



A GUIDE TO KEEPING A MANUAL CASHBOOK

Insight into keeping a manual cashbook

If you run a micro business with few transactions keeping a manual cashbook instead of investing in small business software could be an option.

This guide gives how such a manual cashbook could operate with examples of simple bookkeeping entries

SBRSS.COM

A GUIDE TO KEEPING A MANUAL CASHBOOK

Insight into keeping a manual cashbook

Introduction

A cash book records the flow of cash in and out of your business. Any transaction that involves the inflow (receipt) or outflow (payment) of money from your business should be recorded in the cash book. Although it is called a cash book, the transactions recorded need not just be in cash but can be in any form, including those made by cheque and by electronic forms of payment.

This factsheet explains what a cash book is and what you use it for. It demonstrates how a business's income and expenditure are entered into the cash book so that all transactions are recorded. The factsheet also explains how to carry out a bank reconciliation - which compares your cash book with your bank statement to make sure that all transactions have been recorded - and how to deal with VAT.

How do you complete a cash book?

You should start by buying a simple cash analysis book from a stationery supplier. This will be laid out with a number of columns across each page where you can log your income and expenditure. The first thing you should do is head up one page 'Payments' and the opposite page 'Receipts'. It is conventional for receipts to be recorded on the left-hand page and

payments on the right-hand page. Use these pages to record the cash coming into and out of your business for the month ahead.

How you choose to record your income and expenditure will depend on your individual business circumstances, as not all businesses will incur the same types of costs. However, the following columns should be included in every cash book:

- Date.
- Details of transaction - what was bought or sold including details of who you bought from or sold to.
- Reference - type of transaction, such as cash or cheque, plus an identifying number.
- Total cost.

To the right of these columns, you can then analyse the payment or receipt by category. The number of categories of payment or receipt you have is up to you, but as a general rule of thumb, you should have a category for the types you are most likely to incur regularly, 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.

In order to complete your cash book, you will need the following items of paperwork:

- Purchase invoices received from suppliers.
- Sales invoices raised to customers.
- Details of cheques written and cancelled.
- Receipts for any ad-hoc purchases.

- Bank statements and paying in book stubs.

Recording payments made (outgoings)

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

- For example, a payment was made to Jones Fabrics for £150 by cheque (cheque number 1041) on 11 May. The entry in the cash book therefore 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 to the payment type 'Motor' as this 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.

Figure 1 - Cash book (Purchase Ledger) layout for payments made

Payments - May 2009				Payment Type		
Date	Details	Reference	Total	Stock	Motor	Wages
11/05/09	Jones Fabrics	Cheque 1041	£150	£150		
15/05/09	K H Leasing	Cheque 1042	£350		£350	
25/05/09	May Wages	BACS 4253	£1,500			£1,500

Figure 1 - Cash book (Purchase Ledger) layout for payments made

In order to ensure you have allocated the total payments correctly for the month, you should check that the total of all the 'Payment Type' columns equals 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 below. As you can see, it is very similar to the payments page, with the types of income analysed in the columns on the right-hand side.

Every time a cheque is received, the total amount should be entered in the column headed 'Total' and then analysed into the appropriate columns. Income received by standing order or BACS should also be recorded in this way.

In the example below, sales revenue has been received from two customers and interest was received from the bank. The sales revenue received is recorded in the column headed 'Sales'. It is possible to have more than one column if your business receives revenue from different sources (for example, if you sell to different geographical areas, you may wish to analyse them on this basis). Again, an 'Other' column can be included to ensure all revenue can be recorded.

Receipts - May 2009			Receipt Type	
Date	Details	Total	Sales	Bank
05/05/09	Invoice 255 (Brown's)	£425	£425	
15/05/09	Invoice 276 (J Jackson)	£645	£645	
25/05/09	Bank Interest	£12		£12

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

In order to ensure you have allocated the total receipts correctly for the month, you should check that the total of all the 'Receipt Type' columns equals the sum of the 'Total' column.

What happens at month end?

At the end of every month, all the columns in your cash book should be totalled and you should 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, deduct the payments from the receipts to give the net cash flow for the month. Then add the figure carried forward from the previous month to give the 'carry down' figure. This is also the balance that should be in your bank account after adjusting for outstanding lodgements and unrepresented cheques. If the figure is negative - i.e. you have an overdraft - you should carry it forward on to the payments page for the next month. If the figure is positive, carry it forward to the receipts page.

Bank reconciliation

After you have totalled the monthly figures, you should undertake a bank reconciliation. This is the process of comparing your cash book with your bank statement to make sure they match. This acts as a means to check your bookkeeping is accurate, and also checks there are no discrepancies with the balance shown on the bank statements and any cash held by your business.

In order to reconcile your bank you should:

- Record and total any receipts that have not been matched against the bank statements - these are your outstanding lodgements.
- Record and total any payments that have not been matched against the bank statements - these are your unrepresented cheques.
- Trace forward any outstanding lodgements and unrepresented cheques recorded on your previous month's bank reconciliation to ensure they have cleared. If they have not you will need to carry them forward on your next bank reconciliation.
- Add the outstanding lodgements to the bank statement balance and subtract the unrepresented cheques.
- Match the receipts and payments in your manual cash book to your bank statements.

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

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

Bank reconciliation as at 31 May	
	£
Balance per the	23,045
Balance per the	22,346
Add outstanding	+1,425
Subtract	-726
Balance	23,045
Difference	0

Figure 3 - Bank reconciliation

If the figure you get is not the same as your bank statement, you have an error somewhere. Perhaps a payment or receipt has cleared sooner than expected. It is essential that a bank reconciliation is undertaken every month so any mistakes are identified and rectified in a timely manner.

Sales and purchase ledgers

When your business offers credit to customers (i.e. they pay you 30 days after the invoice date), and you in turn benefit from a credit account with your suppliers, you will need to keep separate sales and purchase ledger books in addition to your cash book.

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

When cash is received or a payment is made and the invoice is included in the sales ledger or purchase ledger, this should be logged in the sales ledger or purchase ledger column in your cash book.

How is VAT treated?

If you are VAT -registered, you should include a column in the income and payments pages of your cash book for VAT, and separate this element from your receipts and payments.

If you have registered to account for VAT using the cash accounting scheme, you need to total up the VAT column on the receipts and payments pages of the cash book each quarter and enter these figures on your VAT return. However, if you account for VAT on a tax point basis, you need to look at the sales invoices raised and the purchase invoices received in the relevant return period, rather than the cash movements.

Hints and tips

- Keep your cash book up to date by recording every transaction immediately after it is made. Don't put it off to do later - you may forget the details, and this will mean a time-consuming task every month end. Keeping on top of your bookkeeping also helps you identify problems early.
- Ensure you retain your accounting records for a minimum of six years, as this is a legal requirement.
- Regularly compare your cash flow forecast with your actual cash balance so you can examine your results and identify any potential cash flow problems before they arise.
- Ask your bank to time the sending out of your bank statements for the end of each month, so they coincide with the end of each of your

accounting periods.

- Carry out a bank reconciliation every month. Not only will this help you keep track of your bank balance, it is far easier to find errors if you know that they cannot be more than one month old.

Small Business Resources

Add value to your brand by generating catch business and product names like Amazon, Google, Coca Cola, Yahoo, Blackberry and many more using the same business name generator used by top business and product naming companies: <http://www.businessnameidea.com>

Generate more leads, cash flow and profits for your business and pay only based on results. This web site connects small businesses with top traffic web sites like Google, Facebook, Youtube to generate constant flow of traffic and leads: <http://www.intelwebsolutions.com>

Information and tools for small business to help entrepreneurs develop and market their business and ideas: <http://www.2-small-business.com>