

CHAPTER SEVEN

ACCOUNTING FOR CASH

WHAT IS CASH?

- **Cash includes**
 - Currency, coins, and checking accounts
 - Checks received from customers

CENTRAL ROLE IN BUSINESS

- **All transactions pass through cash**
 - All revenues collected in cash
 - All expenses paid in cash
 - All assets purchased with cash
- **Financial statements can be recreated using Cash account**

CASH MANAGEMENT

- **Cash budgeting**
 - Project future cash inflows
 - Project future cash outflows
 - Do we have cash to pay debts when due
 - Can we invest cash excess to earn interest
- **Asset most likely to be stolen**

INTERNAL CONTROL

- **Procedures designed to ensure:**
 - All transactions properly recorded
 - Amounts on financial statements correct
 - Minimize risk of errors, theft

AUDITING

- **Test to ensure internal control procedures followed**
- **Test ending balance in each account**

INTERNAL CONTROL

- Prevent
- Detect
- Correct

Material errors, theft

INTERNAL CONTROL

- **Internal control for cash**
 - Cash received deposited DAILY in bank
 - All disbursements made by CHECK

BANK STATEMENT

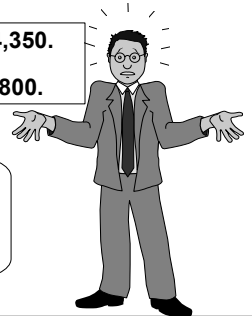
- **Includes:**
 - BEGINNING balance
 - + Deposits and other amounts ADDED
 - Checks and other amounts SUBTRACTED
 - ENDING balance

EXAMPLE

Bank statement balance \$4,350.

General ledger balance \$3,800.

We need to prepare a
BANK RECONCILIATION.



WHY DIFFERENCE?

Some transactions recorded

- **By bank and books**
- **Only by bank, not in books**
- **Only by books, not in bank**

BANK ADJUSTMENTS

Recorded by books, not by bank

- **Outstanding checks**
 - Checks have not been presented to bank
- **Deposits in transit**
 - Deposits have not reached the bank

BOOK ADJUSTMENTS

Recorded by bank, not by books

- **Service charges**
 - Check printing, account fees
- **Collections**
 - Made by the bank on behalf of the depositor
- **Not sufficient funds (NSF) checks**
 - Checks deposited but not converted to cash

Mary Adams Consulting
Bank Reconciliation
October 31, 2000

Name of Company
Bank Reconciliation
Date

Mary Adams Consulting
Bank Reconciliation
October 31, 2000

Bank statement balance, October 31 \$4,350

Begin with
bank statement balance

Mary Adams Consulting
Bank Reconciliation
October 31, 2000

Bank statement balance, October 31 \$4,350

Add:

Deduct:

Transactions recorded by books
but not by bank

Mary Adams Consulting
Bank Reconciliation
October 31, 2000

Bank statement balance, October 31 \$4,350

Add:

Deduct:

Adjusted Bank Balance

List reconciling items,
compute
"Adjusted Bank Balance"

Mary Adams Consulting
Bank Reconciliation
October 31, 2000

Bank statement balance, October 31 \$4,350

Add:

Deduct:

Adjusted Bank Balance

Book balance, October 31 \$3,800

General Ledger Cash balance

Mary Adams Consulting Bank Reconciliation October 31, 2000		
Bank statement balance, October 31		\$4,350
Add:		
Deduct:		
Adjusted Bank Balance		
Book balance, October 31		\$3,800
Add:		
Deduct:		

Transactions recorded by bank but not by books

Mary Adams Consulting Bank Reconciliation October 31, 2000		
Bank statement balance, October 31		\$4,350
Add:		
Deduct:		
Adjusted Bank Balance		
Book balance, October 31		\$3,800
Add:		
Deduct:		
Adjusted Book Balance		

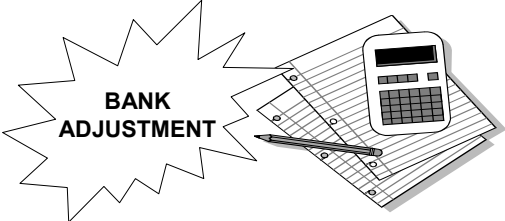
"Adjusted book balance" is computed.

Mary Adams Consulting Bank Reconciliation October 31, 2000		
Bank statement balance, October 31		\$4,350
Add:		
Deduct:		
Adjusted Bank Balance		
Book balance, October 31		\$3,800
Add:		
Deduct:		
Adjusted Book Balance		

We say it is "reconciled" when the Adjusted BANK and Adjusted BOOK balances agree.

DEPOSIT IN TRANSIT

A \$635 deposit dated October 31 does not appear on bank statement.




BANK ADJUSTMENT

Mary Adams Consulting Bank Reconciliation October 31, 2000		
Bank statement balance, October 31		\$4,350
Add: Deposit in transit		\$635
Deduct:		
Adjusted Bank Balance		
Book balance, October 31		\$3,800
Add:		
Deduct:		
Adjusted book balance		

DEPOSITS IN TRANSIT added to bank balance

OUTSTANDING CHECKS

Three checks not on bank statement.



BANK ADJUSTMENT

Mary Adams Consulting Bank Reconciliation October 31, 2000			
Bank statement balance, October 31			\$4,350
Add: Deposit in transit			\$635
Deduct: Outstanding checks			
No. 890	\$598		
No. 892	334		
No. 893	795	1,727	
Adjusted Bank Balance			
Book balance, October 31			\$3,800
Add: Error on check #862			18
Deduct:			
Adjusted book balance			

Outstanding checks deducted from bank balance.

BOOK ERROR

Check 862 for \$46.25 was entered in general journal as \$64.25, an \$18 error.

BOOK ADJUSTMENT

Mary Adams Consulting Bank Reconciliation October 31, 2000			
Bank statement balance, October 31			\$4,350
Add: Deposit in transit			\$635
Deduct: Outstanding checks			
No. 890	\$598		
No. 892	334		
No. 893	795		
Adjusted Bank Balance			1,727
Book balance, October 31			\$3,800
Add: Error on check #862			18
Deduct:			
Adjusted book balance			

\$18.00 added back to book balance

ERRORS

Errors can

- Increase bank balance
- Decrease bank balance
- Increase book balance
- Decrease book balance

Be
Careful!

UNRECORDED WITHDRAWAL

Owner made \$200 ATM withdrawal for personal use.

BOOK ADJUSTMENT

Mary Adams Consulting Bank Reconciliation October 31, 2000			
Bank statement balance, October 31			\$4,350
Add: Deposit in transit			\$635
Deduct: Outstanding checks			
No. 890	\$598		
No. 892	334		
No. 893	795	1,727	
Adjusted Bank Balance			
Book balance, October 31			\$3,800
Add: Error on check #862			18
Deduct:			
Unrecorded ATM withdrawal		\$200	
Adjusted book balance			

NSF CHECK

Bank returned \$350 check from client.

**BOOK
ADJUSTMENT**



Mary Adams Consulting Bank Reconciliation October 31, 2000			
Bank statement balance, October 31			\$4,350
Add: Deposit in transit			\$635
<hr/>			
Deduct: Outstanding checks			
No. 890	\$598		
No. 892	334		
No. 893	795	1,727	
Adjusted Bank Balance			
Book balance, October 31			\$3,800
Add: Error on check #862			18
<hr/>			
Deduct:			
Unrecorded ATM withdrawal	\$200		
NSF check	350		
<hr/>			
Adjusted book balance			

BANK SERVICE CHARGE

Bank deducted \$10 service charge

**BOOK
ADJUSTMENT**



Mary Adams Consulting Bank Reconciliation October 31, 2000			
Bank statement balance, October 31			\$4,350
Add: Deposit in transit			\$635
<hr/>			
Deduct: Outstanding checks			
No. 890	\$598		
No. 892	334		
No. 893	795	1,727	
Adjusted Bank Balance			
Book balance, October 31			\$3,800
Add: Error on check #862			18
<hr/>			
Deduct:			
Unrecorded ATM withdrawal	\$200		
NSF check	350		
Bank service charge	10		
Adjusted book balance			

Mary Adams Consulting Bank Reconciliation October 31, 2000			
Bank statement balance, October 31			\$4,350
Add: Deposit in transit			\$635
			\$4,985
<hr/>			
Deduct: Outstanding checks			
No. 890	\$598		
No. 892	334		
No. 893	795	1,727	
Adjusted Bank Balance			\$3,258
Book balance, October 31			\$3,800
Add: Error on			18
<hr/>			
Deduct:			
Unrecorded AT	\$200		
NSF check	350		
Bank service charge	10		
Adjusted book balance			

**Bank section of
reconciliation totaled.**

Mary Adams Consulting Bank Reconciliation October 31, 2000			
Bank statement balance, October 31			\$4,350
Add: Deposit in transit			\$635
			\$4,985
<hr/>			
Deduct: Outstanding checks			
No. 890	\$598		
No. 892	334		
No. 893	795	1,727	
Adjusted Bank Balance			\$3,258
Book balance, October 31			\$3,800
Add: Error on check #862			18
<hr/>			
Deduct:			
Unrecorded ATM wi	\$200		
NSF check	350		
Bank service charge	10		
Adjusted book balance			\$3,258

Book section totaled

ADJUSTING JOURNAL ENTRIES

The true cash balance is \$3,258.

The Cash G/L account \$3,800.



BANK RECONCILIATION JOURNAL ENTRIES

- Make AJE's for all items in **BOOK** section of the reconciliation

Mary Adams Consulting Bank Reconciliation October 31, 2000			
Bank statement balance, October 31			\$4,350
Add: Deposit in transit			\$635
			\$4,985
Deduct: Out			
No. 890		\$598	
No. 892		334	
No. 893		795	1,727
Adjusted Bank Balance			\$3,258
Book balance, October 31			\$3,800
Add: Error on check #862			18
			\$3,818
Deduct:			
Unrecorded ATM withdrawal		\$200	
NSF check		350	
Bank service charge		10	\$560
Adjusted book balance			\$3,258

**Four items
require journal entries**



GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Oct. 31	Cash		18 00	
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

**Book error took too much cash out,
we must put it back.**

GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	2000 Oct. 31	Cash		18 00	
2		Telephone Expense			18 00
3		Error on Check #862			
4					
5					
6					
7					
8					
9					
10					
11					

**Book error recorded too much
Telephone Expense,
we must offset error**

GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	2000 Oct. 31	Cash		18 00	
2		Telephone Expense			18 00
3		Error on Check #862			
4					
5	31	M.A., Drawing		200 00	
6					
7					
8					
9					
10					
11					

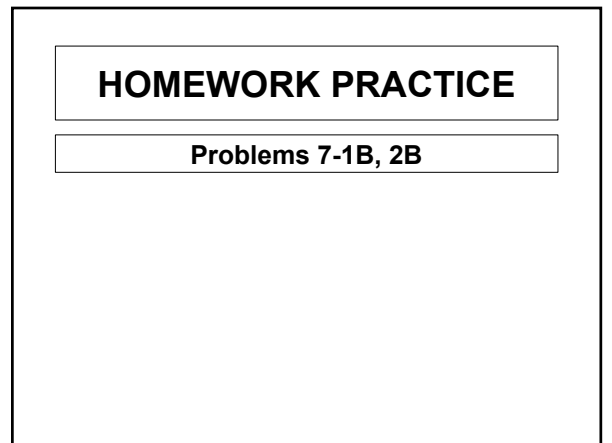
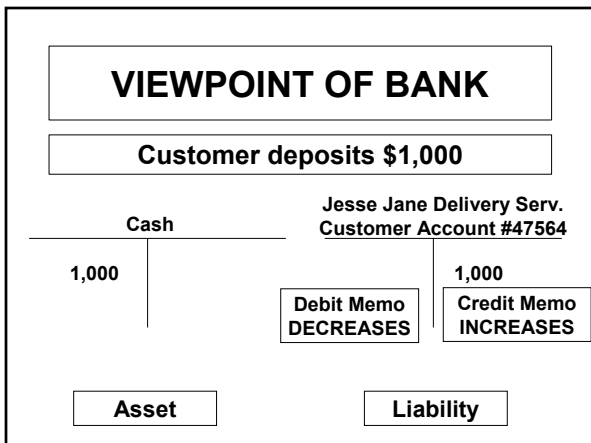
**Owner made Drawing
using ATM**

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	2000 Oct. 31	Cash		18 00	
2		Telephone Expense			18 00
3		Error on Check #862			
4					
5	31	M.A., Drawing		200 00	
6		Cash			200 00
7					
8					
9					
10					
11					

GENERAL JOURNAL					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	2000 Oct. 31	Cash		18 00	
2		Telephone Expense			18 00
3		Error on Check #862			
4					
5	31	M.A., Drawing		200 00	
6		Cash			200 00
7		Unrecorded ATM			
8		withdrawal			
9					
10					
11					

GENERAL JOURNAL cont.					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
10	31	Accounts Receivable		350 00	
11		Cash			350 00
12		NSF check			
13					
14					
15					
16					
17					
18					
19					
20					

GENERAL JOURNAL cont.					
	DATE	DESCRIPTION	PR	DEBIT	CREDIT
10	31	Accounts Receivable		350 00	
11		Cash			350 00
12		NSF check			
13					
14	31	Misc. Expense		10 00	
15		Cash			10 00
16		service charge			
17					
18					
19					
20					



WHY PETTY CASH?

- **Pay small amount**
- **In short amount of time**
- **Procedure to write check**
 - Takes too long
 - Costs too much

PETTY CASH

- **To establish the fund**
 - Check is written to the petty cash custodian
 - Check is cashed
 - Money is placed into secure box/drawer.
- **Custodian only person authorized to pay out petty cash**

EXAMPLE

Mary establishes \$50 Petty Cash fund to be used to make small purchases

CASH

\$50

\$50 is withdrawn (by check) from the Cash account.

EXAMPLE

Mary establishes a \$50 Petty Cash fund to be used to make small purchases.

CASH

\$50

PETTY CASH

\$50

Petty Cash is an ASSET account.

GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Nov. 15	Petty Cash		50 00	
2		Cash			50 00
3		Establish Petty Cash fund			
4					
5					
6					
7					
8					
9					
10					
11					

PETTY CASH VOUCHER

- **Voucher prepared for every payment from Petty Cash**
- **Voucher includes**
 - Name of Payee (Person receiving money)
 - Purpose and amount of payment
 - Account to be charged (Postage Expense)
 - Signature of custodian and payee
 - Receipt is attached

REPLENISHING PETTY CASH

- **Fund is replenished**
 - When funds run low
 - End of each accounting period
- **Journal Entry is made**
 - Debit accounts (Postage Expense)
 - Credit Cash to replenish fund
- **Petty Cash not debited or credited.**

EXAMPLE

Office Manager notices Petty Cash Fund contains \$5.65 in cash and three vouchers

Voucher # 1 \$15.00 for expenses from a business trip (Travel/Entertainment Expense)

Voucher # 2 \$11.45 for express mailing report to client (Postage Expense)

Voucher # 3 \$17.90 for oil change on company van (Vehicle Maintenance Expense)

GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Nov. 30	Travel/Entertainment Exp.		15 00	
2		Postage Expense		11 45	
3		Vehicle Maintenance Exp.		17 90	
4		Cash			44 35
5					
6					
7					
8					
9					
10					
11					

Cash credited for amount needed to restore fund to its established amount.
\$50.00 fund - \$5.65 in box = \$44.35 needed

HOMEWORK PRACTICE

Problem 7-3B

CHANGE FUND

- Currency and coins in cash register
- Used to make change
- Cash collected is deposited at bank
- Fund kept in safe, used next day

EXAMPLE

Harlow's Coffee Shop created a \$150 change fund in cash register

CASH
\$150

Just like the Petty Cash fund, a Change Fund starts by withdrawing from Cash.

EXAMPLE

CASH	CHANGE FUND
\$150	\$150

Change Fund is an ASSET.

GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Dec. 1	Change Fund		150 00	
2		Cash			150 00
3		Establish Change Fund			
4					
5					
6					
7					
8					
9					
10					
11					

EXAMPLE

At the close of their first day of business, Harlow's had \$1,384.50 in the cash register.

CASH IN DRAWER	\$1,384.50
Less: CHANGE FUND	- 150.00
CASH FROM SALES	<u>\$1,234.50</u>

The CASH from sales should agree with the sales recorded on the cash REGISTER TAPE.

EXAMPLE

At the close of their first day of business, Harlow's had \$1,384.50 in the cash register.

CASH IN DRAWER	\$1,384.50
Less: CHANGE FUND	- 150.00
CASH FROM SALES	<u>\$1,234.50</u>

Sales from Cash Register tape are also \$1,234.50

GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Dec. 2	Cash		1,234 50	
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					

Only the \$1,234.50 is debited to Cash and deposited. The Change fund is not deposited.

GENERAL JOURNAL

	DATE	DESCRIPTION	PR	DEBIT	CREDIT
1	Dec. 2	Cash		1,234 50	
2		Sales			1234 50
3		Cash Sales 12/2/20--			
4					
5					
6					
7					
8					
9					
10					
11					

What would have happened if the cash register tape didn't agree with the cash from sales?

EXAMPLE

At the close of their first day of business, Harlow's had \$1,384.50 in the cash register.

CASH IN DRAWER	\$1,384.50
Less: BEG. BALANCE	<u>150.00</u>
CASH FROM SALES	<u>\$1,234.50</u>

What if the Cash Register tape had shown Sales of \$1,236.50?

EXAMPLE

CASH IN DRAWER	\$1,384.50
Less: BEG. BALANCE	<u>150.00</u>
CASH FROM SALES	\$1,234.50
CASH REGISTER	<u>\$1,236.50</u>
SHORTAGE	\$ 2.00

Overages and Shortages are recorded in an account called "CASH SHORT AND OVER."

GENERAL JOURNAL

DATE	DESCRIPTION	PR	DEBIT	CREDIT
1 Dec. 2	Cash		1,234 50	
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				

Cash is debited for the amount deposited.

GENERAL JOURNAL

DATE	DESCRIPTION	PR	DEBIT	CREDIT
1 Dec. 2	Cash		1,234 50	
2	Cash Short and Over		2 00	
3				
4				
5				
6				
7				
8				
9				
10				
11				

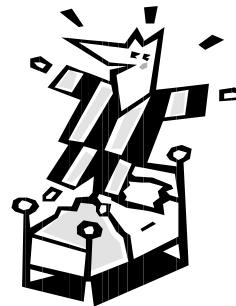
Cash Short and Over is debited for shortages and credited for overages.

GENERAL JOURNAL

DATE	DESCRIPTION	PR	DEBIT	CREDIT
1 Dec. 2	Cash		1,234 50	
2	Cash Short and Over		2 00	
3	Sales			1,236 50
4				
5				
6				
7				
8				
9				
10				
11				

Sales is credited for the amount on the Cash Register tape even though this was not the amount collected.

End of Chapter 7



HOMEWORK PRACTICE

Problem 7-4B