

Effective Bookkeeping and Payroll

Chapter 9 - Accounting for Cash

WORKBOOK

Defining Petty Cash

There are some instances when it is not practical to write a check for a purchase that a business may make. Many small purchases such as stamps and emergency repair parts are paid for from an account designed for that purpose.

Petty Cash is essentially a small fund of cash (about \$100 to \$200) maintained in a safe often within the accounting department for just such purchases.

Petty Cash is an asset account.

Trend in Petty Cash

It is becoming more and more common for companies not to carry petty cash for two reasons.

1. Most employees have a credit card to make small purchases and are able to get reimbursement through an expense report.
2. There is high internal control risk associated with keeping cash in the office.

A check is written for the total amount of the Petty Cash fund to establish the fund.

[illegible]

Every time a payment is made from the Petty Cash fund, a voucher is prepared with the purpose and amount of disbursement as well as the payee. The store receipt and any other documentation is attached to the voucher.

PLEASE PAY _____	DATE _____
AMOUNT OF _____	
DESCRIPTION _____	

<div style="border: 1px solid black; width: 100px; height: 30px; margin: 0 auto;"></div> CHARGE CODE	<div style="border: 1px solid black; width: 150px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> \$. 00 </div> AMOUNT
APPROVED BY _____ RECEIVED BY _____	

- A special form may be used to record the expenditures from the Petty Cash fund. This is known as a Petty Cash Sheet or Journal.
- The Petty Cash Journal has columns for voucher #, account and approval of the disbursement for internal control.

[illegible]

Accounting For Petty Cash - Entries

Petty cash payments are recorded in the same manner as Purchase Journal transactions.

PETTY CASH SHEET								Page
Amount in Petty Cash: \$100.00				Payments				
Date 20	Explanation	VO #	Amount Paid	Postage	Office Supply	Sale Tax	Other Account	Amount



This is the total amount for the Petty Cash fund. When the fund is replenished, it is replenished with enough funds to bring the total back to this amount.

Example Transaction #1 – Bought stamps for \$10.00. Created voucher 1 on Jan 2

The Jan 5th transaction show the cost of the item and the sales tax.

PETTY CASH SHEET								Page PCS 1	
Amount in Petty Cash: 100.00						Payments			
Date 2015		Explanation	VO #	Amount Paid	Postage	Office Supply	Sale Tax	Other Account	Amount
Jan	2	Stamps	1	10.00	10.00				
	5	Staples	2	5.28		5.00	.28		

When the fund is reduced to a certain amount or runs out, the columns are totaled and balance verified.

- | PETTY CASH SHEET | | | | | | | Page PCS 1 | |
|------------------------------|-------------|---------|----------------|---------|------------------|----------|---------------|--------|
| Amount in Petty Cash: 100.00 | | | | | Payments | | | |
| Date
2015 | Explanation | VO
| Amount
Paid | Postage | Office
Supply | Sale Tax | Other Account | Amount |
| Jan | 2 Stamps | 1 | 10.00 | 10.00 | | | | |
| | 5 Staples | 2 | 5.28 | | 5.00 | .28 | | |
| | | | 15.28 | 10.00 | 5.00 | .28 | | |

A check for \$15.28 would be drawn to bring the account back to \$100.00.

Petty Cash Entry

DR: Postage Exp.	10	
DR: Office Supplies	5	
DR: Sales Tax	.28	
CR: Cash		15.28
Reimburse Petty Cash		

Accounting for Cash Over or Short

Cash Over or Short Defined – When a cash register is counted at the end of a shift, sometimes the cash exceeds or falls short of the balance expected based on the original cash plus sales. A special account, normally an expense account, is used to record and overages or shortages in the cash register.

The daily sales are entered into the Cash Receipts Journal as usual, then any overage or shortage is charged to Cash Over or Short.

Dr: Cash	\$xxx	
Dr: Over or Short	\$xxx	
Cr: Sales		\$xxx
To record cash sales & short		

Accounting – Cash Over or Short

Float – Normally, when starting the day, a cash register will have a set amount of money in it to make change. The starting amount is called the “float”.

At the end of the day or shift, the cash registered is totaled and the float is subtracted to get the amount of cash collected.

$$\text{\$743} - \text{\$100 float} = \text{\$643 cash sales}$$

The total amount collected is compared to the total CASH sales recorded on the register tape. Any difference is either an overage or shortage.

Good Cash Control in a Retail Business

- ✧ All cash should be kept in a locked/combination vault or safe in a locked room during non-business and business hours.
- ✧ Access to the cash storage should be limited to only those employees who need access.
- ✧ Only the cashier collecting money should have control over their cash box and make sure it is secure during breaks.
- ✧ They should count it at the beginning and end of their shift.
- ✧ The cashier should have complete and only control over their cash collected.
- ✧ To reduce the risk of error, cash should be separated and should face the same direction.
- ✧ All types of cash should be deposited within 3 business days.

Good Cash Control in a Retail Business

- ✧ At the end of the cashier's shift, the supervisor should count the drawer in addition to the cashier, compare it to the cash register receipts and record any over or short on a count sheet.
- ✧ The head cashier uses all count sheets, register tapes and cash to prepare a daily cash summary of the total cash received.
- ✧ He/She sends the summary to accounting for entry into the cash receipts journal and another copy goes to the controller's office for comparison with the daily bank deposit.
- ✧ Next, the head cashier prepares a deposit slip and makes the deposit. The bank stamps the duplicate deposit slip and send it to the company treasure for comparison with the daily cash summary.
- ✧ Any checks received should be immediately be given a restrictive endorsement "For deposit only account..." to reduce the likelihood that the check could be used for personal use.

Accounting For Cash Over or Short

Jan 5: After calculations, the sales are \$400 and cash is \$409

Jan 6: After calculations, the sales are \$650 and cash is \$635.

CASH RECEIPTS JOURNAL								Page CRJ 1	
Date	Account	Memo	Post.	Accts	Sales	Sales	STP	Gen.	Cash
2015	Credit		Ref.	Rec. Cr	Disc. Cr	Cr	CR	Led. Cr	Debit
5	Sales	Register				400.00			
	Cash Over or Short	Overage						9.00	409.00
6	Sales	Register				650.00			
	Cash Over or Short	Shortage						(15.00)	635.00



The SHORTAGE is placed in brackets since it is a NEGATIVE amount.

Cash Controls – The Bank Reconciliation

Every month, the balance shown in the CASH account is reconciled against the balance shown on the bank statement.

Differences are investigated. Timing differences are noted on the reconciliation and errors or charges from the bank or books are recorded.

This process is known as the **bank reconciliation**. A critical detective control for cash, you most liquid asset.

Accounting – Bank Reconciliation

Key Terminology:

- **Cancelled Checks** – These are checks that are cleared by the bank.
- **Outstanding Checks** – These are checks that are in the Cash Payments Journal but have not been cleared by the bank.
- **Outstanding Deposits** – These are any cash or checks recorded in the Cash Receipts Journal and sent to the bank but they have not been cleared by the bank yet.
- **NSF Checks** – These are checks the bank has dishonored (bounced) as there were not enough funds in the account.
- **Certified Checks** – These are checks where the bank has guaranteed the funds are available.

**Items noted in Orange will likely create a reconciling difference

Accounting – Bank Statements

The Bank Statement is sent out every month from the bank and it shows the beginning balance in the account, the ending balance and all activity in between.

It will summarize and detail:

- Check cashed
- Deposits made
- Debit Memos – reductions in the bank account for service fees
- Credit Memos – additions to the bank account for interest
- Checks returned NSF (Non-sufficient funds)



Lake City National Bank
 212 Market Street
 P.O. Box 9938
 Lake City, OR 97601

Statement date: July 1, 2003 through July 31, 2003
 Statement for: One Tackle Shack
 445 Main Street
 Lake City, OR 97601
 Account # 36-7888-0887

CHECKING SUMMARY

Previous statement balance on 06-30-03		46,343.89
Total of 4 deposits	+	31,209.13
Total of 18 withdrawals	-	27,877.77
Interest earnings	+	119.34
Service charges	-	95.00
New balance		58,799.57

CHECKS AND OTHER DEBITS

Check	Date Paid	Amount	Check	Date Paid	Amount
5454	2-Jul	8,456.00	75405*	16-Jul	85.50
75457*	3-Jul	245.00	5466	19-Jul	1,155.19
5455	3-Jul	12.34	5467	23-Jul	76.14
5456	10-Jul	96.14	5468	23-Jul	375.62
5460	3-Jul	11,999.35	5469	30-Jul	2,779.39
5461	9-Jul	5,000.00	5470	27-Jul	9.31
75463*	18-Jul	2,118.44	75472*	31-Jul	109.00
Electronic funds transfer				11-Jul	109.00
NSF returned check				17-Jul	437.00
NSF fee				31-Jul	25.00
Monthly service fee				31-Jul	95.00

DEPOSITS AND OTHER CREDITS

	Date Posted	Amount
Customer deposit at main location	10-Jul	12,066.36
Customer deposit at River Branch location	17-Jul	8,895.10
Collection from -- credit merchandise	29-Jul	5,830.00
Credit card posting -- transfer from 01679645663	29-Jul	5,909.65
Interest earnings	31-Jul	119.34

Bank Statements

A **Credit Memo** is an addition to the bank account from a source other than a deposit.

- During the reconciliation process, the bookkeeper must post this amount to the cash receipts journal and then cash account.

NSF Checks are checks received from customers that have been deposited but returned due to a lack of sufficient funds in the customer account. This is a **NEGATIVE** impact on the bank balance.

- During the reconciliation process, the bookkeeper must properly post these amounts to the cash receipts journal and then cash account.

A **Debit Memo** is a reduction to the bank account from a source other than checks.

- During reconciliation, the bookkeeper must post this amount to the cash disbursements journal and the cash account.

Accounting – Bank Errors

Bank errors have no effect on the company books; therefore, NO ENTRIES are required in any journals.



Bank errors are fairly rare but they can occur.



These are normally human errors by bank personnel where an amount is entered incorrectly during a transaction.



During reconciliation, you must note any errors and then communicate with the bank to get them corrected. Always follow-up to ensure the correction has been made on the next bank statement.

Accounting – Cash Book Errors

Errors within the general journal or cash payments journal DO have an effect on the company books. Journal entries are required to fix these errors. Types of errors include:



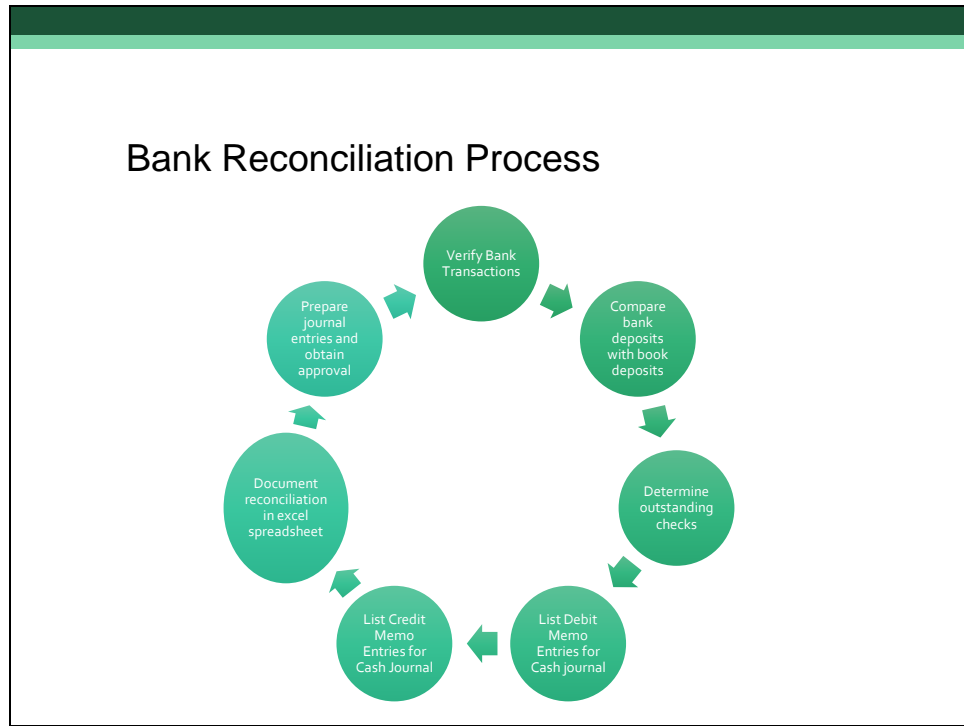
Types of errors include:

The amount of the journal entry may not be different from the amount on the check.

A Cash Journal Entry may not have been posted to the General Ledger.

Error may be due to the transposition of a number, i.e. \$34.00 recorded in as \$43.00. If your error is divisible by 9, it is likely a transposition error.

Another common error is to put the decimal point in the wrong place, i.e. \$34.00 recorded as \$3.40.



Bank Account Reconciliation

Verify Bank Transactions

Verify supporting bank documents with the banks statement. Compare the cancelled checks, debit memos and credit memos. If any do not match, this may be a bank error.

Compare bank deposits with book deposits

Compare the statement deposits with the deposits in the Cash Receipt Journal. Check off each matching deposit in the Cash Receipt Journal as you go. Any unchecked items in the Cash Receipt Journal usually means the deposit hit after the statement date (**Timing Issue Only**) or it has not been deposited.

Bank Account Reconciliation

Determine
outstanding
checks

Arrange the cancelled checks in numerical order. Many banks now do not return the canceled check; instead, they provide a copy of the checks which are normally in numerical order with a notation of any missing checks in the sequence. Compare the checks with the entries in the Cash Payments Journal. Check off each matching check in the Cash Payments Journal as you go. Any unchecked items in the Cash Payments Journal usually mean the check is outstanding (not been cleared by the bank).

Timing Issue Only

Bank Account Reconciliation

List Debit
Memo Entries
for Cash
journal

List any debit memos that have not been entered in the Cash Payments Journal.

List Credit
Memo Entries
for Cash Journal

List any credit memos that have not been entered in the Cash Receipts Journal.

Document
reconciliation
in excel
spreadsheet

Prepare the bank reconciliation.

Prepare
journal entries
and obtain
approval

Prepare any necessary journal entries for the items listed in steps 4 and 5.

ABC Legal Services Bank Reconciliation Statement January 31, 2014		
Bank Statement Balance		3,459.58
Add: Bank Errors	52.00	
Outstanding Deposits	507.32	559.32
		4,018.90
deduct: Outstanding Checks		
# 456	148.61	148.61
Adjusted Statement Balance		3,870.29
Cash Account Balance		3,935.29
Add: Interest (from bank on deposits)		5.00
		3,940.29
deduct: Bank Charges	10.00	
NSF Check (P. Plenty)	60.00	
Adjusted Cash Account Balance		3,870.29



Questions

and

Answers

Review Questions:

1. The amount of cash in the register when the shift begins is called the:
 - A. Cash over short
 - B. Float
 - C. Cash voucher
 - D. Beginning balance
2. True or False: Petty cash is used to make small purchases such as stamps and emergency repair parts.
3. True or False: A petty cash voucher includes all the supporting documentation that supports the purchase made with petty cash, including the receipt.
4. True or False: The bank performs the bank reconciliation, which is a key control.
5. The following are included in good cash controls:
 - A. Supervisor should count the cash drawer at the end of the shift
 - B. The head cashier should prepare a daily cash summary for the controller
 - C. All checks should be immediately endorsed "For deposit only account #xxx"
 - D. All of the above

Answer Key:

1. B
The amount of cash in the register when the shift begins is called the float.
2. A
True. Petty cash is used to make small purchases such as stamps and emergency repair parts.
3. A
True. A petty cash voucher includes all the supporting documentation that supports the purchase made with petty cash including the receipt.
4. B
False. The bookkeeper performs the bank reconciliation.
5. D
All of these are included in good cash controls.