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Module-A Unit-3

JAIIB PAPER-3

Accounting & Financial Management for Bankers(AFM)

JAIIB AFM Module A Unit 3- Maintenance of Cash/ Subsidiary Books and Ledger

Record Keeping Basics

Journal

The form of a journal contains a column Ledger folio. Journal records each transaction. However, if anyone wants to find out transactions affecting a personal account or an expense account, he will have to turn over pages of journal, add all debits and credits and then find out the balance of a particular account.

Cash Book

The Book that keeps records of all cash transactions, i.e. cash receipts and cash payments is called a cash book. Its ruling is like a ledge account and is divided into two sides, viz, debit and credit. All receipts are recorded on the debit side whereas all payment are recorded on the credit side. Since it serves the function of cash account, there is no need for opening cash account in the ledger.

Accounting cycle includes the following:

Recording: In the first instance, all transactions should be recorded in the journal or the subsidiary books as and when they take place.

Classifying: All entries in the journal or subsidiary books are posted to the appropriate ledger account to find out at a glance the total effect of all such transactions in a particular account.

Summarising: The last stage is to prepare the trial balance and final accounts with view to ascertain the profit or loss made during a particular period and the financial position of the business on a particular date.

Ledger

The Ledger is the principal book of accounts where similar transactions relating to a particular person or property or revenue or expense are recorded. In other words, it is a set of accounts. It contains all accounts of the business enterprise whether real, nominal or personal. **The main function** of a ledger is to classify or sort out all the items appearing in the journal or the other subsidiary books under their appropriate accounts, so that at the end of the accounting period each account will contain the entire information of all the transactions relating to it in a summarized or condensed form.

Relationship Between 'Journal' and 'Ledger'

BASIS FOR COMPARISON	JOURNAL	LEDGER

Meaning	The book in which all the transactions are recorded, as and when they arise is known as Journal.	The book which enables to transfer all the transactions into separate accounts is known as Ledger.
What is it?	It is a subsidiary book.	It is a principal book.
Also known as	Book of original entry.	Book of second entry.
Record	Chronological record	Analytical record
Process	The process of recording transactions into Journal is known as Journalizing.	The process of transferring entries from the journal to ledger is known as Posting.
How transactions are recorded?	Sequentially	Account-wise
Debit and Credit	Columns	Sides
Narration	Must	Not necessary.
Balancing	Need not to be balanced.	Must be balanced.

Journalise the following transactions and post them in their respective ledger accounts.

2016		Rs.
May 2	Paid interest to Loan	4,000
May 3	Ramesh who owed Rs.3,000 has become insolvent. He pays 50 paise in rupee in full settlement.	
May 4	A cheque received from Ranjan deposited into bank was returned dishonored.	6,300
May 5	Wood used for making office furniture.	5,000
May 21	Due from Rama are bad debts.	600
May 25	Purchased building and issued cheque.	4,300

Journal Entry

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2016 May 2	Interest to Loan A/c Dr. To Cash A/c		4,000	 4,000

	(Being interest payment made on loan)			
May 3	Cash A/c Dr. Bad Debts A/c Dr. To Ramesh A/c (Being 50 paise in rupee received from Ramesh out of the debt of Rs.3,000 in full settlement)		1,500 1,500	 3,000
May 4	Ranjan A/c Dr. To Bank A/c (Being the cheque deposited into bank dishonoured)		6,300	 6,300
May 5	Furniture A/c Dr. To Purchases A/c (Being the wood used in making office furniture)		5,000	 5,000
May 21	Bad Debts A/c Dr. To Rama A/c (Being the bad debts written off)		600	 600
May 25	Building A/c Dr. To Bank A/c (Being the goods purchased and payment made through cheque)		4,300	 4,300

Account Categories

Classification of Accounts: Accounts are broadly classified into two classes:

- Personal Accounts and
- Impersonal Accounts

The Letter is further sub-divided into:

- Real Accounts
- Nominal Accounts

Personal Accounts

These accounts show the transactions with customers, suppliers, moneylenders, banks and the owner.

Personal accounts can take the following forms:

- **Natural Personal accounts**: The term natural person means persons who are the creation of God. For example, proprietor's account, supplier's account, receiver's account (Abhinav a/c, Alpa A/c).
- **Artificial personal accounts**: These accounts include the accounts of corporate bodies or institutions that are recongnised as persons in business dealings. Example: firm's a/c , club a/c.
- **Representative personal account**: These are accounts that represent a certain person or group of person. Example: Salary outstanding, Rent prepaid etc.

There following list indicates, some more of the usual accounts coming under each category: (Personal accounts)

- Bank (an artificial Person)
- Tata Iron & Steel Co. (a Company)
- Alpa (an Individual)
- Capital (Abhinav –owner)
- Bank loan (an artificial person)
- Rent outstanding (representative personal account)

Impersonal Accounts

Real Accounts

Real accounts may be of the following types:

Tangible real accounts: These are accounts of such things that are tangible, i.e, which can be seen, touched, physically. Example: Land, building, cash etc.

Intangible real accounts: These account represent such things that cannot be touched. Example: Trademarks, Patent right etc.

There following list indicates, some more of the usual accounts coming under each category: (Real accounts)

- Plant and machinery
- Investment
- Land and building
- Stock in hand
- Bill receivable
- Trademarks
- Cash

Nominal Accounts

Nominal accounts are opened in the books to explain the nature of the transactions. Example: Salary is paid to the employees, rent is paid to the property owner etc.

There following list indicates, some more of the usual accounts coming under each category: (Nominal accounts)

- Interest
- Salaries
- Rent
- Carriage
- Commission received
- Insurance
- Discount received
- Wages
- Credit and Debit Concepp

Accounting and columnar accounting mechanics

Cash book may be defined as the record of transactions concerning cash receipts and cash payments. In other words, in cash book, all transactions (i.e receipts and payment of cash) are recorded as soon as they take place. Cash book is in the form of an account and actually it serves the purpose of a 'Cash Account'.

Cash book thus serves the purpose of a book of original entry as well as that of a ledger account. A cash book has the following features:

- Only cash transactions are recorded in the cash book.
- It performs the functions of both, the journal and the ledger, at the same time.
- All cash receipts are recorded in the debit side and all cash payments are recorded in the credit side.
- It records only one aspect of transaction i.e, cash.
- All cash transactions are recorded chronologically in the cash book.

Types of Cash book

Simple (Single column) cash book: This cash book will only record cash transactions. The cash coming in (receipts) will be on the left and the cash payments will be on the right. And since we will record all cash transactions here there is no need for a cash ledger account.

Date	Particulars	L.F	Receipt No.	Amount	Date	Particulars	L.F.	Vr. No.	Amount

Date: The date on which cash is received or paid is entered in this column.

Particulars: The name of the account in respect of which the amount is received or paid is shown.

LF (Ledger folio): The column shows page number of the ledger where the entry has been posted.

Two Column Cash Books

Here instead of one column, we have an additional column for discounts. So along with the cash transactions, we will also record the discounts in the same cash book. So both discounts received and the discount that is given is recorded here. If any organization is in a general practice of giving or receiving discounts this is the preferable option.

Discount is a nominal account – so the discount is given (loss) is on the debit side and discount received (profit) is on the credit side. At the end of the period, we balance both columns and transfer the closing balances.

Prepare a two column cash book from the following entries

Cash in Hand – 15000

Received from ABC – 4800; Discount – 200

Goods bought for cash 1500

Cash paid to LMN – 2400; Discount – 100

Cash Book

Sr No	Particulars	Cash	Discount	Sr No	Particulars	Cash	Discount	Sr No
1	To Bal b/d	15000		1	By Goods Purchase A/c	1500		
2	To ABC A/c	4800	200	2	LMN A/c	24000	1000	

					By Bal c/d	5700		
		19800	200			25500	1000	
	To Bal b/d	5700						

Three Column Cash Books

This cash book has the cash, the discount and additionally the bank columns in it. Since the development of banking most firms, these days prefer to deal in cheques or other such bills of exchange. And so having a bank column in your cash book makes things concise and simpler to understand.

So when you receive a cheque and you deposit it in the bank the same day you make the entry in the bank column (the debit side in this case). But say you send the cheque later (not the same day) then this will be a contra entry. A contra entry is transactions that happen between a cash account and a bank account. Ultimately your Cash & Bank balance remains the same, the money just moves around.

Petty Cash Book

In a firm, there are usually cash transactions happening in all the departments. These we will record in one of the above formats of cash books. But there are many cash transactions happening for very small amounts. Sometimes there are dozens of such transactions that occur in just one day. These are known as petty transactions. Examples are expenses for postage, stationery, traveling, food bills, etc.

So since the number of such transactions tends to be very high we maintain a separate cash book for them – the petty cash book. Such a cash book is maintained by the petty cashier (who in most cases also handles the petty cash).

Two types of petty cash book:

- Simple petty cash Book
- Columnar Petty cash Book

Journalising

Journalising refers to recording business transactions systematically and in a summarised form in the journal. It means a process of entering the twofold effects of transactions in the form of debt and credit in the journal.

Date	Particulars	L.F	Debit Amount	Credit Amount
(i)	(ii)	(iii)	(iv)	(v)

Date: In the first column the date of the transaction is entered, the year is most probably written on the top of the column than to repeat it every day.

Particulars: Here the accounting entry is written in a summarised form of debit and credit. The names of the accounts involved in the transaction are written in the journal entry.

On the first line, the account is debited, the word "Dr." is written at the right end of the same line of account debited.

On the second line, the account credited is written with a prefix "To" after leaving a little space towards the start.

Immediately below the entry, a small explanation of the transaction called 'narration' is written. The narration begins with the word "Being".

Ledger Folio No. (L.F.): In this column, the page number of the Ledger in which the journal entry is posted, is recorded. This also helps is easy cross verification and reference in the future.

Debit Amount: The amounts to be debited to the accounts concerned or involved are written.

Credit Amount: The amounts to be credited to the accounts concerned or involved are written.

Rules for Journalising Transactions: (Golden rules of Accountancy)

Personal Account: It relates to persons(natural or legal) with whom a business keeps dealings.

Rule: Debit the receiver and Credit the giver.

E.g. Goods worth Rs. 5000/- sold to Alpa. Here, because Alpa is the receiver of goods so it is to be debited.

Real Account: It relates to property or goods which may come or go from the business.

Rule: Debit what comes in and Credit what goes out.

E.g. Goods worth Rs. 7000/- sold on cash. Here, cash a/c is to be debited because cash flows out.

Nominal Account: It relates to business expenses, losses, incomes, and gains.

Rule: Debit all the expenses or losses and Credit all the incomes, gains or profits.

E.g. Paid Rs. 2000/- as commission to the agent. Here, commission a/c is debited because it is a business expense.

Solved Example for You

Question: Journalise the following transactions in the Journal of Mr. Abhinav for the year 2018

- January 1 – Paid rent Rs. 4000/-
- January 2 – Sold goods to Harsh for Rs. 10,000/-

Answer:

In the Journal of Mr. Abhinav

Date	Particulars	Debit Amount	Credit Amount
2018 01/01	Rent A/c ……………… Dr. To Cash A/c (Being rent paid)	4000	4000
02/01	Harsh A/c ………. Dr. To Goods A/c (Being goods sold to Harsh on credit)	10,000	10,000
Total		14,000	14,000


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