Cambridge IGCSE/O-Level Economics

(Code: 0455/2281)

Section 01

Chapter 1

1.1 Introduction to accounting

Introduction

Accounting is regarded as the language of business. Accounting can be divided into two sections:

1) <u>Book-keeping</u> **Book-keeping** - is the detailed recording of all the financial transactions of a business.	**2) Accounting** **Accounting- i**s using book-keeping records to prepare financial statements and to assist in decision-making.

The owner of the business also needs to know the financial position at regular intervals, so a **statement of financial position** is prepared. A statement of financial position means showing the assets and liabilities of a business on a certain date.

Assets, liabilities, and capital

Accounting records of a business are solely related to the business, and the owner is considered separate from it from an accounting perspective.

- **Capital** - is the total resources provided by the owner and represents what the business owes the owner.
- **Assets** - represent anything owed by or owing to the business.
- **Liabilities** - represent anything owed by the business.

The accounting equation

Like any other mathematical equation, the two sides of the equation will always be equal. The formula for this equation is:

Assets = Capital + Liabilities.

Walkthrough 1.1

20–7

January,

1 Leena set up a business to trade under the name of The Dress Shop. She opened. a business bank account and paid in $20 000 as capital.

2 The business purchased premises, $15 000, and paid by cheque.

3 The business purchased goods, $3 000, on credit.

Date	Assets		=	Capital	+	Liabilities	
1 January	Bank	$20 000		$20 000		Nil	
2 January	Premises	15 000					
	Bank	5 000					
		$20 000		$20 000		Nil	
3 January	Premises	15 000					
	Inventory	3 000					
	Bank	5 000					
		$23 000		$20 000		Trade payable	$3 000
4 January	Premises	15 000					
	Inventory	2 000					
	Trade receivable	1 000					
	Bank	5 000					
		$23 000		$20 000		Trade payable	$3 000

- January The assets of the business are equal to the capital of the business.
- January The money in the bank has decreased because a new asset has been bought. The total assets are equal to the capital.
- January Purchasing on credit means that the business does not pay immediately. Inventory is the goods a business has available for resale. Trade payables represent the amount the business owes to the credit suppliers of goods (the trade creditors)
- January Selling on credit means that the business does not immediately receive the money. Trade receivables represent the amount owed to the business by its credit customers (the trade debtors).

The statement of financial position

A statement of financial position displays the three elements of the accounting equation: assets, capital, and liabilities, which are affected by changes in these elements.

Chapter 2

1.2 Double entry book-keeping – Part A

Introduction

The day-to-day transactions are recorded in the books of a business using the double **entry system of book- keeping. Double entry book-keeping** is the process of making a debit entry and a credit entry for each transaction.

Account name							
Debit							Credit
Date	Details	Folio	$	Date	Details	Folio	$

Walkthrough 2.1

20–7

January 1 Ajay began business. He opened a business bank account and invested $80 000 as capital **a**

2 Fixtures and equipment costing $30 000 were bought and paid for by cheque **b.**

Ajay							
Bank account							**Page 1**
Date	Details	Folio	$	Date	Details	Folio	$
20–7				20–7			
Jan 1 **a**	Capital	2	80 000	Jan 2 **b**	Fixtures and equipment	3	30 000

Capital account							**Page 2**
Date	Details	Folio	$	Date	Details	Folio	$
				20–7			
				Jan 1 **a**	Bank	1	80 000

Fixtures and equipment account							**Page 3**
Date	Details	Folio	$	Date	Details	Folio	$
20–7							
Jan 2 **b**	Bank	1	30 000				

Enter these transactions in Ajay's ledger.

The first transaction a is debited in the bank account, as this is the account which is receiving the money, and credited in the capital account, as this is where the money is coming from.

The second transaction b is debited in the fixtures and equipment, to show the value being received, and credited in the bank account, as this is where the money is coming from.

In each transaction, the details column shows the name of the account in which the other half of the double entry is made.

The folio number is used for reference purposes and shows the page of the ledger on which the account named in the detail's column appears.

Double entry records for assets and liabilities

A ledger account is opened for each type of asset and liability. Applying the double entry principles, every transaction is entered twice. The account which is receiving the money is debited and the account which is giving the money is credited.

Walkthrough 2.2

20–7

January 1 Ajay began business. He opened a business bank account and invested $80 000 as capital.

2 Fixtures and equipment costing $30 000 were bought and paid for by cheque.

3 A short-term loan of $10 000 was received from AB Loans

5 A motor vehicle costing $9 000 was bought and paid for by cheque.

6 A long-term loan of $5 000 was received from Ajay's sister Mallika.

Enter these transactions in Ajay's ledger.

Ajay							
Bank account							**Page 1**
Date	Details	Folio	$	Date	Details	Folio	$
20–7				20–7			
Jan 1	Capital	2	80 000	Jan 2	Fixtures and equipment	3	30 000
	3 AB Loans	4	10 000		5 Motor vehicles	5	9 000
	6 Mallika loan	6	5 000				

Capital account							**Page 2**
Date	Details	Folio	$	Date	Details	Folio	$
				20–7			
				Jan 1	Bank	1	80 000

Double entry records for expenses and income

A ledger account is opened for each type of expense and income. The same double entry principles applied to assets and liabilities are applied to expenses and income. The account which is receiving the money is debited and the account which is giving the money is credited.

Walkthrough 2.3

20–7

January 1 Ajay began business with a capital of $80 000 in the business bank account.

1 He paid rent of premises, $400, by cheque.

2 Fixtures and equipment costing $30 000 were bought and paid for by cheque.

3 He paid insurance, $250, by cheque.

3 A short-term loan of $10 000 was received from AB Loans

5 A motor vehicle costing $9 000 was bought and paid for by cheque.

5 He paid motor expenses, $50, by cheque.

6 A long-term loan of $5 000 was received from Ajay's sister Mallika.

7 Part of the premises were rented out to another business and a cheque for $95.was received.

Enter these transactions in Ajay's ledger.

Ajay
Bank account — Page 1

Date	Details	Folio	$	Date	Details	Folio	$
20–7				20–7			
Jan 1	Capital	2	80 000	Jan 1	Rent payable	7	400
3	AB Loans	4	10 000	2	Fixtures and equipment	3	30 000
6	Mallika loan	6	5 000	3	Insurance	8	250
7	Rent receivable	10	95	5	Motor vehicles	5	9 000
					Motor expenses	9	50

Capital account — Page 2

Date	Details	Folio	$	Date	Details	Folio	$
				20–7			
				Jan 1	Bank	1	80 000

Fixtures and equipment account — Page 3

Date	Details	Folio	$	Date	Details	Folio	$
20–7							
Jan 2	Bank	1	30 000				

AB Loans account — Page 4

Date	Details	Folio	$	Date	Details	Folio	$
				20–7			
				Jan 3	Bank	1	10 000

Double entry records for drawings

Drawings represent any value taken from the business by the owner of that business. A **balance** on a ledger account is the difference between the debit side and the credit side.

Balancing ledger accounts

At the end of each month, it is usual to **balance** any account of assets and liabilities which contain more than one entry. The **balance is the difference between the two sides** of the account and represents the amount which is left in that account.

Walkthrough 2.5

The bank account prepared in Walkthrough 1.4 shows the entries made by Ajay during the first week of trading. Balance the bank account in Ajay's books on 7 January 20–7.

Double entry records for sales, purchases and returns.

Purchases account records goods purchased for resale, while a sales account records goods sold. Both

Ajay
Bank account — Page 1

Date	Details	Folio	$	Date	Details	Folio	$
20–7				20–7			
Jan 1	Capital	2	80 000	Jan 1	Rent payable	7	400
3	AB Loans	4	10 000	2	Fixtures and equipment	3	30 000
6	Mallika loan	6	5 000	3	Insurance	8	250
7	Rent receivable	10	95	5	Motor vehicles	5	9 000
					Motor expenses	9	50
				7	Balance	c/d	55 395
			95 095				95 095
20–7							
Jan 8	Balance	b/d	55 395				

You can now answer Question 1 at the end of this chapter.

are recorded separately, with purchases at cost price and sales at selling price.

Purchases

a) Goods purchased for cash or cheque.	b) Goods purchased on credit
Whenever goods are purchased, the purchases account will be debited as the goods are coming into the business and the purchases account is receiving that value.	It is common for businesses to buy on credit and pay for the goods later rather than at the time of purchase. The purchases account will be debited in the usual way. The supplier of goods is known as a **trade creditor**.

Walkthrough 2.5

20–7

January 9 Ajay bought goods, $650, on credit from Kolkata & Co

10 Ajay bought goods, $150, and paid by cheque.

13 Ajay paid the amount owing to Kolkata & Co by cheque.

Enter these transactions in Ajay's ledger.

• The account of Kolkata & Co is 'in balance' as both sides equal $650. The account has

been totaled to indicate that the account is now closed.

• It is not necessary to write the month against each transaction, only when it is the first

entry for the month.

Ajay							
				Bank account			Page 1
Date	Details	Folio	$	Date	Details	Folio	$
				20–7			
				Jan 10	Purchases	11	150
				13	Kolkata & Co	12	650

Purchases account							Page 11
Date	Details	Folio	$	Date	Details	Folio	$
20–7							
Jan 9	Kolkata & Co	12	650				
10	Bank	1	150				

Kolkata & Co account							Page 12
Date	Details	Folio	$	Date	Details	Folio	$
20–7				20–7			
Jan 13	Bank	1	650	Jan 9	Purchases	11	650
			650				650

• If there is more than one entry on the same side of an account on the same date, it is not necessary to write the day of the month each time.

b) Goods sold on credit- Just as a business may purchase goods and pay for them later, it may also sell goods on credit.

Walkthrough 2.6

20–7

January 16 Ajay sold goods, $175, for cash.

17 Ajay sold goods, $770, on credit to Prerna.

20 Prerna gave Ajay a cheque for $500 on account.

Enter these transactions in Ajay's ledger.

Ajay
Bank account — Page 1

Date	Details	Folio	$	Date	Details	Folio	$
20–7							
Jan 20	Prerna	15	500				

Cash account — Page 13

Date	Details	Folio	$	Date	Details	Folio	$
20–7							
Jan 16	Sales	14	175				

Sales account — Page 14

Date	Details	Folio	$	Date	Details	Folio	$
				20–7			
				Jan 16	Cash	13	175
				17	Prerna	15	770

Returns

Sometimes goods which have been purchased have to be returned to the supplier. They may be faulty, damaged, or not what was ordered. These goods are known as **purchases returns or returns outward.**

Walkthrough 2.7

20–7

January 21 Ajay sold goods, $245, on credit to Xavier Traders

22 Xavier Traders returned damaged goods, $55, to Ajay.

23 Ajay purchased goods, $820, on credit from Varun.

25 Xavier Traders paid their account by cheque.

27 Ajay returned faulty goods, $44, to Varun.

30 Ajay gave Varun a cheque for $700 on account.

Enter these transactions in Ajay's ledger.

Ajay
Bank account — Page

Date	Details	Folio	$	Date	Details	Folio	$
20–7				20–7			
Jan 25	Xavier Traders	16	190	Jan 30	Varun	18	700

Purchases account — Page 1

Date	Details	Folio	$	Date	Details	Folio	$
20–7							
Jan 23	Varun	18	820				

Sales account — Page 14

Date	Details	Folio	$	Date	Details	Folio	$
				20–7			
				Jan 21	Xavier Traders	16	245

Xavier Traders account — Page 1

Date	Details	Folio	$	Date	Details	Folio	$
20–7				20–7			
Jan 21	Sales	14	245	Jan 22	Sales returns	17	55
				25	Bank	1	190
			245				245

Double entry records for carriage inwards and carriage outwards

Carriage is the cost of transporting goods.

Carriage inwards is the cost of bringing the goods to the business and **carriage outwards** is the cost of delivering the goods to the customer.

The double entry principle in accounting involves debiting the carriage inwards account, crediting the cash account or bank account for the payment, and debiting the carriage outwards account for the payment.

Three column running balance accounts.

The ledger accounts presented so far have been in the traditional form. This form is also known as the 'T' account format. The layout of a ledger account using this format is as follows:

Date	Details	Folio	Debit $	Credit $	Balance $

Walkthrough 2.8

20–7

January 1 Ajay began business. He opened a business bank account and invested $80 000 as capital.

1 Paid rent of premises, $400, by cheque

2 Fixtures and equipment costing $30 000 were bought and paid for by cheque.

3 Paid insurances, $250, by cheque

3 A short-term loan of $10 000 was received from AB Loans

5 A motor vehicle costing $9 000 was bought and paid for by cheque.

5 Paid motor expenses, $50, by cheque

6 A long-term loan of $5 000 was received from Ajay's sister Mallika.

7 Part of the premises were rented out to another business and a cheque for $95 was received.

Enter these transactions in the bank account in Ajay's ledger using the three columns running. balance format.

		Ajay			
		Bank account			Page 1
Date	Details	Folio	Debit $	Credit $	Balance $
20–7					
Jan 1	Capital		80 000		80 000 dr
	Rent payable			400	79 600 dr
2	Fixtures and equipment			30 000	49 600 dr
3	Insurance			250	49 350 dr
	AB Loans		10 000		59 350 dr
5	Motor vehicles			9 000	50 350 dr
	Motor expenses			50	50 300 dr
6	Mallika loan		5 000		55 300 dr
7	Rent receivable		95		55 395 dr

Interpreting ledger accounts and their balances

It is necessary to be able to understand the entries made in a ledger account and to be able.

WALKTHROUGH 2.9

The following account appeared in the ledger of Ajay.

Explain each entry in the accounts of Xavier Traders and state where the double entry for each item will be found.

March 1 Xavier Traders owe Ajay $122 for goods supplied on credit in previous months Double entry: Xavier Traders account for February 20–7 credit side.

8 Ajay sold goods on credit to Xavier Traders, $650 Double entry: Sales account credit side.

9 Ajay received cash, $122, from Xavier Traders Double entry: Cash account debit side.

12 Xavier Traders returned goods, $98, to Ajay. Double entry: Sales returns account debit side.

20 Ajay sold goods on credit to Xavier Traders, $820
Double entry: Sales account credit side.

29 Xavier Traders paid Ajay $550 by cheque (or by bank transfer)
Double entry: Bank account debit side

31 Xavier Traders owe Ajay $822

Chapter 3

1.3 The trial balance.

Introduction

A trial balance is a list of the balances on the accounts in the ledger at a certain date. A trial balance is prepared to check the arithmetical accuracy of the double entry bookkeeping.

Ajay
Xavier Traders account

Date	Details	Folio	$	Date	Details	Folio	$
20-7				20-7			
Mar 1	Balance	b/d	122	Mar 9	Cash		122
8	Sales		650	12	Returns		98
20	Sales		820	29	Bank		550
				31	Balance	c/d	822

**Trial balance at ....* **

Details	Folio	Debit $	Credit $

The trial balance should be headed with the term 'trial balance' along with the date on which it was prepared. The layout of a trial balance is as follows:

The purpose of a trial balance

1) The trial balance can help in locating arithmetical errors. However, the balancing of the trial balance is not proof that the entries in the ledger accounts are completely free from errors.

2) A trial balance is useful in preparing financial statements.

The preparation of a trial balance

Open ledger accounts with money in them are listed with their balances. If the debit side is larger than the credit side, it has a debit balance, and the difference is entered in the debit column of the trial balance.
Walkthrough 3.1

Prepare a trial balance for Ajay on 7 January 20–7.

• Folio numbers do not always appear in a trial balance.

• It is common to find the words 'debit' and 'credit' abbreviated to 'dr' and 'cr'.

• In this example, the totals of the trial balance are same as the totals of the bank account. This will not always be the case. It occurred in this example as all the transactions passed through the bank account.

Ajay			
Trial balance at 7 January 20–7			
	Folio	Debit $	Credit $
Bank	1	55 395	
Capital	2		80 000
Fixtures and equipment	3	30 000	
AB Loans	4		10 000
Motor vehicles	5	9 000	
Mallika loan	6		5 000
Rent payable	7	400	
Insurance	8	250	
Motor expenses	9	50	
Rent receivable	10		95
		95 095	95 095

The trial balance and errors

When a trail balance fails to balance, it is obvious that an error has been made somewhere. This may be:

1 an error of addition within the trial balance

2 an error of addition within one of the ledger accounts

3 entering a different figure on the credit to that entered on the debit when making a

double entry in the ledger

4 making a single entry for a transaction rather than a double entry.

5 entering a transaction twice on the same side of the ledger.

If the trial balance balances

When a trial balance balances, it simply means that the total of the debit balances is equal to the total of the credit balances. It does not imply that the double entry is error-free. The trial balance will still balance if any of the following errors are made:

Name of error	Description of error	Example
Error of original entry	This occurs when an incorrect figure is used when a transaction is first entered in the accounting records. The double entry will therefore use the incorrect figure.	Goods, $100, bought on credit but recorded as $1000.
Error of principle	This occurs when a transaction is entered using the correct amount and on the correct side, but in the wrong class of account.	Motor expenses debited to the motor vehicles account.
Compensating errors	These occur when two or more errors cancel each other out.	Purchases account under-added by $100 and sales returns account over-added by $100.

Chapter 4

Double entry book-keeping – Part B

Introduction

Chapter 2 introduced the basic principles of double entry book-keeping. It was explained how a ledger account is opened for each type of asset, expense, liability, and income, and for every individual debtor and creditor. As the business grows, so does the number of ledger accounts, so it becomes necessary to divide the ledger into different sections.

Name of error	Description of error	Example
Error of commission	This occurs when a transaction is entered using the correct amount and on the correct side, but in the wrong account of the same class.	Cash received from Malini credited to Mallika's account.
Error of complete reversal	This occurs when the correct amount is entered in the correct accounts, but the entry has been made on the wrong side of each account.	Cash drawings debited to the cash account and credited to the drawings account.
Error of omission	This occurs when a transaction has been completely omitted from the accounting records. Neither a debit entry nor a credit entry has been made.	Payment of wages not entered in the books.

Division of the ledger into specialist areas

Dividing the ledger into sections makes it more convenient to use as the same type of accounts can be kept together and the task of maintaining the ledger can be divided between several people. It also enables checking procedures (in the form of control accounts) to be introduced and may reduce the possibility of fraud.

The ledger is usually divided into the following specialized areas:

- Sales ledger: the ledger in which the accounts of credit customers are maintained.
- Purchases ledger: ledger in which the accounts of credit suppliers are maintained.
- Nominal (general) ledger: the ledger where all the other accounts are maintained.

The two-column cash book

The cash book, **a prime entry book**, is a crucial component of the double entry system, ensuring accurate recording of transactions before they are entered into the ledger.

Contra entries

A **Contra entry** is one which appears on both sides of the cash book. transactions are recorded using double entry rules, debiting the receiving account, and crediting the giving account, with the detail's column containing the account name.

The entries are summarized as follows:

1 To record surplus cash paid into the bank.

2 To record cash withdrawn from the bank for office use.

Walkthrough 4.1

20–6   December 1 Mamata started business with a capital of $20 000 which she transferred into a business bank account.

2 Paid rents of premises, $650, by standing order.

5 Purchased goods, $9 500, on credit from Lodi Road Traders

9 Withdrew $150 from the bank account for office use.

14 Paid advertising expenses, $90, in cash

18 Sold goods, $4 120, on credit to Central Dealers

23 Paid Lodi Road Traders' account by cheque

26 Bought motor vehicles, $5 760, and paid by credit transfer.

28 Mamata took $3 000 from the business bank account for personal use.

Bank overdraft.

Cash balance is always debited at the start of the next trading period, except when no cash is left, and a credit balance is not possible. A **bank overdraft** occurs when more has been paid out of the bank than was put into the bank account.

Walkthrough 4.2

Mamata started business on 1 December 20–6. Her transactions for the first month of trading were the same as those shown in Walkthrough 4.1, except that her drawings on 28 December amounted to $5 000 rather than $3 000.

Enter Mamata's transactions for December 20–6 in her two-column cash book. Balance the book on 31 December and bring down the balances on 1 January 20–7.

The three-column cash book

Many businesses maintain a three-column cash book rather than a two-column cash book. The difference is that a three-column cash book has an extra money column on each side to record cash discount.

Cash discount.

A cash discount is an allowance given to a customer when an account is settled within a time limit set by the supplier.

Discount allowed is the discount a business allows its credit customers (debtors) when they pay for their accounts within a set time. This is an expense of the business as it is the cost of having debts settled promptly. The **discount received** is the discount a business receives from its credit suppliers (creditors) when it pays their accounts within a set time.

Dishonored cheque

Mamata
Sales ledger

Central Dealers account — Page 1

Date	Details	Folio	$	Date	Details	Folio	$
20–6							
Dec 18	Sales	nl 5	4 120				

Purchases ledger

Lodi Road Traders account — Page 1

Date	Details	Folio	$	Date	Details	Folio	$
20–6				20–6			
Dec 23	Bank	cb 1	9 500	Dec 5	Purchases	nl 3	9 500
			9 500				9 500

Nominal ledger

Capital account — Page 1

Date	Details	Folio	$	Date	Details	Folio	$
				20–7			
				Dec 1	Bank	cb 1	20 000

Rent payable account — Page 2

Date	Details	Folio	$	Date	Details	Folio	$
20–6							
Dec 2	Bank	cb 1	650				

Purchases account — Page 3

Mamata
Cash book — Page 1

Date	Details	Folio	Cash $	Bank $	Date	Details	Folio	Cash $	Bank $
20–6					20–6				
Dec 1	Capital	nl 1		20 000	Dec 2	Rent payable	nl 2		650
9	Bank	c	150		9	Cash	c		150
31	Balance	c/d		1 060	14	Advertising	nl 4	90	
					23	Lodi Road Traders	nl 1		9 500
					26	Motor vehicles	nl 6		5 760
					28	Drawings	nl 7		5 000
					31	Balance	c/d	60	
			150	21 060				150	21 060
20–7					20–6				
Jan 1	Balance	b/d	60		Jan 1	Balance	b/d		1 060

A dishonored cheque is a cheque received which the debtor's bank refuses to pay.

Walkthrough 4.3

Enter the following transactions in the books of Mamata. She maintains a three-column cash book and divides the ledger into three sections – sales ledger, purchases ledger and nominal ledger.

Balance the cash book on 31 January 20–7 and transfer the totals of the discount columns to the relevant accounts in the nominal ledger. Balance the accounts in the sales and purchases ledgers where necessary.

20–7

January 1 Mamata had a cash balance of $60 and a bank overdraft of $1 060.

4 Bought goods, $5 200, on credit from Lodi Road Traders

8 Returned goods, $200, to Lodi Road Traders

12 Sold goods, $770, on credit to A & J Singh

14 Cash sales $680

17 Paid $650 cash into the business bank account.

21 Received a cheque from A & J Singh in settlement of their account.

24 Sold goods, $1 200, on credit to Northeast Stores

26 A & H Singh's cheque was dishonored and returned by the bank.

28 Paid Lodi Road Traders the amount due, by credit transfer, after deducting a discount of 2 1%.
 2
31 North East Stores paid the amount due by credit transfer, less a cash discount of 3%

Mamata
Sales ledger

A & J Singh account — Page 2

Date	Details	Folio	$	Date	Details	Folio	$
20–7				20–7			
Jan 12	Sales	nl 5	770	Jan 21	Bank	cb 2	770
26	Bank			31	Balance	c/d	770
	(dishonoured						
	cheque)	cb 2	770				
			1 540				1 540
20–7							
Feb 1	Balance	b/d	770				

North East Stores account — Page

Date	Details	Folio	$	Date	Details	Folio	$
20–7				20–7			
Jan 24	Sales	nl 5	1 200	Jan 31	Bank	cb 2	1 164
					Discount	cb 2	36
			1 200				1 200

Purchases ledger
Lodi Road Traders account — Page

Date	Details	Folio	$	Date	Details	Folio	$
20–7				20–7			
Jan 8	Purchases			Jan 4	Purchases	nl 3	5 200
	Returns	nl 8	200				
28	Bank	cb 2	4 875				
	Discount	cb 2	125				
			5 200				5 200

Nominal ledger
Purchases account — Page 3

Date	Details	Folio	$	Date	Details	Folio	$
20–7							
Jan 4	Lodi Road Traders	pl 1	5 200				

Sales account — Page 5

Date	Details	Folio	$	Date	Details	Folio	$
				20–7			
				Jan 12	A & J Singh	sl 2	770
				14	Cash	cb 2	680
				24	North East Stores	sl 3	1 200

Chapter 5

1.5 Petty cash books

Introduction

A **petty cash book** Is used to record low-value cash payments.

The **imprest system** of petty cash is where the amount spent each period is restored so that the petty cashier starts each period with the same amount.

The task of maintaining a petty cash book is often given to a junior member of staff who is given an amount of cash to act as a **float** from which to make small cash payments.

When a member of staff wishes to obtain some petty cash, he/she should present the **petty cashier** with a completed petty cash voucher.

The imprest system

Most petty cash books are maintained using the imprest system. Under this system the petty cashier starts each period (week, fortnight, month and so on) with a fixed amount of money. This is known as the imprest amount or the float.

The layout of a petty cash book

Analysis columns are used to divide the payments into different categories. The number of columns and the main types of expenses will be determined by each individual business.

Petty cash book										
Dr										Cr
Date	Details	Folio	Total received	Date	Details	Vo. no.*	Total paid	Analysis columns		
			$				$	$	$	$

A layout of a petty cash book is shown above.

Preparation of a petty cash book

The entries in a petty cash book are summarized as follows:

During the period

1 Money received.

a) Debit the total received column with any money received from the chief cashier.

Insert the word 'cash' or 'bank' in the detail's column.

b) Debit the total received column with any money received from any other source.

2 Money paid.

Credit the total paid column with any money paid out and enter the amount in the analysis column for that expense. A brief description of the reason for the payment should be entered in the detail's column.

Walkthrough 5.1

Maitreyi keeps an analyzed petty cash book using the imprest system. The amount of the imprest is $150. She provided the following information:

20–1		$	Voucher number
November 1	Balance	150	
5	Paid window cleaner	10	1
8	Bought pens and pencils	4	2
14	Paid H Singh, a credit supplier	20	3
17	Paid taxi fare	9	4
21	Bought computer paper	7	5
25	Paid bus fares	3	6
27	Paid A Sharma, a credit supplier	32	7
29	Paid office cleaner	30	8

a) Write up Maitreyi's petty cash book for the month of November 20–1. The petty cash book should have four analysis columns – cleaning, stationery, travel expenses and ledger accounts.

b) Balance the petty cash book on 30 November and carry down the balance. Show the restoration of the imprest on 1 December 20–1.

c) Make the necessary entries in Maitreyi's nominal ledger and purchases ledger on 30 November 20–1.

Maitreyi
Nominal ledger
Cleaning account — Page 11

Date	Details	Folio	$	Date	Details	Folio	$
20–1							
Nov 30	Petty cash	pcb1	40				

Stationery account — Page 17

Date	Details	Folio	$	Date	Details	Folio	$
20–1							
Nov 30	Petty cash	pcb1	11				

Maitreyi
Petty cash book — Page 1

Date	Details	Fo	Total received $	Date	Details	Vo	Total paid $	Cleaning $	Stationery $	Travel expenses $	Ledger accounts $
20–1				20–1							
Nov 1	Balance	b/d	150	Nov 5	Window cleaner	1	10	10			
				8	Pens and pencils	2	4		4		
				14	H Singh	3	20				20
				17	Taxi fare	4	9			9	
				21	Computer paper	5	7		7		
				25	Bus fares	6	3			3	
				27	A Sharma	7	32				32
				29	Office cleaner	8	30	30			
							115	40	11	12	52
				30	Balance	c/d	35	nl 11	nl 17	nl 24	
			150				150				
20–1											
Dec 1	Balance	b/d	35								
	Cash		115								