

Chapter 7

Accounting for Cash
Mostly, straight from the book.
Keenan Sowa

LEARNING OBJECTIVES

- LO1 Describe how to open and use a checking account.
- LO2 Prepare a bank reconciliation and related journal entries.
- LO3 Establish and use a petty cash fund.
- LO4 Establish a change fund and use the cash short and over account

- “Cash” = Bills, Coins, Checks received from customers, money orders, and bank cashier’s checks.
- “Internal Control” = Procedures designed to ensure proper accounting for transactions. IE Depositing Cash weekly, using checks to pay for services



LO1 Open and Use Checking Account

To open you will need:

- Two forms of Identification and Photo ID. Driver's License, State ID, (be aware that a Tribal ID may not be accepted) and lastly, your Social Security Card
- Other personal information may be required (Depending on Bank's Policies and discretion)
- Signature Card

ACCOUNT NUMBER

ACCOUNT OWNER(S) NAME & ADDRESS

OWNERSHIP OF ACCOUNT - PERSONAL PURPOSE

- ☐ INDIVIDUAL ☐ _____
- ☐ JOINT - WITH SURVIVORSHIP (and not as tenants in common)
- ☐ JOINT - NO SURVIVORSHIP (as tenants in common)
- ☐ TRUST - SEPARATE AGREEMENT

☐ REVOCABLE TRUST OR ☐ PAY-ON-DEATH
DESIGNATION AS DEFINED IN THIS AGREEMENT
Name and Address of Beneficiaries:

TYPE OF ACCOUNT

- | | |
|---------------------------------------|---|
| <input type="checkbox"/> NEW | <input type="checkbox"/> EXISTING |
| <input type="checkbox"/> CHECKING | <input type="checkbox"/> SAVINGS |
| <input type="checkbox"/> MONEY MARKET | <input type="checkbox"/> CERTIFICATE OF DEPOSIT |
| <input type="checkbox"/> NOW | <input type="checkbox"/> _____ |

This is your (check one):

☐ Permanent ☐ Temporary account agreement

Number of signatures required for withdrawal _____

FACSIMILE SIGNATURE(S) ALLOWED? ☐ YES ☐ NO

Signature Card (1 of 2)

OWNERSHIP OF ACCOUNT - BUSINESS PURPOSE

- ☐ SOLE PROPRIETORSHIP
☐ CORPORATION: ☐ FOR PROFIT ☐ NOT FOR PROFIT
☐ PARTNERSHIP
☐ _____

BUSINESS: _____
COUNTRY & STATE _____
OF ORGANIZATION: _____
AUTHORIZATION DATED: _____

DATE OPENED _____ BY _____
INITIAL DEPOSIT \$ _____
☐ CASH ☐ CHECK ☐ _____
HOME PHONE# _____
BUSINESS PHONE# _____
DRIVER'S LICENSE# _____
E-MAIL _____
EMPLOYER _____
MOTHER'S MAIDEN NAME _____
Name and address of someone who will always know your location: _____

BACKUP WITHHOLDING CERTIFICATIONS

- TIN: _____
- ☐ **TAXPAYER I.D. NUMBER** - The Taxpayer Identification Number shown above(TIN) is my correct taxpayer identification number.
- ☐ **BACKUP WITHHOLDING** - I am not subject to backup withholding either because I have not been notified that I am subject to backup withholding as a result of a failure to report all interest or dividends, or the Internal Revenue Service has notified me that I am no longer subject to backup withholding.
- ☐ **EXEMPT RECIPIENTS** - I am an exempt recipient under the Internal Revenue Service Regulations.
- SIGNATURE:** I certify under penalties of perjury the statements checked in this section and that I am a U.S. citizen or other U.S. person (as defined in the instructions).

X _____
(Date)

X _____

SIGNATURE(S) - The undersigned certifies the accuracy of the information he/she has provided and acknowledges receipt of a completed copy of this form. The undersigned authorizes the financial institution to verify credit and employment history and/or have a credit reporting agency prepare a credit report on the undersigned, as individuals. The undersigned also acknowledge the receipt of a copy and agree to the terms of the following agreement(s) and/or disclosure(s):

- ☐ Terms & Conditions ☐ Truth in Savings ☐ Funds Availability
☐ Electronic Fund Transfers ☐ Privacy ☐ Substitute Checks
☐ Common Features ☐ _____

X _____

I.D. # _____ D.O.B. _____

X _____

I.D. # _____ D.O.B. _____

X _____

I.D. # _____ D.O.B. _____

X _____

I.D. # _____ D.O.B. _____

☐ Authorized Signer (Individual Accounts Only)

X _____

I.D. # _____ D.O.B. _____

- When speaking with a banker and opening up an account, they will inform you of your pertinent information such as; account numbers, PINS, passwords, and other confidential information.
- Sometimes they will issue you a temporary debit card while you wait for your personalized card in the mail. Personal checks are offered as-well. In some cases, they can be free.

Making Deposits

Alternate ways to deposit

1. Manually (In person, all “cash”) “I’m here to deposit this much.. into this account..” - usually deposits amounts instantly
2. Electronically (Checks only) - Some banks have applications that will deposit certain types of checks up to pre-established amounts, Can hit instantly, but may take time to see funds
3. Remotely (By ATM or bank drop off box, all “cash”) - Can be convenient, may have to wait till business hours to see funds

Transaction receipts

When depositing in person and at an ATM you will be issued a receipt at the end of every transaction stating amounts debited to which accounts, the date of transaction, and new balances. Some banks can offer digital receipts routed through email, or other like media. There is also a more traditional option to receive receipts by mail.

Deposit Ticket

MAPLE CONSULTING
4112 WEBER STREET
ORLANDO, FL 32818-1123



WIZARD BANK
3711 Buena Vista Dr.
Orlando, FL 32811-1314

Date October 13 20

CHECKS AND OTHER ITEMS ARE RECEIVED FOR DEPOSIT SUBJECT TO
THE TERMS AND CONDITIONS OF THIS FINANCIAL INSTITUTION'S
ACCOUNT AGREEMENT.

SIGN HERE ONLY IF CASH RECEIVED FROM DEPOSIT

⑆063112094⑆ 0001632475⑆

63-1209
631

DEPOSIT TICKET

BILLS		934	00
COIN		42	63
CHECKS	44-21	320	80
	80-459	680	00
	44-5	590	00
TOTAL FROM OTHER SIDE			
SUBTOTAL		2,567	43
LESS CASH RECEIVED			
NET DEPOSIT		2,567	43

Endorsements

Each check being deposited (or cashed) must be endorsed by the payee. The endorsement consists of stamping or writing the payee's name. There are two basic types of endorsements.

- Blank Endorsement- the payee simply signs the back of the check. This makes the check payable to any bearer.
- Restrictive Endorsement - Pay to the order of (specific) bank," or "Pay to DayDay" to restrict the payment of the check to a specific party. By adding words such as "For deposit only," the payee can restrict the payment of the check for a specific purpose

FIGURE 7-3 Restrictive Endorsement

ENDORSE HERE
PAY TO THE ORDER OF WIZARD BANK

FOR DEPOSIT ONLY
Maple Consulting

No. 486 $\frac{4-5}{810}$

January 2 20--

onsulting \$ 900.00

red and ⁰⁰/100 Dollars

D. A. Mook

0000 < 00090000 *

Writing Checks

- Drawer—the depositor who orders the bank to pay the cash.
- Drawee—the bank on which the check is drawn.
- Payee—the party to whom the check is payable.

A sample check form with the following fields and values:

- NAME LASTNAME:** Street Address, City, State 00000-0000
- DATE:** 2/17/2019
- 001** (check number)
- PAID TO THE ORDER OF:** Peoples Gas
- AMOUNT:** \$156.39
- One hundred and fifty-six dollars and 39/100 — DOLLARS**
- LOGO BANK:** NAME BANK, www.bank.com
- FOR:** Gas bill
- SIGNATURE:** Bambi Doe
- MICR LINE:** 12 104 288 21 968 74 2 168 41 00483

Red arrows point from the text definitions to the corresponding fields on the check: from 'Drawer' to the top left, from 'Drawee' to the bank logo, and from 'Payee' to the signature line.

CHECKS

FIGURE 7-4 Checks and Check Stubs

Check No. 107

DATE April 3 20__

TO Linclay Corp.

FOR April Rent

ACCT. Rent Expense

	DOLLARS	CENTS
BAL BRO'T FOR'D	3,625	41
AMT. DEPOSITED		
TOTAL		
AMT. THIS CHECK	300	00
BAL CAR'D FOR'D	3,325	41

MAPLE CONSULTING
4112 WEBER STREET
ORLANDO, FL 32818-1123

PAY TO THE ORDER OF Linclay Corporation \$ 300.00

Three Hundred 00/100 Dollars

WIZARD BANK
3711 Buena Vista Dr.
Orlando, FL 32811-1314

MEMO _____ BY James Maple

Ⓜ0631 12094Ⓜ 0001632475Ⓜ

Check No. 108

DATE April 4 20__

TO Continental Mfg. Co.

FOR Inv. March 31

ACCT. Accounts Payable

	DOLLARS	CENTS
BAL BRO'T FOR'D	3,325	41
AMT. DEPOSITED	1,694	20
4/4 TOTAL	5,019	61
AMT. THIS CHECK	1,478	18
BAL CAR'D FOR'D	3,541	43

MAPLE CONSULTING
4112 WEBER STREET
ORLANDO, FL 32818-1123

PAY TO THE ORDER OF Continental Mfg. Co. \$ 1,478.18

One Thousand Four Hundred Seventy-Eight 18/100 Dollars

WIZARD BANK
3711 Buena Vista Dr.
Orlando, FL 32811-1314

MEMO _____ BY James Maple

Ⓜ0631 12094Ⓜ 0001632475Ⓜ

Annotations:

- Payee:** Points to the payee name on the first check.
- Amount in figures:** Points to the dollar amount on the first check.
- Amount in words:** Points to the written amount on the first check.
- Drawer:** Points to the signature on the second check.
- Drawee:** Points to the bank name on the second check.
- Lines are added to help prevent unauthorized changes to the check:** Points to the horizontal lines on the first check.

CHECKS AND CHECK STUBS

FIGURE 7-5 Bank Statement

STATEMENT

WIZARD BANK

MAPLE CONSULTING
4112 WEBER STREET
ORLANDO, FL 32818-1123

Account Number
16 3247 5

Statement Date
Nov. 21, 20—

Instructions

Page Number
1

Beginning Balance	No. of Deposits and Credits	We Have Added these Deposits and Credits Totalling	No. of Withdrawals and Charges	We Have Subtracted these Withdrawals and Charges Totalling	Resulting in a Statement Balance of
\$2,721.51	2	\$2,599.31	17	\$3,572.73	\$1,748.09
Document Count	Average Daily Balance this Statement Period		Minimum Balance this Statement Period		Date Amount

If Your Account does not Balance, Please See Reverse Side and Report any Discrepancies to our Customer Service Department.

DATE	DESCRIPTION	DEPOSITS/CREDITS	WITHDRAWALS/DEBITS	BALANCE
10/20	Beginning Balance			2,721.51
10/27	Check No. 207		242.00	2,479.51
10/28	Check No. 212		68.93	2,410.58
10/28	Check No. 213		58.00	2,352.58
10/29	Deposit	867.00		3,219.58
11/3	Electronic Deposit	1,732.31		4,951.89
11/3	Check No. 214		18.93	4,932.96
11/3	Check No. 215		229.01	4,703.90
11/3	Check No. 216		452.71	4,251.77
11/3	Check No. 217		94.60	4,157.17
11/10	Check No. 218		1,000.00	3,157.17
11/10	DM: NSF		200.00	2,957.17
11/10	Check No. 220		32.42	2,924.75
11/10	Check No. 221		64.08	2,860.67
11/10	Check No. 222		110.87	2,749.80
11/13	ATM Withdrawal		100.00	2,649.80
11/18	Check No. 223		18.00	2,631.80
11/18	Check No. 225		23.31	2,608.49
11/18	Check No. 226		58.60	2,549.89
11/19	DM: Service Charge		1.80	2,548.09

EC — Error Correction

CM — Credit Memo

DM — Debit Memo

NSF — Not Sufficient Funds

ATM — Automated Teller Machine

TR — Wire Transfer

Beginning balance

Ending balance

An amount added

An amount subtracted

• basically the history of every transaction that occurred during the period. There are various formats.

LO2 Prepare a bank reconciliation and related journal entries

There will be differences in the amounts recorded by your own book and by the bank. Do not fret, yet. With transactions occurring in person with actual cash, banks will lag behind.

Common Reasons for Differences

- 1. Deposits in transit, meaning they have not been recorded by the bank.
- 2. Outstanding checks, or Checks for payments/services that have not reached the bank.
- 3. Bank service charges, or regular fees associated with membership and their services (read the fine print)
- 4. Bank collections for the depositor (Collections of promissory notes or charge accounts made by the bank on behalf of the depositor)
- 5. Not Sufficient Funds checks, they “bounced”
- 6. Errors by the bank or the depositor

Preparing for the Bank Reconciliation

Step 1) Identify deposits in transit and any related errors.

- 1.1 Compare deposits listed on the bank statement with deposits in transit on last month's bank reconciliation. All of last month's deposits in transit should appear on the current month's bank statement.

1) Identify deposits in transit and any related errors.

- 1.2 Compare the remaining deposits on the bank statement with deposits listed in the accounting records. Any deposits listed in the accounting records but not on the bank statement are deposits in transit on the current bank reconciliation.

1) Identify deposits in transit and any related errors.

- 1.3 Compare the individual deposit amounts on the bank statement and in the accounting records. If they differ, the error needs to be corrected.

Preparing the Bank Reconciliation

Step 2) Identify outstanding checks and any related errors.

- 2.1 Compare canceled checks with the bank statement and the accounting records. If the amounts differ, the error needs to be corrected.

-

2) Identify outstanding checks and any related errors

- 2.2 As each canceled check is compared with the accounting records, place a check mark on the check stub or other accounting record to indicate that the check has cleared

2) Identify outstanding checks and any related errors.

- 2.3 Any checks written that have not been checked off represent outstanding checks on the bank reconciliation. This includes outstanding checks from last month's bank reconciliation that have not yet cleared.

Preparing the Bank Reconciliation

Step 3) Identify additional reconciling items.

- 3.1 additions and deductions on the bank statement that are not deposits or checks with the accounting records. Items that the bank adds to the account are called credit memos. Items that the bank deducts from the account are called debit memos. Remember that a depositor's account is a liability to the bank. Thus, a credit memo increases this liability; a debit memo reduces the liability. Any of these items not appearing in the accounting records represent additional items on the bank reconciliation.

Generic Bank Reconciliation

A general format for the bank reconciliation is shown.

A bank reconciliation form also can be found on the back of most bank statements.

Some banks also include a reconciliation form on their website.

FIGURE 7-8 Bank Reconciliation Format

BANK RECONCILIATION		
Bank statement balance		\$xxxx
Add: Deposits in transit	\$xxxx	
Bank errors (that understate balance)	<u>xxxx</u>	<u>xxxx</u>
		\$xxxx
Deduct: Outstanding checks	\$xxxx	
Bank errors (that overstate balance)	<u>xxxx</u>	<u>xxxx</u>
Adjusted bank balance		<u><u>\$xxxx</u></u>
Book balance		\$xxxx
Add: Bank credit memos	\$xxxx	
Book errors (that understate balance)	<u>xxxx</u>	<u>xxxx</u>
		\$xxxx
Deduct: Bank debit memos	\$xxxx	
Book errors (that overstate balance)	<u>xxxx</u>	<u>xxxx</u>
Adjusted book balance		<u><u>\$xxxx</u></u>

FIGURE 7-9 Reconciliation Form From Bank Statement

Outstanding Deposits

Date	Amount
Total	\$

Outstanding Withdrawals

Date	Amount
Total	\$

1. List any deposits that do not appear on your statement in the Outstanding Deposits section at the left. Record the total.
2. Check off in your book register all checks, withdrawals (including Check Card and ATM) and automatic payments that appear on your statement. Withdrawals that are NOT checked off should be recorded in the Outstanding Withdrawals section at the left. Record the total.
3. Enter the ending balance shown on this statement. \$_____
4. Enter the total deposits recorded in the Outstanding Deposits section. \$_____
5. Total the amounts in steps 3 and 4. \$_____
6. Enter the total withdrawals recorded in the Outstanding Withdrawals section. \$_____
7. Subtract the amount in step 6 from the amount in step 5. This is your balance. \$_____
8. Enter in your register and subtract from your register balance any checks, withdrawals, or other debits (including fees, if any) that appear on your statement but have not been recorded in your register.
9. Enter in your register and add to your register balance any deposits or other credits (including interest, if any) that appear in your statement but have not been recorded in your register.
10. The balance in your register should be the same as the balance shown in step 7. If it does not match, review and check all figures used, and check the addition and subtraction in your register. If necessary, review and balance your statement from the previous month.

FIGURE 7-10 Bank Reconciliation

Maple Consulting Bank Reconciliation November 21, 20 --									
Bank statement balance, November 21						\$1	7	4	8 09
Add deposit in transit							6	3	7 02
						\$2	3	8	5 11
Deduct outstanding checks:									
No. 219	\$	2	0	0	00				
No. 224			2	5	00				
No. 227			6	7	78		2	9	2 78
Adjusted bank balance						\$2	0	9	2 33
Book balance, November 21						\$2	3	9	3 23
Add error on Check No. 214								0	90
						\$2	3	9	4 13
Deduct:									
Unrecorded ATM withdrawal	\$	1	0	0	00				
NSF check			2	0	00				
Bank service charge				1	80		3	0	1 80
Adjusted book balance						\$2	0	9	2 33

Requires
journal entry (1)

Require journal
entries (2), (3),
and (4)

Reconciled
balances

Journal Entries

Journal entries are needed to correct errors in the books and to record bank additions and deductions that are not in the book

Only two kinds of items appearing on a bank reconciliation require journal entries.

- Errors in the depositor's books.
- Bank additions and deductions that do not already appear in the books.

Bank Reconciliation requiring Journal Entries

4	(1)	Cash					0	90						4
5		Accounts Payable									0	90		5
6		Error in recording check												6

Journal Entry for a \$0.90 Error

Bank Reconciliation requiring Journal Entries

8	(2)	James Maple, Drawing				1	0	0	00					8	
9		Cash									1	0	0	00	9
10		Unrecorded ATM withdrawal													10

Journal Entry for unrecorded \$100 ATM withdrawal

FIGURE 7-11 Bank Reconciliation Items that Require Journal Entries

ADDITIONS TO CASH BALANCE	DEDUCTIONS FROM CASH BALANCE
<ul style="list-style-type: none">* Unrecorded deposits (including ATM)* Note collected by bank* Interest earned* Errors:<ul style="list-style-type: none">1. Added too little as a deposit2. Deducted too much as a check	<ul style="list-style-type: none">* Unrecorded ATM withdrawals* NSF checks* Bank service charges* Deposits recorded twice* Unrecorded checks* Loan payments* Interest payments* Errors:<ul style="list-style-type: none">1. Added too much as a deposit2. Deducted too little as a check

L03 Establish and use a petty cash fund

Petty funds are established by setting cash aside to pay for small items that are impractical to pay for by check. Such as postage.

The actual account is an asset listed under Cash.

[illegible]

Using Petty Cash

Since “Petty Cash” is a tangible asset, you will have to record where and how it was used. Like a receipt, there is a “Petty Cash Voucher”.

FIGURE 7-12 Petty Cash Voucher

PETTY CASH VOUCHER	
NO. <u>2</u>	
DATE <u>December 8, 20</u> <u>--</u>	
PAID TO <u>James Maple</u>	
FOR <u>Client Luncheon</u>	
CHARGE TO <u>Travel & Entertainment Expense</u>	
\$	¢
25	75
REMITTANCE RECEIVED <u>James Maple</u>	APPROVED BY <u>Tina Blank</u>

Recording Petty Cash Use

- The “Petty Cash Payments Record” is an organized column that is kept separate from your normal journal. Without making it more difficult than it needs to be, You set aside a designated amount to keep on hand. Whenever you use it, record the transaction. Replenish the full amount and keep it balanced.

LO4 Establish a change fund and use the cash short and over account

- Very simply, “Change funds” are monies that sit inside of the Cash register to aid in fair equal transactions. They are similar to Petty Cash Funds in the sense they need to be regularly replenished. Always remember that they are separate from your revenue.

The Cash Short and Over T Account

- Everyday tills are balanced and you may notice you are either ahead a few cents, or short a couple of dollars. It is customary to enter in the amounts as a T account. Shortage (EXPENSE) and Overage (REVENUE)