

Finance Factsheet: Keeping a Manual Cashbook



A cashbook records all the money -whether in cash or any other form -that comes into and goes out of your business. This factsheet explains:

- How to use a cash book to record transactions
- When to use sales and purchase ledgers
- How to deal with VAT
- What to do on a monthly basis
- How to carry out bank reconciliation. How to use a cash book

A cashbook has a number of columns on each page. The first thing you should do is label one page (usually the left-hand page) 'Receipts' and the opposite page 'Payments', and give the first four columns these headings:

- Date
- Details (of transaction)
- Reference (type of transaction plus an identifying number)
- Total amount

To the right of these will be columns in which you analyse the receipt or payment by category. Exactly what categories you use will depend on the nature of your business. but you should have a column for each of the types of receipt or payment you are most likely to incur regularly. The final column should be for any item that does not fit into the other columns and is headed 'Other'.

A typical receipts page

The payments page is similar to this, but with the heading 'Payment type' instead of 'Income type', and headings such as 'Purchases' and 'Wages' instead of 'Income' and 'Interest'.

Date	Details	Reference	Total	Income type		
				Income	Interest	Other
30/07	Invoice 300 (Smiths)	Cheque 102476	£1,050	£1,050		
31/07	Bank interest	To 30 Jul 07	£18		£18	
01/08	Invoice 305 (Chennells)	Mastercard 563108xxxx	£205	£205		



Headings for a typical payments page:

				Payment type		
Date	Details	Reference	Total	Purchases	Wages	Other

Important tips

- Always keep your cash book up to date by recording every transaction as soon as you make it.
- Use a new page for each month.
- Regularly compare your cashbook balance with your cash flow forecast so that you can identify any potential cash flow problems before they arise.

When to use sales and purchase ledgers

If you offer credit to customers (e.g. you expect payment from them 30 days after the invoice date), and you also have credit accounts with your suppliers, you will need to keep separate sales and purchase ledger books.

The sales ledger gives details of:

- Sales invoices raised
- Income received
- Amount outstanding from customers.

The purchase ledger gives details of:

- Invoices received from suppliers
- Payments made against these invoices.

When you receive or make a payment for an invoice in the sales or purchase ledger, you should record this in the appropriate column in your cashbook.



How to deal with VAT

If you are VAT-registered, you should include a column for VAT in both the income and payments pages of your cashbook:

Extract from a payments page that includes VAT:

If you have registered to account for VAT using the cash accounting scheme, every quarter you will need to add up the amounts entered in the VAT columns on the receipts pages and payments pages. The two figures have to be entered on your VAT returns.

If you account for VAT on a tax point basis, you will need to look at the sales invoices raised and the purchase invoices received (listed in your sales and purchase ledgers, with details of VAT payments).

					Payment type		
Date	Details	Reference	Total	VAT	Purchases	Wages	Other
30/07	Art Worker	Cheque 304108	£998.75	£148.75	£850		

What to do on a monthly basis

At the end of every month you need to:

- Add up all the amounts in each column of your cash book and check that the sums of the analysis columns (headed 'Income type' or 'Payment type') equal the sum of the 'total' column
- Deduct the payments from the receipts to give the net cash flow for the month
- Add the figure carried forward from the previous month to obtain the 'carry down' figure
- If the figure is positive, carry it forward to the receipts page (insert 'Brought down' at the top of the Details column, and the amount carried forward under 'Total')
- If the figure is negative, carry it forward to the payments page.



Carrying out a bank reconciliation

Every month you should compare the 'carry down' figure with the balance in your bank account to check that there are no discrepancies between the two.

In comparing the two figures, you need to:

- Trace forward any outstanding lodgements and un-presented cheques recorded on your previous month's bank reconciliation to ensure they have cleared
- Record and total any receipts that don't appear in the bank statements -your outstanding lodgements -and add these to your bank statement total
- Record and total any payments that don't appear in the bank statements -your un-presented cheques -and subtract these from your bank statement total
- If your bank balance is overdrawn, record it as a negative in your bank reconciliation.

Example of a bank reconciliation

Balance per the cashbook	30,050
Balance per the bank statement	28,750
Add outstanding lodgements	3,200
Subtract un-presented cheques	1,900
Balance	30,050
Difference	0

If the 'difference ' is not 0, you clearly have an error somewhere that you need to track down straight away.