cashier who will analysis these records and check whether the accounting is done properly and accordingly he will sanction the petty cash amount to the petty cashier. So this is the methodology by which petty cash account can be made.

This petty cash account can be kept as ledger posting and it can be based on the dual entry system where we can post a journal entry and then a ledger account is being opened up.

Another system is known as imp rest system or float system where a cashier is being provided a certain sum of money in advance then he will write down the transaction in the petty cash book which has happened and give the detailed information to the head cashier. The head cashier will analysis the accounts and he will sanction the new amount equal to the amount so spent at that relevant period. So in the beginning of the year he will get the fixed sum as that was before spending. So this amount so sanctioned is known as float or imprest. we will learn how this account is being prepared by the petty cashier.

The cashier will open certain accounts which are commonly being used. The nomenclature of the expenditure is fixed been fixed and then the regular expenditure which are being spent on the small amount will be recorded in that particular.

For example, stamp will be purchased so it will be regarded as stationery expenses.

Postage charges would be given heading Telegram expenses and courier expenses would be recorded according. Typing paper expenditure they will be falling under the stationery expenditure; taxi expenses, bus fare they will constitute conveyance expenses and certain expenses would be such which will not fall in either of the categories in that case sundries account or miscellaneous account is opened.

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3. PREPARATION OF PETTY CASH BOOK

Let us see how this book is being prepared.

Petty cash book

Amount received	Date	Particulars	Analysis of the transactions				
			Total amount spent	Postage	Stationery	Conveyance	Miscellaneous
500	April-1	To Cash received (Opening Balance)	-	-	-	-	-
	April-4	By taxi charges	80			80	
	April-6	By typing paper	100		100		
	April-8	By Refreshment	100				100
	April-10	By Stamp	20	20			
	April-15	By Courier charges	80	80			
		Total	380	100	100	80	100
	April-30	By balance c.d	120				
		Total	500				

The petty cashier is allotted Rs. 500 on April-1 2011 so we will write the particulars as opening balance.

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Write now we are escaping the voucher no.

on April-4 taxi charges were paid Rs.80 - It will be conveyance charges

On April -6 Typing paper was purchased Rs. 100 - It will be conveyance charges.

On April-8 Refreshment being given in office Rs. 100- It will be Miscellaneous

Expenditure

On April-10 Stamp was purchased- Rs. 20 It will be Postage charges

On April - 15 Courier charges Rs. 80- It will be postage charge.

These were the set of the information given and we have accounted it accordingly.

Now we will do the totaling of the each column. We can cross- check the columns of rows and column. It will amount to Rs. 380 from both the side.

Now we will do the balancing and the balance is Rs. 120 and total is Rs. 500.

This is the way a petty cash book is prepared. Here the analysis of the expenditure is easy, accounting is easy and the time of the head cashier is saved by not recording these small transactions and assigning the work to the petty cashier.

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4. JOURNAL ENTRIES RELATED TO PETTY CASH BOOK

Now we will discuss the journal entries relating to Petty Cash book. If petty cash is prepared on the basis of dual aspect of accounting that is where we follow the double entry system, let us see how the accounting is being done. Let us see the journal entries

1. Petty cash is issued by the head cashier to the petty cashier.

Petty Cash Account Dr.

To Cash account

(Being petty cash given to the petty cashier)

So we can say that in the cash book the petty cash account will represent the amount sanctioned to the petty cashier.

2. When the expenses incurred the following entries would be passed

Expenses (Head of The Expenses) Dr.

To Petty Cash account

(Being expenses incurred)

Rather than crediting cash we are crediting petty cash account. This is the way accounting entries are being passed when the petty cash account is maintained on the basis of double entry system of accounting.

Now for our question how the petty cash entry shall be passed. Let us see the journal entries.

a) Petty Cash Account Dr. 500

To Cash 500

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b) Postage account	Dr.	100	
Stationery	Dr.	100	
Conveyance	Dr.	80	
Misc. Expenses	Dr.	100	
To Petty cash account			380
(Being expenses incurred)			

5. PREPARATION OF LEDGER ACCOUNT FROM PETTY CASH BOOK

Now we will prepare the ledger account from the book so prepared. If it is the double entry system we will simply prepare the petty cash account first.

Dr. PETTY CASH ACCOUNT
CR.

Date	Particulars	Amount	Date	Particulars	Amount
April-1	To cash	500	Apr 30	By Postage	100
				By Stationery	100
				By Conveyance	80
				By Miscellaneous expenses	100
				By balance c/d	120
		500			500
May -1	To balance b/d	120			

This is the way the petty cash account is being prepared. Now we will learn how to prepare the further prepare. The format will be same, just the accounting head will be change the posting method will be changed the accounts standing on the credit side of the petty cash

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account would be posted on debit side of the respective head for which ledger is opened.

Postage Account

Date	Particulars	Amount	Date	Particulars	Amount
April-30	To petty cash	100			

On April 30 it will be To petty cash account Rs. 100/-

Stationery account

Date	Particulars	Amount	Date	Particulars	Amount
April-30	To petty cash	100			

Similarly, the account called stationery will be prepared and posting shall be made on debit side as to petty cash.

Conveyance account

Date	Particulars	Amount	Date	Particulars	Amount
April-30	To petty cash	80			

Similarly, conveyance and miscellaneous expenses are also prepared.

Miscellaneous expenses account

Date	Particulars	Amount	Date	Particulars	Amount
April-30	To petty cash	100			

In this way we have learnt how to prepare the petty cash book, and method of posting via petty cash book we have learnt journal entries also.

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6. BILLS RECEIVABLE BOOK

We will learn another aspect of subsidiary books and it is known as Bills Receivable book. Bills receivable books are prepared either for bills receivable and for bills payable.

Whenever certain sales are being made on credit then instead of cash sometimes bills receivable are given in lieu of cash. They are for fixed period, fixed sum and a promise to pay them is made under negotiable instrument act. So to keep a record of these books, we need to prepare a subsidiary book which is known as bills receivable book. It is prepared in prescribed format where there will no. of bills issued detail will be there date, from whom it is received, drawers name, acceptor name, amount an remarks column would be there. But no entry relating to endorsement, dishonor of the bill will be made in such books. Such entries shall be recorded in Journal Proper. Under Bills receivable book only specific entries would be passed in bills receivable books.

Format of Bills Receivable Book:

The following is the format of bills receivable book:

(1) Bills Receivable Book

No. of Bill s	Dat e	From whom receive d	Drawe r	Accepto r	Where payabl e	Ter m	Due dat e	L.F .	Amoun t	Remark s

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(2) Bills Receivable Book

Date	From whom received	Term	Due date	L.F.	Amount

So in the bills receivable books we are going to write only details of bills receivable details. If bills are discounted at bank or encashed such entry would be recorded in the cash book and not in bills receivable book. Bills receivable Only shows the number of bills details, drawers, date etc. would be recorded in the bills receivable. They are transferrable instrument.

Bills payable is given by the purchase to pay off his liability. In bills payable the name of the acceptor will be written. Below is the format of Bills payable book.

The following is the ruling and format of bills payable book:

(1) Bills Payable Book

Date	To whom given	Drawer	Payee	Where payable	Term	Due date	L.F.	Amount	Remarks

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(2) Bills Payable Book

Date	To whom given	Term	Due date	L.F.	Amount

7. POSTING FOR CASH BOOKS

We shall learn how to make posting with two columnar cash book with the help of this cash book.

Dr. Two Columnar Cash book
Cr.

Date	Particulars	Dis co un t	Amount	Date	Particulars	Dis cou nt	Amount
Apr-1	To capital		10,000	Apr-15	By Furniture		2,000
Apr-5	To Ram	200	2,000	Apr-15	By Salaries		2,000
Apr-10	To sales		2,500	Apr-16	By Shyam	50	2,500
April-15	To Ram		5,000	Apr-30	By balance c/d		13,000
	Total	200	19,500		Total	50	19,500
May-1	To balance b/d		13,000				

There will not be balancing of discount column. We shall do the balance of cash column it will be $19,500 - 6,500 = \text{Rs. } 13,000$. This balance will be written down in next month ie on May 1 Rs. 13,000.

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Now we shall do the posting from this two-columnar cash.

First of all we will prepare the capital account. On the credit side the posting shall be made as By Cash on April 1 Rs. 10,000. Now we can see how dual aspect is recorded. On one side debit side is affected and on the other side on credit side posting is made.

Capital Account

Date	Particulars	Amount	Date	Particulars	Amount
			Apr-1	By Cash	10,000

Similarly when we prepare Ram's account. All the transaction of ram will be recorded at one place chronologically. As ledger is the itemised classification of all the transactions pertaining of one account.

Ram's Account

Date	Particulars	Amount	Date	Particulars	Amount
			Apr-5	By Cash	2,000
			Apr-5	By Discount	2,00
			Apr-15	By Cash	5,000

Sales Account

Date	Particulars	Amount	Date	Particulars	Amount
			Apr-10	By Cash	10,000

Now we will see the discount account. The debit side of discount allowed will represent discount allowed while the credit side of the discount account will show discount received. On Debit side we will write To Sundries as per Cash Book and on credit side we will write By sundries as per Cash book. The posting will not be made on reverse side. The debit

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side's total will be posted on debit side of Discount and on Credit side we will write total of credit side of discount column of cash book.

Discount Account

Date	Particulars	Amount	Date	Particulars	Amount
	To Sundries as per Cash Book	2,00		By sundries as per cash book	50

We can prepare two separate accounts for discount allowed and discount received and can do the posting from the cash book.

Now we are doing posting of credit side of cash book. The transactions recorded on credit side would be posted on the debit side when account head are opened

Furniture Account

Date	Particulars	Amount	Date	Particulars	Amount
Apr-15	To cash	2,000			

Salaries Account

Date	Particulars	Amount	Date	Particulars	Amount
Apr-15	To cash	2,000			

Shyam's Account

	Particulars	Amount	Date	Particulars	Amount
Apr-16	To cash	2,000			
Apr-16	To Discount	50			

This is the way ledger posting is done from cash book.

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8. SUMMARY

With this we are completing our lecture of today. Today we have learnt the method of preparation of petty cash book, the journal entries related to petty cash and how to do posting with petty cash book as well as two columnar cash book. We have also learnt about bills receivable book. With this we are ending up our lecture of today.

Thank You!!