

Chapter 9 • Cash

TEACHING OBJECTIVES

- 9-1) Account for cash short or over.
- 9-2) Demonstrate a knowledge of procedures for a petty cash fund.
- 9-3) Demonstrate a knowledge of internal control routines for cash.
- 9-4) Write a check, endorse checks, prepare a bank deposit slip, and maintain a checkbook balance.
- 9-5) Reconcile the monthly bank statement.
- 9-6) Record any adjusting entries required from the bank reconciliation.
- 9-7) Understand how businesses use online banking to manage cash activities.
- 9-8) Define the accounting terms new to this chapter.

SECTIONS

- 1. Cash Receipts
 - 2. Petty Cash and Internal Controls for Cash
 - 3. Banking Procedures
-

CHAPTER OVERVIEW/ LEARNING OBJECTIVES

Learning Link: Chapter 8 discussed the use of a general journal and the relationship of a *control* account to its *subsidiary* accounts. Chapter 9 discusses the petty cash fund, cash short and over, bank reconciliations, and online banking activities.

- 9-1) The chapter explains how to deal with cash register discrepancies using the expense account **Cash Short or Over**.
- 9-2) This chapter introduces the use of a **Petty Cash fund**. *Petty Cash vouchers* are filled out when funds are requested out of the fund. The person in charge of the fund records expenditures on a petty cash analysis sheet. The fund is replenished with a check for the sum spent.
- 9-3) The chapter introduces the concept of effective internal controls to protect cash from theft and mishandling and to ensure accurate records of cash transactions. A checking account is essential to store cash safely and to make cash payments efficiently. For maximum control over outgoing cash, all payments should be made by check except those from carefully controlled special-purchase cash funds such as the *Petty Cash* account.
- 9-4) The chapter discusses the procedures involved in writing checks, endorsing checks for deposit, preparing a bank deposit slip, and maintaining a checkbook.

- 9-5) The chapter describes how to reconcile the monthly bank statement. It explains that any differences between the bank statement cash balance and the general ledger Cash balance need to be identified.
- 9-6) The chapter discusses the adjustments required after a bank reconciliation is completed. All items reported in the bank reconciliation that effected the “Balance per Books” will need formal journal entries in order to update the *Cash* account balance in the general ledger .
- 9-7) This chapter describes how businesses can use online banking resources to manage cash activities.

At the beginning of the chapter, there is a short paragraph about *CLIF Bars*. Let's read this together. . .



Ask... "How important do you think managing cash flow is to the *CLIF Bar Company*?"

Answer—Very important. The company has a large amount of cash inflows and outflows and cash management procedures are vitally important.

- **FAST FACTS:** CLIF bars were invented back after the owner, Gary Erickson, completed a 175-mile bike ride. CLIF bars has since evolved into a \$200 million dollar business.
- Large amounts of cash flow into and out of the business on a daily basis.
- The company contributes part of its success to the successful management of large receivable balances, which insures that cash is received in a timely basis.



Section 1. CASH RECEIPTS

- Emphasize that a business must maintain an adequate cash flow. (cash receipts less cash payments)

Cash Transactions

◆ Cash Receipts



Ask "Can anyone tell me what would be considered 'cash'?" (Coins=yes, money orders=yes, checks=yes, stamps=no)

◆ Cash Payments

- Explain that businesses should make most payments by check.



Ask, "Why?" For good internal control.

Objective 9-1

■ Cash Short or Over



Ask, "Has anyone ever worked as a cashier? Could you explain how the cash drawer was balanced?" (**Beginning amount of cash plus sales should equal total of cash and checks**)

- Explain that occasionally errors occur when making change.
- When this happens, the cash in the drawer is either too high or too low as compared to the cash register proof.
- To record the shortage or overage an account called *Cash Short or Over* is used.

The type of cash receipts depends on the nature of the business.

- Supermarkets receive checks as well as currency and coins.
- Department stores receive checks in the mail from charge account customers.
- Wholesalers usually receive cash in the form of checks.

Objective 9-1 Account for Cash Short or Over.

- Occasionally errors occur when making change.
- The cash in the cash register is either more or less than the cash listed on the cash register tape.
- When cash receipts are more than the sales as per the cash register tape, cash is over.
- When cash receipts are less than the sales as per the cash register tape, cash is short.

Account for Cash Short or Over

- Cash tends to be short more often than over because customers are more likely to notice and complain if they receive too little change.
- Cash short or over amounts are recorded in the Cash Short or Over account.
- A credit balance in the account is an overage, that is treated as revenue.
- Similarly if there is a debit balance in the account, there is a shortage (treated as expense).

Account for Cash Short or Over

- Royal Jewelry Store, a retail business, keeps a \$200 change fund in its cash register.
- Royal Jewelry Store started business on September 29.
- The cash sales as per the cash register tape on September 29 were \$2,200.
- The cash count was \$2,397. The cash register was short by \$3, calculated as follows:

Cash count	\$2,397
Less change fund	200
Bank deposit	\$2,197
Sales per cash register tape	2,200
Amount short	(\$3)

Account for Cash Short or Over

Journal entry to record the sales and cash shortage:

GENERAL JOURNAL		DATE	DEBIT	CREDIT
1	2016			
1	Sept. 30	Cash	2,100	
1		Cash Short or Over		100
1		Sales		2,200
1			2,200	

Account for Cash Short or Over

- The cash sales as per the cash register tape on September 30 were \$2,100.
- The cash count was \$2,301.
- The cash register was over by \$1, calculated as follows:

Cash count	\$2,301
Less change fund	200
Bank deposit	\$2,101
Sales per cash register tape	2,100
Amount over	\$1

Account for Cash Short or Over

Journal entry to record the sales and cash overage

GENERAL JOURNAL		DATE	DEBIT	CREDIT
1	2016			
1	Sept. 30	Cash	2,200	
1		Cash Short or Over		100
1		Sales		2,100
1			2,100	

GENERAL LEDGER		ACCOUNT NO. 811	DATE	DEBIT	CREDIT
1	2016				
1	Sept. 30		2,100		
1	Sept. 30			100	
1	Sept. 30				2,200
1					

Cash Received on Account

- Generally a business makes sales on account and bills customers once after a specified period (say, a month.)
- It sends a **statement of account** that shows the transactions during the month and the balance owed.
- Checks from credit customers are journalized and posted, and then the checks are deposited in the bank.

Promissory Note

- A **promissory note** is a written promise to pay a specified amount of money on a certain date.
- Promissory notes are specified interest bearing notes.
- They are used by businesses to extend credit.
- Also used to replace an accounts receivable balance when an account is overdue.

Collection of a Promissory Note and Interest

On July 31 Maxx-Out Sporting Goods accepted a ~~six-month~~ **six-month** promissory note from Stacey Fairley, who owed \$800 on account.

\$ 800.00 July 31, 2016

Six Months AFTER DATE I PROMISE TO PAY

TO THE ORDER OF Maxx-Out Sporting Goods

Eight hundred and no/100 DOLLARS

PAYABLE AT First State Bank

VALUE RECEIVED with interest at 8%

NO. 80 DUE January 31, 2017 Stacey Fairley

- At the end of the period, if the account has a *debit* balance it is treated as an expense account. If it has a *credit* balance, then, it is treated as a revenue account on the income statement.

- Review how to record cash receipts for the day when there is an *overage* involved.

■ Cash Received on Account

- Point out that Statements of Accounts are sent to customers at the end of the month.

- Refer to Figure 9-1 and review the journal entry required to record the cash receipt from a credit customer.

■ Receipt of a Cash Refund

- Referring to Figure 9-1, point out how to journalize the receipt of a cash refund for supplies that were returned to the seller.

■ Collection of a Promissory Note and Interest

- Refer to Figure 9-1 and review the appearance of a Promissory note.

- Show a general journal entry on the board to record the establishment of the fund. (Dr. Petty Cash Fund, Cr. Cash)
- Emphasize that the *Petty Cash* account is an asset which would show up on the Balance Sheet along with the other cash accounts.

◆ Making Payments from the Fund



Ask, "Has anyone here ever worked for an employer who had a petty cash account? Could you describe how it was or how employees got funds out of it?"

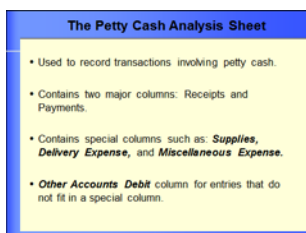
Refer to Figure 9-2 and describe the use of a *Petty Cash Voucher*.

- Be sure to cover the components of the amount, the purpose, and the account to be charged.
- Point out that the voucher should be signed by the person receiving funds.

◆ The Petty Cash Analysis Sheet

- Describe how most businesses use a *petty cash analysis sheet* to record transactions involving petty cash.

Refer to Figure 9-3:



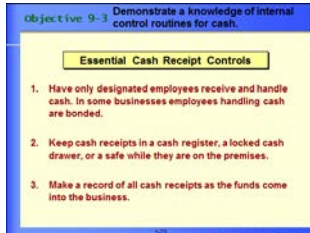
Replenishing the Fund

- The total vouchers plus the cash on hand should always be equal to the amount of the fund.
- Replenish the petty cash fund at the end of each month or sooner if the fund is low.
- A check is written to restore the petty cash fund to its original balance.
- A journal entry is prepared to record the check.

The Petty Cash Analysis Sheet

DATE	DESCRIPTION	AMOUNT	REMARKS	DATE	DESCRIPTION	AMOUNT	REMARKS
1/1	Initial fund	775.00					
1/2	Office supplies	25.00					
1/3	Travel expense	15.00					
1/4	Postage expense	10.00					
1/5	Telephone expense	12.00					
1/6	Travel expense	18.00					
1/7	Office supplies	15.00					
1/8	Travel expense	20.00					
1/9	Office supplies	12.00					
1/10	Travel expense	18.00					
1/11	Office supplies	15.00					
1/12	Travel expense	20.00					
1/13	Office supplies	12.00					
1/14	Travel expense	18.00					
1/15	Office supplies	15.00					
1/16	Travel expense	20.00					
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7/6	Travel expense	20.00					
7/7	Office supplies	12.00					
7/8	Travel expense	18.00					
7/9	Office supplies	15.00					
7/10	Travel expense	20.00					
7/11	Office supplies	12.00					
7/							

vouchers should be signed by the recipient of the money.



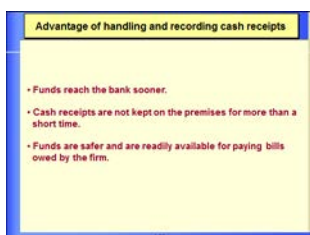
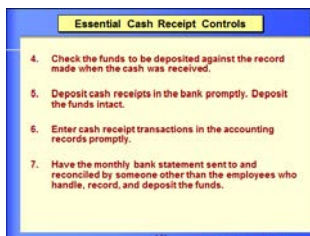
Objective 9-3

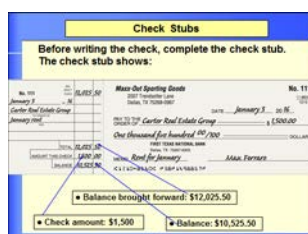
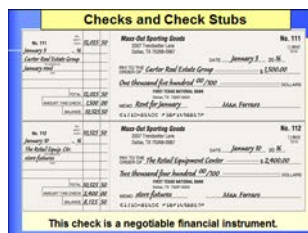
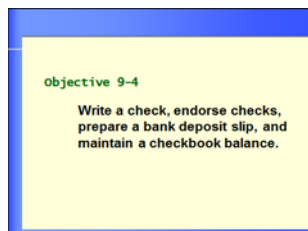
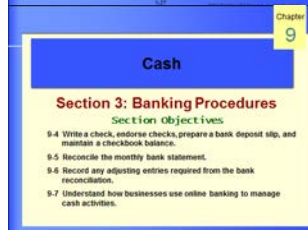
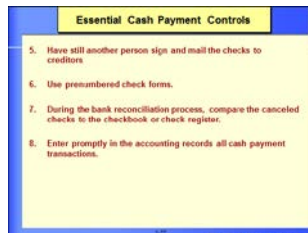
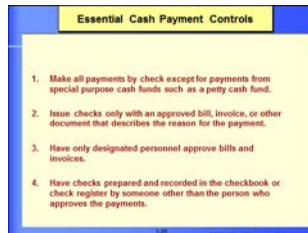
Internal Control over Cash

- Point out that good internal control includes valid documentation of cash receipts, deposits, and payments.

◆ Control of Cash Receipts

- Discuss effective cash receipts controls:
 1. Only designated employees should receive cash.
 2. Cash receipts should be kept in a locked place.
 3. A record should be made as cash receipts come in.
 4. Before deposits are made, they should be compared to the cash records.
 5. The person who makes deposits should not be the one who received cash.
 6. All cash receipts should be deposited promptly.
 7. The person who records the cash receipts should not be the employee who received the funds.
 8. The bank reconciliation should be made by someone other than the employees who handled, recorded, and deposited the funds.





◆ Control of Cash Payments

- Review the elements of cash payments controls covered in the chapter.

Section 3. BANKING PROCEDURES

Objective 9-4

A. Writing Checks.

- Describe the following check writing steps:
 1. In a standard checkbook, fill out the check stub first.
 2. On the check, fill in the date, name of the payee, and amount in figures and words.
 3. Draw a line to fill any empty space after the payee's name and after the amount in words.
 4. Secure an authorized signature.

B. Endorsing Checks

- Each check needs an endorsement in order to be deposited.
- Emphasize that, when a business receives a check as payment, it acquires right to that check.



- When a depositor endorses the check, he transfers ownership to the bank.
- Using Figures 9-5, review the three types of endorsements that are common to business.

C. Preparing the Deposit Slip



- Explain that the numbers along the bottom of the deposit slip represent the bank and the account number.
- Explain how to complete a deposit slip.
- Indicate that when preparing bank deposits, it is helpful to identify cash received from sales from non-sales receipts. This aids in differentiating income from non-income (owner investment).
- Explain that these deposit slips are often used to check to see if a particular deposit has been made.



Ask, "As a banking customer, what concerns do you have about online banking? What benefits and disadvantages can you identify? What can you do to prevent identity theft?"

Answer—Answers will vary. Students may express concerns about security of funds or access to account balances. Benefits include 24-hour access to bank accounts and convenience, while disadvantages may include security concerns and increased account costs. Safeguards would be to shred mail before putting in the trash. Remove SS#'s from checks and driver's license, don't give out personal information over the phone. Password protect personal computer information.

Internet answer—Banking services will vary, but may include electronic bill payment, account transfers and deposits, wire transfers, monitoring of mortgage payments and balance, online application for loans.

D. Handling Postdated Checks

- Define "postdated checks." (checks dated some time in the future)
- Explain that such checks should not be deposited prior to the date on the check.
- Emphasize that such checks are not considered proper business practice.

Objective 9-5**Reconciling the Bank Statement**

Objective 9-5 Reconcile the monthly bank statement.

The difference between the bank balance and the book balance is due to errors.

Errors made by banks	Errors made by businesses
Arithmetic errors	Arithmetic errors
Giving credit to the wrong depositor	Not recording a check or deposit
Charging a check against the wrong account	Recording a check or deposit for the wrong amount

Many banks require that errors in the bank statement be reported within a short period of time, usually 10 days.

Why balances may not equal

Other than errors, there are four reasons why the book balance of cash may not agree with the balance on the bank statement.

1. Outstanding checks.
2. Deposit in transit.
3. Service charges and other deductions not recorded in the business records.
4. Deposits, such as the collection of promissory notes, not recorded in the business records.

- Explain that many accountants say that the Cash account is the one account for which a true balance can be determined.
 - Point out the importance of balancing the checking account at regular intervals to prove the true balance of the account.
 - Reconciliation of the bank balance and the book balance includes adding or subtracting items generated by the bank to the company's book balance.
 - There may be items that need to be added or subtracted to the bank balance—*Deposits in transit* or *outstanding checks*.
- ◆ **Changes in the Checking Account Balance**
- Discuss the items found in the Checks and the Deposits columns.



Ask, "Can anyone tell the rest of the class what the codes listed at the bottom of the statement mean?" (Review codes listed on the bank statement.)

- Point out that some students may be confused about the **NSF** (not sufficient funds) check.
- Explain to students that an **NSF** check is a check that was written to the business, deposited, then returned to the business by the bank because the person or business that wrote the check did not have sufficient funds in the checking account to have the bank honor the check.



Ask, "Why do you think the amount of the NSF check must be subtracted from the business's checkbook balance?" **Because the amount was previously recorded as a deposit.**

Format of a bank reconciliation statement	
First Section	Second Section
Bank statement balance	Book balance
+ deposits in transit	+ deposits not recorded
- outstanding checks	- deductions
+ or - bank errors	+ or - errors in books
Adjusted bank balance	Adjusted book balance

◆ The Bank Reconciliation Process: An Illustration

Referring to Figure 9-9:

- Review the steps in the reconciliation process.
- Review the content of each bank reconciliation statement.

The Bank Side of the Bank Reconciliation

Steps to prepare the bank reconciliation statement:

First Section

1. Enter the balance on the bank statement.
2. Compare the deposits in the checkbook with the deposits on the bank statement.
3. List the outstanding checks.
4. List any bank errors.
5. Compute the adjusted bank balance.

The Book Side of the Bank Reconciliation

Steps to prepare the bank reconciliation statement:

Second Section

1. Enter the balance in books from the Cash account.
2. Record any deposits made by the bank that have not been recorded in the accounting records.
3. Record deductions made by the bank.
4. Record any errors in the accounting records that were discovered during the reconciliation process.
5. Compute the adjusted book balance.

Objective 9-6 Record any adjusting entries required from the bank reconciliation.

For Maxx-Out Sporting Goods, two entries must be made.

GENERAL JOURNAL					PAGE 17
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
Jan 31	Accts. Rec. David Newhouse		525.00		
	Bank Fees Expense		25.00		
	Cash			550.00	
	To record NSF check and service charge				

1. The first entry is for the NSF check from David Newhouse, a credit customer.
2. The second entry is for the bank service charge.

The effect of the two items is a decrease in the Cash account balance.

First Section

Bank statement balance
 + deposits in transit
 - outstanding checks
 + or - bank errors
Adjusted bank balance.

Second Section

Book Balance
 + deposits not recorded
 - deductions
 + or - errors in the books
Adjusted book balance.

Objective 9-6

Adjusting the Financial Records



Ask, "Based on the bank reconciliation statement, what should the balance in the Cash account really be at the end of the month?"

- Explain that items in the second section of the reconciliation statement require entries in the firm's financial records.
- Explain the entry to record an **NSF** check (Dr. Accounts Receivable; Cr. Cash)
- Explain the entry to record bank fees. (Dr. Bank Fees Expense; Cr. Cash)

Internal Control of Banking Activities

- Emphasize that internal controls, particularly controls on banking procedures, are crucial to meeting a company's financial objectives.
- Review the internal controls listed in the chapter that are used by well-run businesses.



Objective 9-7

Online Banking Activities

- Explain how well-run businesses use online banking to run more efficiently. Some of the features that online banking offers are as follows:
 - Electronic funds transfers (EFTS)
 - Payments to government agencies for taxes.
 - EFT transactions can be received from customers
 - Security alerts
- Explain how online banking changes the source documents of typical transactions, and how sometimes there are none.
- As with traditional banking, companies that utilize online banking should allow only authorized check signors access to the company's online account, and must keep adequate security and controls over user id's and passwords.

Managerial Implications:

Ask, "How would you determine how much cash to keep in the business checking account, as opposed to in a short-term investment?"

Answer—Answers will vary, but could include the following:

A recognition of need to weigh the earning power (interest income) and the need for liquidity (access to the cash).