Accounting

Ch. 6 - Cash Control System

**6-1 Checking Accounts**

A. Depositing Cash

1. Checking Account - A bank account from which payments

can be ordered by a depositor.

2. Check - A business form ordering a bank to pay cash

from a bank account.

3. Signature Card - Record of the signature of the person who will be signing checks.

4. Deposit Slip

a. Prepared each time cash or checks are placed in a bank account.

b. Basic information contained:

1) date

2) check number & amount

3) total amount

4) bank name and address

5) account holder's name and address

6) account number

B. Deposit Recorded on a Check Stub

1. Record total amount deposited.

2. Total-up checkbook amount.

3. Cash receipts are journalized at the time cash is received*.*

4. No journal entry is necessary for deposits because the

cash receipts have already been journalized.

C. Transferring Ownership of a Check

1. Endorsement - a signature or stamp on the back of a

check transferring ownership.

a. Federal regulations require that an endorsement be confined to a limited amount of space.

b. Always sign an endorsement exactly as it appears on the front of the check.

c. A check can be transferred several times through endorsements.

2. Types of Endorsements

a. **Blank Endorsement**

1) Endorsement consisting only of the endorser's signature.

2) Indicates that the subsequent owner is whoever has the

check (don't endorse checks with a blank endorsement

early ).

3) If lost or ­­­­stolen an endorsed check may be

cashed by anyone with possession of the check.

4) ownership can be transferred without further endorsement.

5) *Use this type of endorsement only when you are at the ­­­*

*bank ready to make your deposit.*

b. **Special Endorsement**

1) Endorsement indicating a new owner of a check.

2) Also known as: *Endorsements in Full*

3) Includes the following words:

*Pay to the Order Of ..."* and the name of the new check owner.

4) Only the person named in the special endorsement can

cash, deposit or further transfer ownership of the

check.

c. **Restrictive Endorsement**

1) Restricts further transfer of a check's ownership.

2) Limits the use of the check to the purpose stated in the

endorsement.

3) Stamps are usually prepared by each business

with a restrictive endorsement.

4) Upon receiving the check it is usually stamped with a restrictive stamp keeping unauthorized persons from cashing the check.

D. Completed Check Stub and Check

1. Encore Music uses printed checks with check stubs attached (with consecutive numbers).

2. A check stub is a businesses record of each check that is written

for a cash payment transaction. (OBJECTIVE EVIDENCE)

3. Check stubs should alwaysbe prepared before writing the

check (so you don't forget).

4. Preparing a Check Stub

a. See the "Preparing a Check Stub" handout

b. Post-Dated Check

1) A check with a future date written on it.

2) Most banks won't accept postdated checks because

money cannot be withdrawn from the account

until the date on the check.

c. If the person to whom a check is to be paid is a business, use the businesses name rather than the owner’s name.

d. If the person to whom the check is to be paid is an

individual, use the individuals name.

e. When writing an amount, write the figures close to

the printed dollar sign. This prevents anyone from writing

another digit in front of the amount to change the

amount of the check.

f. The written dollar amount verifies the amount written

in figures after the dollar sign.

g. If the amounts in figures and words are different, the

bank will go by the amount written in words or refuse to

pay the check.

E. Recording a Voided Check

1. Banks usually refuse to accept an altered check.

2. If you make any errors while writing a check VOID it and

write a new one.

3. VOID - Marking a check that will not be used so that you

know what happened to it. If helps you to account for all checks

and assures that no checks have been lost or stolen.

4. When Encore Music records a check in its general journal, the

check number is placed in the Document Number Column.

5. If the check number is missing from the Document Number column, there is a question of if all checks have been journalized.

6. To assure that all check numbers are listed in the General

Journal, Encore Music records voided checks in the Journal.

7. Recording a Voided Check in the General Journal:

a. Record the date in the Date Column.

b. Write the word VOID in the Account Title Column.

c. Write the check number in the Doc. No. Column.

d. Place a check mark in the Post Ref Column.

e. Place a dash in both the DR & CR columns.

**Preparing a ­­­­­­­­­­­­Check Stub**

1. Write the amount of the check in the space after the dollar sign at the top of the stub.

2. Write the date of the check on the date line at the top of the stub.

3. Write to whom the check is to be paid on the TO line at the top of the stub.

4. Record the purpose of the check on the FOR line.

5. Write the amount of the check in the amount column at the bottom of the stub on the line with the words *Amount This Check*.

6. Calculate the new checking account balance and record the new balance in the amount column on the last line of the stub.

**Preparing Checks**

7. Write the date in the space provided. The date should be the month, day, and year on which the check is issued.

8. Write to whom the check is to be paid following the words *Pay to the Order of*.

9. Write the amount in figures following the dollar sign.

10. Write the amount in words, on the line with the worddollars.

a. Begin words at the extreme left.

b. Draw a line through the unused space, preventing anyone from writing in additional words to change the amount.

11. Write the purpose of the check on the line labeled *For*. (May say memo )Some checks do not have a line for writing the purpose of the check.

12. Sign the check. A check should not be signed until each item on the check and its stub has been verified for accuracy .

**6-2 Bank Reconciliation**

A. Bank Statement

1. Def. - A report of deposits, withdrawals, and bank sent to a

depositor by a bank.

2. Canceled (cashed) checks are returned to you.

3. Outstanding checks are checks issued but not cashed.

4. Account Service Charges are also listed on the bank statement.

5. Banks don't usually make mistakes, however, they can. Be sure

to reconcile your bank statement with your checkbook.

6. Reasons for differences in account balances:

a. The service charge may need to be recorded in your check book.

b. You may have subtracted outstanding checks and the bank has not yet processed them.

c. You may have added outstanding deposits and the bank has not yet processed them.

d. There could have been calculation errors in your check book.

B. Reconciliation of the Bank Statement

1. It is very important to reconcile *immediately.*

2. For every canceled check write a check mark on the check stub

in the proper area.

3. Encore Music receives bank statements dated August 30, on August 31 & uses the reconciliation form printed on the back of the bank ­­­­statement.

C. Recording a Bank Service Charge on A Check Stub

1. The bank deducts service charges from the account each

month.

a. Encore Music didn't write a check for the charge but it is still a cash payment & must be recorded as a cash payment.

b. Make a record of the service charge on the check stub.

2. Steps to recording a bank service charge on a check stub.

a. Write service charge on the check stub under the heading **Other**.

b. Write the amount of the service charge in the amount

column.

c. Calculate and record the new subtotal on the subtotal line.

3. Journalizing a Bank Service Charge

a. A memorandum should be written for the source document

b. Service charges are small and only done once a month, therefore we don't open a separate ledger account for them. It is recorded as a miscellaneous expense.

c. Transaction Sample:

Doc.

Date Account Title No. DR CR

August 31 Miscellaneous Expense M3 3.00

Cash 3.00

**6-3 Dishonored Checks & Electronic Banking**

A. Dishonored Checks - A check that a bank refuses to pay.

1. Reasons

a. The check appears to be altered.

b. The signature of the signer doesn't match the signature

card at the bank.

c. The amounts written in figures and words do not agree.

d. The check is post-dated.

e. The person who wrote the check has stopped payment on

the check.

f. The account of the person who wrote the check has

insufficient funds to pay the check.

2. Often, the value of a dishonored check cannot be recovered and

becomes an expense to the business.

3. Banks and businesses charge a fee for handling a dishonored

check (50.00)

4. Recording a dishonored check on a check stub.

a. Write *dishonored check* on the other line and the total

amount of the service fee and dishonored check fee.

b. Write the total of the dishonored check in the amount

column.

c. Calculate and record the new subtotal on the subtotal

line.

5. Journalizing a Dishonored Check

a. All checks received are deposited into Encore Music’s Checking Account.

b. If a check is returned as dishonored, the previous cash

debit for the amount of the check must be offset by a cash

credit.

c. Cash is credited for $50.00 to show a decrease in assets.

d. When Encore Music originally received the check from

Learn N Play, A/R Learn N Play was credited to reduce

the balance of the account.

e. When we find out the check was not accepted by the

bank A/R must be increased to show that this amount,

plus the bank charge, is still owed to Encore Music.

f. A/R Learn N Play is debited $50.00 to show the increase

in assets.

*Transaction - November 29 - Received notice from the bank of a dishonored check from Learn N Play, $35.00, plus $15.00 fee; total, $50.00. Memorandum No. 55.*

November 29 AR - Learn & Play M55 50.00

Cash 50.00

B. Journalizing An Electronic Funds Transfer

1. Electronic Funds Transfer (EFT) - a computerized cash payments system that uses electronic impulses to transfer funds.

2. Prior arrangements must be made to use EFT.

3. Passwords are used.

4. EFT transaction is the same as when a check is written, the

source document is the only difference ( memorandum ).

5. A cash payment made by EFT is recorded on the check stub as

Other.

6. EFT payments are identified in the check column of the Bank

Statement by the notation EFT, rather than by the check number.

*Transaction - September 2. Paid cash on account to Kelson Enterprises, $350.00 using EFT. Memorandum No. 10.*

September 2 A/P Kelson Enterprises M10 350.00

Cash 350.00

C. Journalizing a Debit Card Transaction

1. Debit Card - A bank card that automatically deducts the amount

of the purchase from the checking account of the cardholder.

2. Eliminates the need to actually write out the check for a

purchase, but the effect is the same (checking account

balance is reduced).

3. REMEMBER to record all withdrawals!!

4. Transactions is much like an EFT.

5. A note is written on the memorandum to describe the

transaction.

6. A cash payment made with a debit card is recorded on the

check stub as Other.

*Transaction - September 5. Purchased supplies $24.00 using debit card. Memorandum No. 12.*

September 5 Supplies M12 24.00

Cash 24.00

**6-4 Establishing a Petty Cash Fund**

A. Petty Cash - An amount of cash kept on hand and used for making small payments.

1. Used for small payments where writing a check is not time or cost effective.

2. Actual dollar amts. vary from business to business.

3. Encore Music has set $20.00 as the maximum amount to be

paid at any one time from the petty cash fund.

4. **Petty Cash** is an Asset with a **normal debit** balance.

5. A check would be written for the amount cashed and the money

would be placed in a locked petty cash box. Only Ms. Trevino is

authorized to make these payments.

*Transaction - August 17 - Ms. Trevino decided that Encore Music needed a petty cash fund of $200.00*

August 17 Petty Cash C8 200.00

Cash 200.00

B. Making Payments from a Petty Cash Fund with a Petty Cash Slip

1. Every time a small payment is made from petty cash, Ms.

Trevino prepares a petty cash slip (proof of a payment).

2. Petty Cash slip shows the following information:

a. Petty cash slip number

b. Date of payment

c. To whom paid

d. Reason for payment

e. Amt. paid

f. Account in which amount is to be recorded

g. Signature of person approving the payment.

3. Petty Cash slips are kept in the petty cash box until the fund

is replenished.

4. NO journal entries are made for individual petty cash

payments.

C. Replenishing Petty Cash

1. The amt. in the petty cash box decreases as payments are made and must be replenished.

2. Encore Music replenishes whenever the amount on hand is reduced to $75.00 & also at the end of each month so that all expenses are recorded in the month they are incurred.

3. Before Petty Cash is replenished, a **Proof of the Fund** must be completed.

4. The last line of the proof must show the same total of the original balance of the petty cash fund ( $200.00 ).

5. If it does not prove the errors must be found and corrected before any more work is done.

6. Encore Music will write a check to replenish the fund.

7. Unless the Petty Cash Fund is permanently increased or

decreased the balance of the account is always the original

amount of the fund.

August 31 Miscellaneous Expense C12 7.00

Advertising Expense 5.00

Cash 12.00

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**Proof of the Petty Cash Fund**

Petty cash remaining in the petty cash fund $188.00

*Plus* total of petty cash slips +12.00

*Equals* petty cash fund $200.00