How to Keep a Manual Cash Book

Business Information Factsheet
BIF030 · August 2017

Introduction

A cash book records the flow of cash in and out of a business. Any transaction that involves the incoming (receipt) or outgoing (payment) of money from a business should be recorded in the cash book. Although it is called a 'cash book', the transactions recorded can be in any form, including cheque, credit/debit card and online payments.

This factsheet explains what a cash book is and what it is used for. It demonstrates how to enter business income and expenditure so that all transactions are recorded. It explains how to carry out a bank reconciliation, a process that compares the cash book with the bank statement to make sure that all transactions have been recorded. It also contains information about dealing with VAT.

How to complete a cash book

A simple cash analysis book can be bought from a stationery supplier or it is possible to set up a simple spreadsheet. A cash book is laid out with a number of columns across each page to log income and expenditure. One page is headed 'Payments' and the opposite page is headed 'Receipts'. It is conventional for receipts to be recorded on the left-hand page and payments on the right-hand page. In order to complete a cash book, the following items of paperwork are required:

- Purchase invoices received from suppliers.
- Sales invoices raised for customers.
- Details of cheques written and cancelled.
- Receipts for any ad-hoc purchases.
- Bank statements and paying-in book stubs.

How income and expenditure are recorded will depend on the types of costs that the business incurs. However, the following columns need to be included:

- Date.
- Details of transaction - what was bought or sold, including details of the supplier or customer.
- Reference - type of transaction, such as cash or credit card payment, plus a transaction number.
- Total amount.

To the right of these columns, the payment or receipt should be recorded by category. There is no limit to the number of categories of payment or receipt, but, as a general rule, there should be a category for the most common types of payments and receipts, such as wages or stock. The final column should be entitled 'Other' and will capture any income or expenditure that does not fit into any other classification.

Recording payments made (outgoings)

An example of how to record payments in a cash book is shown in Figure 1. This is the payments page for the month of May and includes all transactions that involve money being paid out of the business.

Payments - May 2017				**Payment Type**			
Date	**Details**	**Reference**	**Total**	**Stock**	**Motor**	**Wages**	**Other**
11/05/17	Jones Fabrics	Cheque 1041	£150	£150			
15/05/17	KH Leasing	Cheque 1052	£350		£350		
25/05/17	May wages	BACS 4253	£1,500			£1,500	

Figure 1 - Cash book (purchase ledger) layout for payments made

- For example, a payment of £150 was made to Jones Fabrics by cheque (cheque number 1041) on 11 May. The entry in the cash book includes these details under the appropriate headings and then allocates the payment to the payment category, which in this case is 'Stock'.
- The payment made on 15 May was also by cheque, and this was to KH Leasing. The total paid was £350 and this has been classified under the payment type 'Motor' as it relates to a vehicle lease.
- The May wages were paid on 25 May by BACS and totalled £1,500. In the cash book, this payment has been logged in the 'Wages' column.

When recording payments made, it is important to make sure the total payments for the month are allocated correctly. The total of all the 'Payment Type' columns should equal the sum of the 'Total' column.

Recording payments received (incomings)

An example of the receipts page of a manual cash book is shown in Figure 2. It is similar to the payments page, with the types of income analysed in the columns on the right-hand side.

In this example, sales revenue has been received from two customers and interest was received from the bank.

Receipts – May 2017				Receipt Type		
Date	**Details**	**Reference**	**Total**	**Sales**	**Bank Interest**	**Other**
05/05/17	Invoice 255 (Brown's)	Cheque 0842	£425	£425		
15/05/17	Invoice 255 (J Jackson)	Cheque 7826	£645	£645		
25/05/17	Bank interest	00152405	£12		£12	

Figure 2 - Cash book (sales ledger) layout for income received

When payment is received, it is necessary to:

- Enter the total amount in the column headed 'Total'.
- Enter the details entered in the appropriate columns.
- Record sales revenue in the column headed 'Sales'.

It is possible to have more than one column for 'Sales' if the business receives revenue from different sources. For example, if the business sells to different geographical areas, it may wish to analyse sales on this basis. Again, an 'Other' column can be included to ensure that all revenue can be recorded.

To make sure all the total receipts for the month have been allocated correctly, the total of all the 'Receipt Type' columns should equal the sum of the 'Total' column.

What happens at month end?

At the end of every month, all the columns in the cash book should be reviewed to check that the sum of the analysis columns equals the sum of the 'Total' column to make sure there are no discrepancies.

At the end of each month, the payments (£2,000 in the example, Figure 1) should be deducted from the receipts (£1,082, Figure 2) to give the net cash flow for the month (-£918). The figure carried forward from the previous month should be added to give the 'carry down' figure. This is also the balance that should be in the bank account. If the figure is negative, it should be carried forward to the payments page for the next month. If the figure is positive, it should be carried forward to the receipts page.

Bank reconciliation

A bank reconciliation is the process of comparing the cash book with the bank statement to make sure they match. This ensures that there are no discrepancies with the balance shown on the bank statements and any cash held by the business.

All payments and receipts should have been recorded in the cash book, and these need to be checked off against the bank statement. It is important to identify any payments or receipts that have not yet cleared in the bank account, such as cheque payments.

If the bank balance at the month end is overdrawn, this balance should be recorded as a negative in the bank reconciliation.

An example of a bank reconciliation is shown in Figure 3.

Bank reconciliation as at 31 May 2017	
	£
Balance per the cash book	**23,045**
Balance per the bank statement	22,346
Add outstanding lodgements	+1,425
Subtract unpresented cheques	-726
Balance	**23,045**
Difference	0

Figure 3 - Bank reconciliation

When the bank reconciliation is complete, there should be no difference between the figure in the cash book and the bank statement. If the figure in the cash book is not the same as the bank statement, this means there is an error somewhere. A payment or receipt could have cleared sooner than expected, or an entry may have been missed from the cash book.

It is essential to carry out a bank reconciliation every month so any mistakes can be identified as soon as possible.

Sales and purchase ledgers

When a business offers credit to its customers (ie they pay 30 days after the invoice date), and it benefits from a credit account with its suppliers, the business will need to keep separate sales and purchase ledger books in addition to the cash book.

The sales ledger details the sales invoices raised, income received and amount outstanding from customers. The purchase ledger details all the payments made against invoices received from suppliers.

When a cash payment is made or received, the invoice should be included in the sales ledger or purchase ledger, and it should also be recorded in the 'Receipts' column or 'Payments' column in the cash book.

See BIF024, Keeping Sales and Purchase Ledgers, for more information.

How is VAT treated?

If the business is VAT-registered, a column should be included in the income and payments pages of the cash book for VAT. This should be separate from the receipts and payments.

If the business has registered to account for VAT using the cash-accounting scheme, it will need to total the VAT column on the receipts and payments pages of the cash book each quarter and enter these figures on the VAT return. However, if the business accounts for VAT on a tax point basis, it will need to analyse the sales invoices raised and the purchase invoices received in the relevant VAT return period, rather than the cash movements.

See BIF045, An Introduction to Charging and Accounting for VAT, for further details.

Hints and tips

- The cash book should be kept up to date by recording every transaction immediately after it is made. Accounting records must be retained for a minimum of six years, as this is a legal requirement.
- The cash flow forecast should regularly be compared with the actual cash balance in the business bank account to identify any potential cash flow problems before they arise.

Further information

BIF007 A Guide to Understanding Balance Sheets
BIF024 Keeping Sales and Purchase Ledgers
BIF045 An Introduction to Charging and Accounting for VAT

Useful contacts

The Institute of Chartered Accountants in England and Wales (ICAEW) is a global professional body representing chartered accountants. It has a searchable directory of accountants on its website.
Tel: (01908) 248250
Website: www.icaew.com

The Institute of Chartered Accountants of Scotland (ICAS) is a global professional body representing chartered accountants. Its website includes a directory of chartered accountants in Scotland.
Tel: (0131) 347 0100
Website: www.icas.org.uk

Chartered Accountants Ireland is a membership organisation representing qualified accountants in Ireland. It has a directory of firms and members on its website.
Tel: (028) 9043 5840 (Northern Ireland office)
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