
UNIT 8 BANKING TRANSACTIONS AND THREE COLUMN CASH BOOK

Structure

- 8.0 Objectives
- 8.1 Introduction
- 8.2 What is a Bank?
- 8.3 Types of Bank Accounts
 - 8.3.1 Advantage of Having a Bank Account
 - 8.3.2 How to Open and Operate a Bank Account
- 8.4 Crossing of Cheques
- 8.5 Endorsement of Cheques
- 8.6 Dishonour of Cheques
- 8.7 Three Column Cash Book
 - 8.7.1 Recording in Three Column Cash Book
 - 8.7.2 Posting the Three Column Cash Book
 - 8.7.3 Balancing the Three Column Cash Book
 - 8.7.4 Special Points Regarding Cheques Received
- 8.8 Let Us Sum Up
- 8.9 Key Words
- 8.10 Some Useful Books
- 8.11 Answers to Check Your Progress
- 8.12 Terminal Questions/Exercises

8.0 OBJECTIVES

After studying this unit, you should be able to:

- describe the functions of a bank
- explain the advantages of opening a bank account
- describe how to open bank account
- explain the functions of pay-in-slip book, cheque book and the pass book
- appreciate the importance of crossing and endorsement
- record banking transactions in a three column cash book
- post three column cash book into ledger

8.1 INTRODUCTION

In Unit 7 you learnt how to record cash transactions in Single Column and Two Column Cash Books and post them into ledger. You also learnt about the Imprest System and the preparation of Petty Cash Book. In this unit you will learn about the Three Column Cash Book—cash book having an additional column for banking transactions. As a prelude, we shall first discuss how to open an account in a bank, the advantages of opening a bank account, the functions of pay-in-slip, cheque book and pass book, and the importance of crossing and endorsement of cheques. Then, we shall learn how various transactions with a bank are recorded in the Three Column Cash Book and posted into ledger.

8.2 WHAT IS A BANK?

You might have heard the names of State Bank of India, Andhra Bank, Allahabad Bank. You may also be having an account with some bank. Now, let us have an idea

what exactly a bank is and what it does. Bank is an organisation which deals in money by accepting deposits and lending to those who need it. Accepting deposits is the primary function of a bank. It accepts demand deposits and time deposits. Demand deposits are those deposits which are payable on demand, and time deposits are those which are repayable after a specified period. The bank pays interest on the deposits (except deposits on current account).

Lending of money is another important function of a bank. It lends money to needy persons and organisations in the form of short-term advances, term loans, and overdraft facility. The bank collects interest on the amount lent.

The bank also renders various other services to its customers such as (i) collecting amounts due to the customer like interest, dividends, etc., (ii) making payments on behalf of the customer, (iii) issuing letters of credit, (iv) providing travellers cheques, (v) accepting, collecting, paying and discounting bills of exchange, (vi) providing safe deposit lockers for safe custody of valuables, and (vii) furnishing guarantee on behalf of customers, etc. The bank charges some amount for the services rendered to its customer.

8.3 TYPES OF BANK ACCOUNTS

There are broadly three types of accounts: (i) savings bank account, (ii) current account, and (iii) fixed deposit account. In case of savings bank account there are certain restrictions on the number and amount of withdrawals. It is mainly intended to encourage savings. Hence, it is not considered suitable for business purposes.

Business firms generally open current account. There are no restrictions on the number and amount of withdrawals in case of a current account. Any amount can be withdrawn any number of times from a current account.

Fixed deposit account is meant for deposits for a fixed period. Withdrawal of fixed deposits is allowed only on maturity. It is used by people generally for long term savings.

8.3.1 Advantages of Having a Bank Account

Now-a-days, every business firm has an account with a bank. The business generally retains a small sum of money with itself for immediate use and deposits the rest in a bank. The money deposited in a bank is as good as money on hand. There are various advantages of maintaining an account with the bank. These are:

- 1 Money is safe and it also earns some interest.
- 2 The bank provides various types of loans.
- 3 It is easy and safe to make payments by issuing cheques.
- 4 Money can be sent or transferred to other places at a nominal charge through a bank.
- 5 The bank helps in collection of bills, cheques, etc., on behalf of its customers.
- 6 If 'standing instructions' are given to the bank, it collects interest on debentures, dividend on shares, etc., and makes payment of insurance premium, pension, subscriptions, etc., on behalf of its customers.

8.3.2 How to Open and Operate a Bank Account?

If you want to open a bank account you have to apply to the bank on a prescribed form. You are also required to be introduced to the bank by a person known to the bank (possibly an account holder). The banker, after satisfying himself about the applicant, accepts the initial deposit in cash and opens an account in your name. Thus, you become a customer of the bank. Your account is given a number for easy identification. When an account is opened, the banker gives to its customer (i) a pass book, (ii) a pay-in-slip book, and (iii) a cheque book.

- i) **Pass Book:** The pass book is a copy of the customer's account as maintained by the bank. In other words, it is nothing but a true copy of the transactions with the bank, as they appear in the customer's account in the bank's ledger. In case of a current account the bank may not issue a pass book. In that case it

would furnish a statement of account from time to time. Whether it is a pass book or a statement of account, the proforma is as given in Figure 8.1.

Figure 8.1
Pass Book

Date	Particulars	Dr. Withdrawals	Cr. Deposits	Dr. or Cr. Balance	Initials
		Rs.	Rs.	Rs.	

When an amount is deposited in the bank, it is entered in the deposit column (Cr.). When an amount is withdrawn, it is entered in the withdrawal column (Dr.). After every deposit or withdrawal, the balance is worked out and shown in the balance column in the pass book. It is also indicated whether it is a Dr. balance or a Cr. balance. Usually, the pass book shows a credit balance, which means the customer has money in his account. But when the customer has withdrawn more than what he has deposited, the pass book shows a debit balance called overdraft.

ii) **Pay-in-Slip Book:** It contains printed forms which are used for depositing cash and cheques into the bank. Look at the form of a pay-in-slip as shown in Figure 8.2.

The first part is called counterfoil and the second part is the main pay-in-slip. When you submit it to the bank along with the amount to be deposited, the bank will stamp and sign the counterfoil and give it back to you. The main pay-in-slip is retained by the bank for further processing. The counterfoil is for your own record and future reference. The cash book entry for deposit is also made with the help of the counterfoil.

Figure 8.2
Specimen of Pay-in-Slip

Meharani/10000/10/87		F. No. 291	
बैंक ऑफ बड़ौदा BANK OF BARODA		नकद/स्थानीय/बाहर के चेकों के लिए अलग-अलग पर्ची भरिए Please use separate slip for cash/local/out station cheques.	
Branch : Model Town, Delhi-110009		F. No. 291	
SB		बैंक ऑफ बड़ौदा BANK OF BARODA	
तारीख Date _____ 19		Branch : Model Town, Delhi-110009	
बचत खाते में जमा करने के लिए For Credit of Saving A/c.		बचत खाते में जमा करने के लिए सं./No.	
सं. No. _____		For Credit of Saving A/c. _____	
नाम Name _____		नाम/Name _____	
रुपये (शब्दों में) Rupees _____		रुपये (शब्दों में) _____	
जमाकर्ता By _____		जमा कर्ता By _____	
₹. Rs. _____		₹. Rs. _____	
दर्ज किया Ent.	ले. Acctt.	ख. Cashier	Less Com/Ex.
दरज किया Entered	लेखापाल Acctt.	खर्चाची Cashier	

खता पु. L. F.	Date _____ 198	
नोट Notes	₹. Rs.	₹. P.
.. x 100		
.. x 50		
.. x 20		
.. x 10		
.. x 5		
.. x 2		
.. x 1		
₹. P.		
चेक/Ch.		
कुल Total		

iii) **Cheque Book:** A cheque book contains a number of leaves (10 to 20 or 50 leaves) called cheques. A cheque is an instrument used for withdrawing money from the bank. It is an unconditional order on the bank made by its customer, instructing the bank to pay the amount specified therein to the person named in the cheque or to his order. The person who draws a cheque is called 'drawer'. The bank on whom the cheque is drawn is called 'drawee'. The person in whose favour the cheque is drawn (or to whom it is payable) is called 'payee'. Look at Figure 8.3 for specimen of a cheque. In this cheque Mr. S. Jain is the drawer. He has drawn and signed the cheque. The Bank of Baroda on whom the cheque is drawn is the drawee. Mr. P. Ram Dev is the payee as the cheque is payable to him.

While writing a cheque care must be taken to write the date, the name of the party to whom payment has to be made, and the amount to be paid both in words and figures. It must be signed by the account holder. The signature on the cheque must tally with the specimen signature which the bank has.

A cheque can be a bearer cheque or an order cheque. In case of a bearer cheque, the bank pays the amount to any person who presents it at the counter of the bank without much fuss. But, in case of an order cheque, identification of the party claiming payment is necessary, specially if he wants payment at the counter.

Figure 8.3
Specimen of Cheque

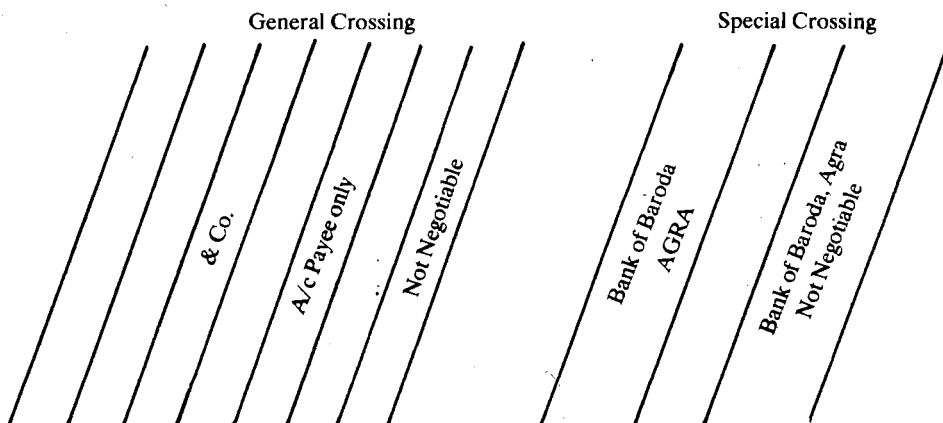
P. Ram Dev		1-10-87	
PAY		या धारकको OR BEARER	
रुपये RUPEES	One thousand only	₹. Rs.	1,000/=
खाता सं A/c No.	1120	ब.प. LF	उ.र. INTLS
बैंक ऑफ बड़ोदा Bank of Baroda			
विशाखा एन्क्लेव, दिल्ली-११००३४ Vishaka Enclave, DELHI-110034			
VEN/CA.86			
S. Jain			
008650 100120331			

8.4 CROSSING OF CHEQUES

If two parallel lines are drawn on the left hand top corner of the cheque, it is called 'Crossing', and such a cheque is called a 'Crossed Cheque'. A crossed cheque cannot be encashed directly at the counter. It has to be deposited in an account with a bank. This makes it safe, as the party to whom the payment is made can be easily identified.

Crossing can be 'General Crossing' or 'Special Crossing'. General crossing is one where two parallel lines are drawn across the cheque with or without the words '&Co.', 'A/c Payee only', 'Not Negotiable' as shown in Figure 8.4. In case of special crossing, the name of a particular bank is also mentioned. This implies that the amount of cheque is payable only to the bank named in the crossing. Look at Figure 8.4. The name of 'Bank of Baroda, Agra' is written within the two parallel lines. Payment of this cheque can be collected only through Bank of Baroda, Agra.

Figure 8.4
Crossing of a Cheque



In case of general crossing, payment can be made to any bank which presents the cheque for payment. The use of words 'A/c Payee Only' means that the cheque can be paid only into the account of the payee named in the cheque. The words 'Not Negotiable' provide further safeguard against stolen and forged cheques. But '& Co.' has no special connotation.

8.5 ENDORSEMENT OF CHEQUES

A cheque is a negotiable instrument. It can be transferred to another person by 'endorsement' (except in case of a bearer cheque which can be transferred by mere delivery). The endorsement is done by signing at the back of the cheque and writing the name of the party to whom it is to be transferred. For example, if a cheque payable to Mr. P. Ram Dev is to be endorsed in favour of Mr. Kishan Lal, Mr. P. Ram Dev will write at the back of the cheque as follows:

Pay to Kishan Lal or Order

**P. Ram Dev
(Signature)**

Thus, endorsement can be defined as signing at the back of the cheque for the purpose of negotiation. The person who endorses the cheque is called 'endorser' (P. Ram Dev in this example) and the person to whom it is endorsed is called 'endorsee' (Kishan Lal in this example). Kishan Lal can now collect payment of this cheque.

8.6 DISHONOUR OF CHEQUES

When a cheque is presented for payment, there are two possibilities. It may be paid or the payment may be refused. When the payment of a cheque is refused it is said to be dishonoured. The bank refuses the payment for the following reasons:

- 1 When no date is written on the cheque, or a future date is written, or it is more than six months old.
- 2 If the amount written in words differs from the amount written in figures.
- 3 When the cheque is not signed or when the signature on the cheque does not tally with the specimen signature with the bank.
- 4 When the drawer does not have sufficient balance in his account.
- 5 When the drawer requests the bank in writing to stop payment on that cheque.
- 6 If the bank has come to know about the death of the drawer or his becoming insolvent or insane.

Check Your Progress—A

- 1 List the main functions of a bank.

.....
.....
.....

- 2 What is a pass book?

.....
.....
.....

- 3 What is a pay-in-slip?

.....
.....
.....

4 What is a cheque?

.....

5 What do you mean by crossing a cheque?

.....

6 What do you understand by endorsement?

.....

8.7 THREE COLUMN CASH BOOK

Generally, business firms deposit the day's collections in a bank, retaining only a small amount for immediate use. They prefer to make payment by cheque as it is more safe and convenient. So, bank transactions are more numerous than cash transactions.

The bank transactions can also be recorded in the cash book along with cash transactions. It is done by providing an additional column for bank on both sides of the cash book. Look at the proforma of a Three Column Cash Book in Figure 8.5. A bank column in the cash book, also serves the purpose of a bank account and avoids the need to have a 'Bank Account' in the ledger. The bank column on the debit side records all deposits made in the bank and the bank column on the credit side records all withdrawals from the bank. We shall now have three amount columns, one each for discount, cash and bank. Hence, it is called a Three Column or Triple Column Cash Book.

Figure 8.5

Three Column Cash Book

Dr.

Cr.

Date	Particulars	L.F.	Discount Allowed	Cash	Bank	Date	Particulars	L.F.	Discount Received	Cash	Bank
			Rs.	Rs.	Rs.				Rs.	Rs.	Rs.

8.7.1 Recording in Three Column Cash Book

All receipts of cash or cheques are to be recorded on the debit side: When payment is received in cash, the amount is recorded in the cash column. If it is by cheque it is recorded in the bank column. The date on which it is received, and the name of the person from whom it is received, are recorded in the date and particulars columns respectively.

If any discount is allowed to a party on receipt of cash or cheque, it is recorded on the debit side in the discount allowed column as usual.

All cash and cheque payments are to be recorded on the credit side: When payment is made by cash, the amount is recorded in the cash column. If it is made by cheque, it is recorded in the bank column. The date on which payment is made, and the name of the person to whom payment is made, are recorded in the date and

particulars columns respectively.

Discount received, if any, at the time of making payment is to be recorded on the credit side in the discount received column as usual.

Contra Entry: The word 'contra' means 'the other side'. If the double entry of a transaction is complete in the cash book itself such entry is called 'contra entry'. Contra entry arises only when cash account and bank account are simultaneously involved in a transaction. It happens only when either cash is deposited in the bank or cash is withdrawn from it. In both cases entries have to be made in cash as well as bank columns. When cash is deposited in the bank it is recorded (i) in bank column on the debit side of the cash book, and (ii) in cash column on the credit side of the cash book. Similarly, when cash is withdrawn from the bank, it is recorded on the (i) debit side in cash column, and (ii) on the credit side in bank column. It must, however, be noted that if cash is withdrawn from bank for personal use of the owner, it is recorded only on the credit side of cash book in bank column as drawings.

In order to denote contra entries, the capital letter 'C' is written in the L.F. column on both sides of the cash book. It means that the corresponding aspect of the transaction is entered on the other side (contra) of the same page of the cash book. The letter 'C' also indicates that the relevant entry need not be posted into the ledger, as the double entry is complete in the cash book itself.

8.7.2 Posting the Three Column Cash Book

All the entries recorded in the Three Column Cash Book are to be posted to their respective ledger accounts, except the contra entries. For posting the entries recorded on the debit side of the cash book, credit the accounts concerned in the ledger by writing 'By Cash A/c' if the entry is in cash column, and 'By Bank A/c' if the entry is in bank column. If discount is also involved, credit the concerned personal account by writing 'By Discount Allowed A/c'. Totals of the discount allowed and discount received columns shall be posted to the respective discount accounts the same way as for Two Column Cash Book.

8.7.3 Balancing the Three Column Cash Book

The cash and bank columns are balanced separately like any other ledger account. As stated earlier, the Cash Account always shows a debit balance. The bank account also normally shows a debit balance. But, sometimes it may show a credit balance which indicates a bank overdraft. It reflects the amount withdrawn from the bank in excess of what is deposited in the bank.

The procedure of recording the closing and opening balances is the same as in Two Column Cash Book. Note that the discount columns will not be balanced. They are simply totalled.

Study Illustration I carefully. You will follow the recording, posting and balancing of a Three Column Cash Book.

Illustration 1

Enter the following transactions in the Three Column Cash Book of Galaxy Enterprises and show the ledger postings:

		Rs.
1987		
July 15	Cash in hand	800
" 15	Balance in bank account	4,500
" 16	Purchased goods and issued cheque	3,000
" 17	Cash sales	4,000
" 18	Received from Samad in full settlement of his account Rs. 4,000.	
	cheque	2,000
	cash	1,950
" 20	Cash deposited into bank	5,000
" 21	Paid Rama Krishna by cheque	2,970
	Received discount	30

Books of Account—II

" 22	Received from Bose	1,680
	Discount allowed	20
" 24	Cash withdrawn for office purpose	2,000
" 25	Paid Mahantha in cash	3,000
	Discount allowed by him	40
" 26	Paid for stationery	100
" 28	Deposited cash into bank	2,000
" 30	Cash withdrawn from bank for personal use of proprietor	500

Solution:

Cash Book

Dr.						Cr.					
Date	Particulars	L.F.	Discount Allowed	Cash	Bank	Date	Particulars	L.F.	Discount Received	Cash	Bank
1987			Rs.	Rs.	Rs.	1987			Rs.	Rs.	Rs.
July 15	To Balance b/d			800	4,500	July 16	By Purchases A/c				3,000
" 17	To Sales A/c			4,000		" 20	By Bank A/c	C		5,000	
" 18	To Samad		50	1,950	2,000	" 21	By Rama Krishna		30		2,970
" 20	To Cash A/c	C			5,000	" 24	By Cash A/c	C			2,000
" 22	To Bose		20	1,680		" 25	By Mahanta		40	3,000	
" 24	To Bank A/c	C		2,000		" 26	By Stationery A/c			100	
" 28	To Cash A/c	C			2,000	" 28	By Bank A/c	C		2,000	
						" 30	By Drawings A/c				500
						" 31	By Balance c/d			330	5,030
			70	10,430	13,500				70	10,430	13,500
Aug. 1	To Balance b/d			330	5,030						

LEDGER

Sales Account

Dr.				Cr.	
		1987			Rs.
		July 17	By Cash A/c		4,000

Samad's Account

		1987			Rs.
		July 18	By Discount Allowed A/c		50
		" 18	By Cash A/c		1,950
		" 18	By Bank A/c		2,000

Bose's Account

		1987			Rs.
		July 22	By Discount Allowed A/c		20
		" 22	By Cash A/c		1,680

Purchases Account

1987		Rs.			
July 16	To Bank A/c	3,000			

Rama Krishna's Account

1987		Rs.			
July 21	To Discount Received A/c	30			
" 21	To Bank A/c	2,970			

Mahantha's Account

1987 July 25	To Discount Received A/c	Rs. 40		
" 25	To Cash A/c	3,000		

Stationery Account

1987 July 26	To Cash A/c	Rs. 100		
-----------------	-------------	------------	--	--

Drawings Account

1987 July 30	To Bank A/c	Rs. 500		
-----------------	-------------	------------	--	--

Discount Allowed Account

1987 July 31	To Sundries as per Cash Book	Rs. 70		
-----------------	---------------------------------	-----------	--	--

Discount Received Account

			1987 July 31	By Sundries as per Cash Book	Rs. 70
--	--	--	-----------------	---------------------------------	-----------

In Illustration 1 you will notice that the total of bank column on the debit side is more than the total of bank column on the credit side of the cash book. This indicates that there is money in the bank. If, however, the total of bank column on the debit side is less than the total on the credit side, it will reflect an overdraft in the bank. You will find this in Illustration 2.

8.7.4 Special Points Regarding Cheques Received

Generally, cheques received from various parties are deposited in the bank on the same day. However, for some reason, if a cheque is not sent to the bank on the day of receipt, it can be entered in the cash column, treating the cheque as cash. Then, the day it is sent to the bank, it can be recorded in the cash book as cash deposit in the bank in the form of a contra entry. For example, on April 8, a cheque for Rs. 500 is received from Rao and it is sent to the bank on April 11. The entries in cash book will appear as follows:

Cash Book
(Cash and Bank Columns only)

Dr.					Cr.				
Date	Particulars	L.F.	Cash	Bank	Date	Particulars	L.F.	Cash	Bank
1987 Apr. 8	To Rao		Rs. 500	Rs.	1987 Apr. 11	By Bank A/c	C	Rs. 500	Rs.
" 11	To Cash A/c	C		500					

Normally, this procedure is avoided. The entry is made directly in the bank column on the day the cheque is deposited in the bank. In the absence of any specific instructions, it can be presumed that the cheque received from a party was sent to the bank for collection on the same day.

Sometimes, a cheque received by the firm may not be deposited in the bank but may be endorsed to a third party. In that case the cheque received will be recorded first in the cash column on the debit side of the cash book and then on its credit side in

the cash column. This ensures entries in the personal accounts of (i) the party from whom it is received, and (ii) the party to whom it is endorsed. For example, on April 12, a cheque for Rs. 800 was received from Ganpati and it was endorsed on April 14, in favour of Shiva, a creditor of the firm. The entries in cash book will appear as follows:

Cash Book
(Cash Column only)

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1987 Apr.12	To Ganpati		Rs. 800	1987 Apr. 14	By Shiva		Rs. 800

Sometimes, a cheque sent to the bank for collection may be dishonoured. In that case the bank will return the cheque along with the advice stating the cause of dishonour. Whatever the firm may do to realise its payment from the concerned party, the entry for dishonour of the cheque must immediately be recorded in the cash book. The entry will be made on the credit side in bank column. This nullifies the effect of the entry made earlier at the time of receiving and depositing the cheque in the bank. For example, on April 16, a cheque for Rs. 750 was received from Yogesh and sent to bank for collection on the same day. The bank dishonoured the cheque and returned it on April 20. The entries in the cash book will appear as follows:

Cash Book
(Bank Column only)

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1987 Apr.16	To Yogesh		Rs. 750	1987 Apr. 20	By Yogesh		Rs. 750

Check Your Progress—B

Fill in the blanks.

- 1 All deposits into the bank are recorded in bank column on the _____ side of the cash book.
- 2 All withdrawals from the bank are recorded in bank column on the _____ side of the cash book.
- 3 If debit as well as the credit aspects of a transaction are recorded in the cash book itself, it is called _____.
- 4 When a cheque received on a particular date is not deposited the same day into bank, it is entered in _____ column on the debit side of the cash book.
- 5 When a cheque received is endorsed, it is recorded in cash column on _____ sides of the cash book.
- 6 When a cheque is returned dishonoured, it is recorded on the _____ side of the cash book in bank column.

Illustration 2

Record the following transactions in Three Column Cash Book of Balaji Agencies and balance the same.

1987			Rs.
July	1	Cash in hand	40,000
	"	2 He opened a current account with a bank	36,000

"	3	Purchased goods for cash	600
		and by cheque	1,500
"	5	Sold goods for cash	800
"	6	Sold goods to Mohan and received a cheque for the same	1,200
"	8	Deposited Mohan's cheque in the bank	1,200
"	9	Purchased stationery by cheque	200
"	10	Cash sales	2,000
"	11	Issued cheque for cash purchase of furniture to Woodland	2,500
"	12	Deposited cash in the bank	3,000
"	13	Misra paid directly into bank account	1,000
"	15	Received from Madhu cash	1,000
		cheque	1,400
		Allowed him discount	50
"	16	Paid to Ravi in cash	500
		cheque	2,500
		Received discount	40
"	17	Received a cheque from Joseph	1,500
"	18	Withdrew cash from the bank for office use	1,500
"	20	Balaji paid his son's college fees in cash	400
"	22	Paid Subhan & Co. by cheque	975
		Received discount	25
"	24	Joseph's cheque returned dishonoured	1,500
"	25	Received a cheque from Gagan. It was endorsed to Ram	700
"	26	Withdrew from bank for personal use	1,600
"	27	Issued cheque for purchase of machinery	40,000
"	28	Paid sundry expenses in cash	200
"	30	Paid rent by cheque	600
"	31	Deposited cash in excess of	500

**Banking Transactions and
Three Column Cash Book**

Solution:

Balaji Agencies Cash Book

Dr.

Cr.

Date	Particulars	L.F.	Discount Allowed	Cash	Bank	Date	Particulars	L.F.	Discount Received	Cash	Bank
1987			Rs.	Rs.	Rs.	1987			Rs.	Rs.	Rs.
July 1	To Balance b/d			40,000		July 2	By Bank A/c	C		36,000	
" 2	To Cash A/c	C			36,000	" 3	By Purchases A/c			600	1,500
" 5	To Sales A/c			800		" 8	By Bank A/c	C		1,200	
" 6	To Sales A/c			1,200		" 9	By Stationery A/c				200
" 8	To Cash A/c	C			1,200	" 11	By Furniture A/c				2,500
" 10	To Sales A/c			2,000		" 12	By Bank A/c	C		3,000	
" 12	To Cash A/c	C			3,000	" 16	By Ravi		40	500	2,500
" 13	To Misra			1,000		" 18	By Cash A/c	C			1,500
" 15	To Madhu		50	1,000	1,400	" 20	By Drawings A/c			400	
" 17	To Joseph				1,500	" 22	By Subhan & Co		25		975
" 18	To Bank A/c	C		1,500		" 24	By Joseph				1,500
" 25	To Gagan			700		" 25	By Ram			700	
" 31	To Cash A/c	C			4,100	" 26	By Drawings A/c				1,600
" 31	To Balance c/d				4,675	" 27	By Machinery A/c				40,000
						" 28	By Sundry exp. A/c			200	
						" 30	By Rent A/c				600
						" 31	By Bank A/c	C		4,100	
						" 31	By Balance c/d			500	
			50	47,200	52,875				65	47,200	52,875
Aug. 1	To Balance b/d			500		Aug. 1	By Balance b/d				4,675

Notes:

- 1 When cheques are received from parties, unless otherwise specified, it is assumed that they are deposited in the bank on the same day. But, in case of the transaction dated July 6, the cheque was received on July 6, but was deposited in the bank on July 8. Hence on July 6, it is recorded in the cash column on the debit side, and on July 8, it is shown as cash deposit through a contra entry.
- 2 On July 17, Joseph gave a cheque for Rs. 1,500 which was duly entered on the debit side. On July 24, the cheque was returned dishonoured. When a cheque is dishonoured, the rule is to reverse the entry made earlier. Hence, on July 24, an entry has been passed on the credit side in the bank column. This nullifies the entry made on July 17.
- 3 On July 25, a cheque was received from Gagan which was endorsed to Ram. It has been first entered in the cash column on the debit side on July 25, and then on the credit side on the same date.
- 4 The credit side total of the bank column is Rs 52,875 and the debit side total is Rs 48,200. It means that there is a credit balance of Rs. 4,675 in the bank account. As you know this is a case of overdraft. On July 31, it has been shown on the debit side of the cash book making two sides equal, and then on August 1, it is recorded on the credit side of the bank column.

8.8 LET US SUM UP

- 1 The main functions of a bank are to accept deposits and lend money to business. It also provides various other services to its customers.
- 2 There are three types of accounts available in the bank. The businessman generally opens current account.
- 3 When an account is opened in the bank, the depositor receives a pass book, a pay-in-slip book, and a cheque book.
- 4 A cheque is an instrument used for withdrawal of money from the bank. It can also be used for making payments to other parties.
- 5 For safety, the cheques can be crossed. Crossing can be general or specific.
- 6 The Payee of a cheque can endorse it to a third party by putting his signature at the back of the cheque.
- 7 The bank can refuse payment of a cheque. Refusing to pay is called dishonouring the cheque.
- 8 The Three Column Cash Book has three amount columns on each side. One of these three columns is for recording banking transactions of the firm.
- 9 All deposits into the bank are recorded in the bank column on the debit side of the cash book, and all withdrawals on the credit side.
- 10 The bank column in the cash book serves the purpose of bank account. Hence, there is no need to open bank account in the ledger.

8.9 KEY WORDS

Bearer Cheque: A cheque payable at the counter of the bank without identification.

Cheque: An instrument used for withdrawing money from the bank.

Crossed Cheque: A cheque on which two parallel lines have been drawn. It is not payable at the counter.

Contra Entry: When both the debit and credit aspects of a transaction are recorded in the cash book itself.

Dishonour: Refusal to pay the cheque by the bank.

Endorsement: A written statement signed by the payee at the back of the cheque for its transfer.

Order Cheque: A cheque in respect of which identification of the payee is necessary.

Pass Book: A book or a statement supplied by the bank to its customer showing his transactions with the bank.

Pay-in-slip: A slip or a challan used for depositing cash or cheques in the bank.

Special Crossing: A crossing specifying the name of bank through whom the cheque can be presented for payment.

8.10 SOME USEFUL BOOKS

Frank Wood. *Book-Keeping and Accounts* (London: Pitman, 1986) Chapters 12, 13 & 14.

Grewal, T.S. *Double Entry Book-Keeping* (New Delhi: Sultan Chand & Sons, 1986) Chapter 5.

Maheshwari, S.N. *Principles and Practice of Accountancy* (New Delhi: Arya Book Depot, 1986) Chapter 7.

Patil, V.A. and Korlahalli, J.S. *Principles and Practice of Book-Keeping* (New Delhi: R. Chand & Co., 1985) Chapters 8 & 9.

8.11 ANSWERS TO CHECK YOUR PROGRESS

- B 1) debit 2) credit 3) contra entry
 4) cash 5) both 6) credit

8.12 TERMINAL QUESTIONS/EXERCISES

Questions

- 1 Explain the following in about ten lines each.
 - a) Bank Column in cash book serves the purpose of a Bank Account in the ledger
 - b) Advantages of having a bank account.
 - c) Effect of crossing a cheque.
 - d) Contra Entry.
- 2 State the reasons for the following:
 - a) All entries in Three Column Cash Book are not posted into the ledger.
 - b) The total in the cash column on the debit side of the cash book is always more than its credit side, but it is not true of the bank column.
 - c) When a cheque received is endorsed to a third party, it must be entered on both sides of the cash book.
- 3 Why is a cheque dishonoured? How do you record it in the cash book?

Exercises

- 1 Enter the following transactions in the Three Column Cash Book of M/s. Shreelekha & Co.

1987			Rs.
May	1	Cash in hand	1,134
"	1	Cash at bank	25,350
"	2	Deposited into bank	1,000
"	4	Received from Ram Lal and discount allowed	1,580 20
"	8	Purchased furniture for cash	500
"	11	Paid to Jai Kishan by cheque received discount	1,490 10

Books of Account—II

" 15	Received from Gopal by cheque	1,000
" 16	Cash sales	1,570
" 20	Deposited into bank	2,000
" 21	Purchased an old motor car for office and paid by cheque	10,480
" 22	Paid by cheque to Ranganath and received discount	734 6
" 24	Withdrew from bank for office use	500
" 27	Purchased goods for cash	600
" 28	Withdrew from bank for personal use	1,000
" 31	Paid establishment expenses through bank	900

(Answer: Discount allowed Rs. 20; Discount Received Rs. 16; Cash Balance Rs. 684; Bank Balance Rs. 14,246.)

2 Record the following transactions in Three Column Cash Book of M/s Modern Commercial, and post them into ledger.

1987		Rs.
Jan. 1	Cash balance	700
	Bank balance (overdraft)	1,400
" 2	Cash sales	900
" 3	Paid into bank	1,000
" 5	Paid to Alag by cheque Discount allowed by him	1,225 25
" 10	Paid to Prasad	150
" 14	Paid wages	250
" 16	Received a cheque from Dasgupta in full settlement of a claim of Rs.	980
" 20	Paid for stationery 1'000	150
" 21	Purchased by cheque	600
" 23	Received a cheque from Ram. It was endorsed to Shyam	800
" 24	Paid Ranga by cheque and discount received	245 5
" 29	Withdrew from bank for office use	250
" 31	Cash drawn for personal use	150

(Answer: Discount Allowed Rs. 20; Discount Received Rs. 30; Cash Balance Rs. 150; Bank Overdraft Rs. 1,740.)

3 Prepare a Three Column Cash Book from the following transactions and post them into ledger.

1987		Rs.
Aug. 1	Cash in hand	700
" 1	Cash at bank	10,000
" 3	Cash sales	6,000
" 5	Paid rent by cheque	2,400
" 9	Cash deposited in the bank	6,000
" 10	Wages paid	100
" 11	Purchased stationery	180
" 13	Received cheque from Roy Discount allowed	780 20
" 15	Purchased goods	400
" 16	Withdrawn from bank for office use	2,000
" 18	Issued cheque to Gagan Received discount	1,340 60

		Banking Transactions and Three Column Cash Book	
"	20	Withdrew cash for personal use	400
"	20	Received cheque from Nath	1,000
"	24	Nath's cheque dishonoured	1,000
"	26	Issued cheque for furniture purchased	600
"	28	Received interest on securities by cheque	300
"	30	Paid salaries	480

(Answer: Discount Allowed Rs. 20; Discount Received Rs. 60; Cash Balance Rs. 1,140; Bank Balance Rs. 10,740.)

Note: These questions will help you to understand the Unit better. Try to write answers for them. But, do not submit your answers to the University. These are for your practice only.