



UNIT-3

Keeping Track of Your Business

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Understand the meaning of journal and ledger.
- ✓ Understand rules and sub-division of ledger.
- ✓ Distinguish between journal and ledger.
- ✓ Understanding Cash Management

Unit 3

Keeping Track of Your Business

Knowing how to keep track of your business will prove to be very valuable in the short run and long run. There are a number of different aspects involved in keeping track of any business the right way. Many businesses go out of business within the first year or two if things are not handled properly. Have you ever been up late at night, just craving one of those good old roast beef sandwiches from the local 24 hour deli? You find that the craving gets so bad, you get up, leave (in your plaid jammies) and take a ride over there, with your mouth watering the whole way. You pull up, and hop out of the car (very excited), only to find that your favorite business is no longer “in

business.” One could assume they did not keep very good track of their business or, they moved.



Knowing how to keep track will hopefully help keep you in business, not to mention having customers, capital, and all those other things that keep a business afloat. In this section, we will discuss the ins and outs of accounts payable, accounts receivable, the journal, the general ledger, and cash management.

Accounts Payable

As discussed earlier, this type of record is used to keep track of debts owed by a business to creditors for purchased goods or services on an open account. Though the business will likely be billed regularly by its creditors for the balance on the account, having their own records will allow the business to be aware of their financial standing with the creditors at any given time.

Accounts payable is the actual debt of a business that is due or payable to another entity. These debts must be paid off within a given period of time so as to avoid defaulting on the account. Accounts payable debts are similar to those many of us have at home. Household bills such as electricity and cable are like our personal accounts payable. The companies from which we receive these services are like our creditors. Just as our personal accounts can go into default if the services rendered are not paid for by a certain time, so can those of a business.



Accounts Payable

Account Record

Client: _____

Address: _____

Tel #: _____

Fax #: _____

Email: _____

Account #: _____

Invoice Date	Invoice #	Invoice Amount	Terms	Date Paid	Amount Paid	Balance

Accounts Receivable



This type of record is used to keep track of money which is owed to a business. Such money can come from extending credit to a customer who purchases the business’ products or services. The best way to keep track of these records is to set up a separate “accounts receivable” record for each customer.

If a business makes a sale or renders a service, it has "receivables." This means that the business has money to collect or receive for its products or services. Such collectable money is usually in the form of an operating line of credit. Accounts receivable can be recorded as an asset on a business’s balance sheet because it represents a future payment. The customer who has received the products or services from the business is legally obligated to pay for them per the agreement set between the two parties, thus the business can list this customers debt to them as an asset. An example of a receivable in the everyday world is a paycheck. Employers are legally bound to pay their employees for the services they have already rendered.

Accounts Receivable

Account Record

Client: _____						
Address: _____						
Tel #: _____						
Fax #: _____						
Email: _____						
Account #: _____						
Invoice Date	Invoice #	Invoice Amount	Terms	Date Paid	Amount Paid	Balance

The Journal

Journals are books in which all business transactions are recorded in a chronological order. Whenever a transaction takes place, the first step is to record it in a journal. This is why journals are also called books of prime or **books of original entry**. After being recorded in journals, transactions are then posted in **ledgers**. The act of recording transactions in journals is called **journalising** and the form in which they are recorded is known as **journal entry**.

The journal is a way to keep track of all inputted information or data with regard to a business to allow for the books to be properly balanced.

The Balancing Act: When dealing with journals, you will also be dealing with debits and credits. You cannot use one without the other, for every debit there must be a credit in order to keep things balanced. You can use one journal for all transactions or several journals for similar or like transactions. A simple example is when we keep track of our checkbooks by entering both our purchases, which would be considered debits and our deposits, which would be considered our credits or money received. This is known as balancing a checkbook. Keeping a journal is basically the same concept. Remember, always try to be as accurate as possible or you will throw everything off balance.

Advantages of Journal

Recording business transactions in journals has a few advantages, some of which are listed below:

1. A record of dates on which the transactions occurred is maintained in the journal;
2. Necessary information, along with explanations regarding each business transaction, is recorded in the journal and can be accessed at any time; and
3. Errors in recording transactions can be identified and corrected by maintaining a journal.

The following is a specimen of a typical journal:

Date	Particular	Ledger Folio (L.F)	Debit £	Credit £
1	2	3	4	5

A journal consists of five columns namely;

1. date,
2. particulars,
3. ledger folio,
4. debit amount and
5. credit amount.

A brief explanation, regarding the nature of journal entry, is also added.

- 1) **Date:** at the top of every page of the journal, in the date column, the year in which the transaction took place, is recorded. The month and date of the entries are written in the next line. The year and month does not have to be repeated for every transaction until a new page is started in the journal or the month or the year changes.
- 2) **Particulars:** this column has the account titles and a brief description of the transaction. The title of the account that is being debited is recorded on the top, at the extreme left, and the abbreviation for debit (Dr.) is written on the extreme right of the same column in the same line. The title of the account being credited is written in the next line after the word "To" is written leaving a few spaces from the extreme left of the column. A brief description about the transaction, also called narration, is added in the next line of the column. Narration should provide adequate details about the transaction so that it can be identified and understood. Traditionally, it starts with the word "being" in parentheses but the use of this word has been dispensed with in modern accounting practice. A horizontal line drawn throughout the particulars column after narration indicates the end of the transaction.
- 3) **Ledger Folio:** this column is only filled in once the transaction is recorded in the ledger; therefore, it stays empty while transactions are being recorded in the journal. It provides the page number where the relevant account is appearing in the ledger while transactions are being debited and credited.
- 4) **Amount (Debit):** the amount to be debited is written in this column with the unit of measurement at the top on every page. The amount is entered against the account being debited.
- 5) **Amount (Credit):** the credited amount is written against the account being credited. The unit of measurement is written at the top of the column on every page.

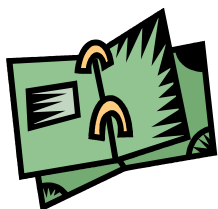
Sub-Division of Journal

A single journal cannot be solely enough in cases when transactions are innumerable and of different kinds. Hence the need for subdivision of journals arises. The volume of transactions and their nature, which are to be recorded, help us decide the type of journals required for a specific business. Following are different types of journals used in businesses:

1. **Cash Book:** Used for recording receipts and payments related to cash transactions;
2. **Sales Day Book:** Used for recording and maintaining credit sales;
3. **Sales Returns Day Book:** Used for keeping records of the return of goods which are sold to customers on credit;
4. **Purchases Day Book:** It keeps the record of credit purchases;

5. **Purchases Returns Day Book:** It records the return of goods that are purchased from suppliers on credit;
6. **Bills Receivable Books:** Records all bills received along with their details;
7. **Bills Payable Book:** It records the accepted bills along with their details; and Journal Proper: It records all remaining transactions which are not covered in the journals mentioned above.

The General Ledger



In double-entry accounting, these are forms used for the accounts on separate sheets, in a book or binder and are called the general ledger. This is considered a permanent, classified record for each business account.

The general ledger is usually the main record of accounting that a business uses. It can include assets and liabilities as well as gains and losses, along with the revenue and expense items that caused the gains and losses. This record will often take the form of a "T-Account", showing all debits on the left side of a T-shaped chart and all credits on the right. The ledger is an accumulation of all of a business' finances, from their journals and other records. It can then be used as a basis for both the balance sheet and income statement because it provides all of the needed transactions. The size of a general ledger can vary immensely depending on the size of the business.

Ruling of Ledger Account

The ledger account can be maintained in any of the following format:

Dr				Cr			
Date	Particulars	J.F	£	Date	Particulars	J.F	£
	The name of the account to be credited				The name of the account to be debited		

Sub-division of Ledger

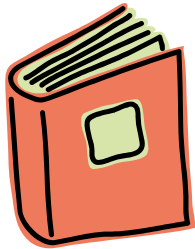
In big business organisations, there are a large number of accounts that have to be maintained. Therefore, separate ledgers are made for customers, suppliers and others. The following three types of ledgers are maintained in a big business:

- (i) **Debtors' Ledger:** Also known as the sales ledger, it contains accounts relating to people to whom the business has sold goods on credit. Entries are made in the debtors' ledger from Sales Day Book, Sales Returns Book and Cash Book.
- (ii) **Creditors' Ledger:** It is also called a purchase ledger and consists of accounts relating to suppliers from whom the company has bought goods on credit. Entries are made in this ledger from Purchase Day Book, Purchase Returns Book, and Cash Book.

- (iii) **General Ledger:** This is also called the nominal ledger, it contains all remaining accounts of real and nominal nature.

Distinction between Journal and Ledger

- (i) A Journal is a book of original or prime entry, whereas ledger is a book in which final entries are recorded.
- (ii) A Journal contains daily transactions, whereas transactions are posted in ledger on a periodic basis.
- (iii) A Journal does not contain all the information pertaining to a particular account at one place. A ledger consolidates that information under one head of account.
- (iv) When transactions are recorded in a journal, it is called journalising. When transactions are entered in a ledger, it is called posting.
- (v) A journal entry records both the debit and credit aspects of a transaction whereas a ledger shows only one.
- (vi) A journal entry is always accompanied by a narration whereas no narration or description is provided in a ledger.
- (vii) Receipts, vouchers, debit, and credit notes, etc. These are the bases for a journal entry whereas the journal is a ledger's basic document.



Cash Management

Cash management is the process of collecting, managing, and investing cash. Cash management can ensure a business' financial stability by avoiding insolvency. In a business, the term "cash" does not only refer to money or the amount of money at the end of the year. Cash and the management of cash can also be used to refer to managing anything that can be made liquid like, certificate of deposits by selling them, short term investments, and anything that can be used as a cash equivalent. The art of cash management in a business is very important because it is essential in keeping a business operating properly. If there is a mismanagement of cash, it may result in a big loss of revenue for any business. Proper cash management will help make sure a business does not become insolvent. Anytime a business cannot pay any of its bills due to a lack of cash that means it has become insolvent. Insolvency is the main reason a company may go bankrupt.

Cash Book

The Cash Book record transactions related to receipts and payments made in cash and it is a sub-division of the journal. The Cash Book plays a dual role of the journal and ledger because when a cash transaction is recorded, it is accompanied with a short narration as well. Cash receipts are recorded on the debit side and payments on the credit side. Entries are made in a chronological order in the Cash Book and there will always be balance on the debit side, as payments will never exceed the receipts.



Kinds of Cash Book: We know from our definition of cashbook that it serves both as a subsidiary book and a ledger. Different cashbooks are used depending on the nature of the business and the type of cash transactions that are taking place.

- a) Single Column Cash Book;
 - b) Two Column Cash Book or Cash Book with cash and discount columns;
 - c) Three Column Cash Book or Cash Book with cash, bank, and discount
 - d) columns;
 - e) 'Bank' Cash Book or Cash Book with bank and discount columns; and Petty Cash Book.
- (i) **Single or Simple Column Cash Book:** this kind of cashbook is usually used for the simplest kind of cash transactions where no discount is allowed or received. The format of a single column cashbook is as follows:

Single Column Cash Book

Dr.					Cr.				
Date	Particular	R.No	L.F.	£	Date	Particulars	V.No	L.F.	£

Just like a ledger account, when cash is received it is recorded on the debit or 'receipts' side of the cashbook. The date of the transaction is recorded in the 'date' column, the name of the person or party from which the cash is being received in the 'particulars' column, the receipt number with which the cash has been received is recorded in the 'R. No.' column and the value of the transaction is written in the 'amount' column. The ledger folio (L.F) column records the reference number of the transaction in the ledger.

When there is a cash payment, it is recorded on the credit or 'payment' side of the cashbook. The date is recorded in the 'date' column, the name of the person or party to whom payment is made in the 'particulars' column, the voucher number in the 'V. No.' column and the money being paid is recorded in the 'amount' column. The voucher consists of all supporting documents related to the payment.

Positing: After the transactions have been recorded in the cashbook, entries are posted in the respective ledger accounts. The debit or receipts side of the cashbook contains entries that will be posted on the credit side of the concerned ledger accounts. Similarly, entries on the credit or payments side of the cashbook will be posted on the debit side of the concerned ledger accounts.

a) Two Column Cash Book or Cash Book with Cash and Discount Columns: Cash transactions involving discount is recorded in the two-column Cash Book. Discounts are usually allowed or received when prompt cash payments are made. In this type of cashbook, there is a 'discounts' column in addition to the cash column. The discounts that are allowed by the business to its customers are recorded on the debit side and the discounts received by the business are entered on the credit side. Unlike cash columns, which also serve the purpose of a ledger, discount columns need not be balanced. Discount columns merely serve the purpose of keeping memorandum. Separate ledger accounts for 'discounts allowed' and 'discounts received' need to be opened in order to know the balance of discounts allowed and received by the business.

The format of the two-column cashbook is as follows:

Two Column Cash Book (with Cash and Discount Columns)

Dr.						Cr.					
Date	Particular	R.No	L.F.	Discount Allowed	£	Date	Particulars	V.No	L.F.	Discount	£

Posting: The following are some of the points to be remembered when recording entries in the two-column cashbook:

1. The opening and closing balances are not being posted;
2. Entries from the debit side are always credited in their ledger accounts;
3. Entries from the credit side are always debited in their ledger accounts;
4. When recording cash received from a debtor or cash paid to a creditor, a personal account with the amount of cash received, and the discount allowed must be credited. Similarly, personal accounts, with the amount of cash paid and discounts received, must be debited; and

5. Discounts allowed and discounts received should be posted in separate accounts.

The total discount allowed by a business is debited in the 'discounts allowed' account by writing 'to sundries' under the 'particulars' column. Total discounts allowed signify an outflow or loss for a business. Total discounts received should be credited to the 'discount received' account by writing 'by sundries' under the 'particulars' column. Total discount received is a gain for the business.

b) Three Columnar Cash Book or Cash Book with Cash, Bank and Discount Columns: The three column cashbook originated for the convenience of recording bank transactions of the business without having to maintain a separate 'bank' account in the ledger.

Every business has a bank account for monetary safety, credit and loan facilities, less clerical work, and the convenience of making transactions through cheques. A separate column, called the 'bank' column, is added to the cashbook to record transactions that are taking place through the bank. The format of a three column cashbook is as follows:

Three Columnar Cash Book (with Cash, Bank and Discount Columns)

Dr.

Cr.

Date	Particulars	R.No	L.F.	Discount Allowed	Cash £	Bank £	Date	Particulars	V.No	L.F.	Discount	Cash £	Bank £

All cash receipts are recorded on the debit side of the 'cash' column and all cash payments are recorded on the credit side. Similarly, all amounts deposited in the bank are recorded on the debit side of the 'bank' column and all payments made through cheques on the credit side.

c) 'Bank' Cash Book or Cash Book with Bank and Discount Columns: This type of cashbook is used for businesses that carry out all transactions through the bank. All receipts are deposited in the bank and all payments are made through cheques. In this case, there is no use for the 'cash' column in the cashbook and there are columns for 'bank' and 'discounts' only. The format of a Bank Cashbook is as follows:

Two Column Cash Book (with Bank and Discount Columns)

Dr.

Cr.

Date	Particulars	R.No	L.F.	Discount Allowed	Bank £	Date	Particulars	V.No	L.F.	Discount	Bank £

d) Petty Cash Book: Derived from the French word 'petit', the word 'petty' means small. Petty cashbook maintains a record of various items like entertainment expense, office expense, carriage, postage, telegram, stationery etc. the person who manages the petty cashbook is called 'petty cashier'. The

petty cashbook saves the valuable time of senior officials who are more occupied with maintaining the main cashbook and it prevents the overburdening of the main cashbook with petty items.

The petty cashier is given a specific amount of money as 'petty cash' after estimating the amount of money that will be required to cover petty expenses. This money is usually disbursed at the beginning of a specific period, say, fifteen days or a month. In case, the petty cashier needs more money to meet the expenses, he submits the petty cashbook to the chief cashier after ensuring that all entries have been made. The chief cashier verifies entries through vouchers and then disburses the required amount of money to the petty cashier.

Columnar Petty Cash Book or Analytical Petty Cash Book

For recording petty cash payments, this Cash Book is used. Various details of such cash payments are entered under various columns in this Cash Book. Under the credit side, cash payments relating to petty expenses are entered, while under the debit side the cash value received for various petty expenses from chief cashier is recorded.

Further, there are other analytical columns for recording details. There are analytical columns for expenses like postage and telegrams, printing and stationery, communication expenses, logistic expenses, entertainment expenses etc. The total of these analytical columns is calculated and then posted in corresponding ledger accounts. There is no need to post payment items separately in ledger. The total payments column section is then balanced.

The Cashier has balance of cash still left with him if the debit side entries exceed the total of credit side entries.

Further Reading:

- ✓ *V. Rajasekaran, R. Lalitha, (2011), Financial Accounting*
- ✓ *S. John Gabriel, A Marcus, (2010), Financial Accounting*
- ✓ *N Ramachandran, Ram Kumar Kakani, (2005), Financial Accounting for Management*