

BCM-102
FINANCIAL ACCOUNTING
UNIT-4 JOURNAL AND CASH BOOK
(B. COM. FIRST YEAR)

Compiled By
Dr. Gagan Singh

Journal

- The word journal has been derived from the French word “Jour” which means day. Hence, the Journal means the book in which daily transactions are primarily recorded. Journal is a book of original entry. In this book, transactions are recorded in a chronological order as and when they take place. The recording of the transaction in journal is technically known as journalizing. Journal is also called the book of Prime Entry

Journal: Its Features

- 1 Journal is a book of prime entry.
- 2 Transactions are recorded in chronological order.
- 3 Gives full details of the transaction in the form of narration
- 4 Journal is an assistant to the ledger.
- 5 The nature of account is clearly mentioned in the Journal.

Format of Journal

| Date | Particulars | Ledger Folio | Amount Debit (Dr.) Rs. | Amount Credit (Cr) Rs. |
|------|-------------|--------------|------------------------------|------------------------------|
| | | | | |

Steps in Journalizing

- 1 Identification of transaction to be recorded.
- 2 Identification of accounts involved.
- 3 Application of the rules of debit and credit related to the accounts.
- 4 Write the transaction in particular column of the journal.
- 5 Write narration.

Advantages of Journal

- 1 All the transactions of the business are daily recorded in this book. Therefore, there is less chance of left out of any transaction.
- 2 Detailed information are available of the transaction from merely seeing the entry because of narration is given for each entry.
- 3 The chances of mistakes in writing an entry are minimized to a considerable extent because before writing an entry proper classification of account is done and the rule of debit and credit is followed.
- 4 Since the transactions are recorded in chronological order, therefore, any transaction can be easily find out.
- 5 Journal helps in locating errors in Ledger because folio of ledger is mentioned in Journal and vice – versa.
- 6 The Journal is a basic evidence of transaction because each and every transaction recorded in journal is supported by documentary evidences.

Limitations of Journal

- 1 If all the transactions whether cash or credits are recorded in journal, it will become very bulky book. Therefore, handling of journal will be a difficult task.
- 2 Daily cash balance cannot be ascertained.
- 3 Location of any transaction will be very difficult if the exact date of transaction is not known.

Cash Book

- Cash Book is a book of original entry. This book is used to record all transactions relating to Cash/Bank receipts and Cash/Bank payments. This is the main book and maintained by all types of business organization irrespective of the size i.e. small, medium or big. The cash transactions are first recorded in this book and then posted in Ledger. This is divided into two parts. The left hand side is used to record cash receipts while right hand side is used for recording cash payments. The difference of the two sides represents credit or debit balance of cash. The Cash Book is considered an account in the Ledger.

Cash Book: Features

- 1 The Cash Book is a book of original Entry.
- 2 The Cash Book records only cash transactions in chronological order.
- 3 The Cash Book has two sides—Debit side and Credit side.
- 4 The cash receipts are recorded on debit side.
- 5 The cash payments are recorded on credit side.
- 6 The difference between the debit side and credit side represents the positive or negative balance.
- 7 Generally, negative balance of cash does not appear in the Cash Book while in case of bank balance, it may be possible.
- 8 The Cash Book acts as an account of the Ledger.

Cash Book: Objectives

- 1- To record properly cash and bank transactions in chronological order.
- 2- To know the cash in hand and cash at bank at any point of time.
- 3- To ensure effective management of cash and bank transactions.

Cash Book: Advantages

- 1 One of the important objectives of the business is to have effective control over inflow and out flow of cash. This is possible only when the cash transactions are properly recorded. The Cash Book is fulfilling the objective.
- 2 The internal check on the cash can be effectively exercised with the help of Cash Book. The cash balance shown by the Cash Book can be physically verified by checking cash in hand in cash box. Any difference of these two shows that either any transaction is not recorded/wrongly recorded or temporary embezzlement of cash by the cashier.
- 3 Cash Balance and Bank Balance can be ascertained any time through Cash Book for taking the future decisions regarding cash transactions.
- 4 Errors can be detected easily and responsibility can be fixed.
- 5 There is no need of maintaining Cash Account and Bank Account in the Ledger. Thus, this will result into saving in time, reduction in posting errors and size of the Ledger.

Types of Cash Book

- 1 Single Column Cash Book
- 2 Double Column Cash Book
- 3 Triple Column Cash Book
- 4 Petty Cash Book

Types of Cash Book

- **1 Single Column Cash Book:** This is a simple Cash Book which contains only one column of amount i.e. Cash. This is generally prepared by small businessmen having more cash transactions and less bank transactions.
- **2 Double Column Cash Book:** There are two columns of amount on each side of Cash Book i.e. one column for cash transactions and other column for bank transaction. When the number of bank transactions is large, it is convenient to have separate amount column for bank transactions. This helps in having the up-dated information about the position of the bank account from time to time.
- **3 Triple Column Cash Book:** It is a Cash Book with three columns on each side for recording cash, Bank and Discount. Offering and accepting cash discount is closely related to receipt and payment of cash. So discount allowed and discount received should be simultaneously recorded along with cash in- order to get full knowledge.

Types of Cash Book

- **4 Petty Cash Book:** In every organization, a large number of petty payments which are of recurring nature such as postage, conveyance, stationary, cartage, traveling, entertainment etc. are made every day. If all these payments are managed by main cashier and are recorded in the main Cash Book then the cashier may be overburdened and the size of the Cash Book may become very bulky and it may also lead to errors and mistakes. In order to avoid this and keep the main cashier busy with many important works, large organizations, normally, appoint another cashier to record all transactions of petty payments in the Cash Book which is called petty Cash Book and the cashier is called Petty Cashier. A fixed amount is given by main cashier to Petty cashier and after spending money, petty cashier submits his accounts and take the money equivalent to amount already spend from the main cashier. The fixed amount given by the main cashier to petty cashier is known as imprest money.

Summary

- Journal is a book of prime entry. All transactions are recorded in this book in chronological order by giving a brief description of transaction in the form of narration for each entry. Cash Book is a book of original entry. It records transactions related to Cash /Bank receipts and payments in chronological order. The organizations depending upon the requirement are using different types of Cash Book. These are Single Column Cash Book, Double Column Cash Book and Triple Column Cash Book.

References

- SILM developed by Uttarakhand Open University for BCM-102 (Financial Accounting), Year 2017, ISBN: 978-93-85740-44-2