


ACCT 101 Chapter 6

I. Bank Reconciliation

End of month Balance per Bank	XXXX	End of month Balance per Books	XXXX
Add: Deposits in Transit		Add: Notes collected by bank (wire transfers)	
Deduct: Outstanding Checks		Deduct: service charges NSF checks	
Adjusted Balance	XXXX	Adjusted Balance	XXXX



 These two balances must agree

Errors could go in any of the four reconciling areas depending on who made the error (the company or the bank) and whether we get more money in our account or have to pay more money.

- A. Adjustments needed for – the additions (DR to Cash) and deductions (CR to Cash) on the “Balance per Books” side of the bank reconciliation.

All reconciling items on the “Balance per Bank” side will take care of themselves.

- B. After adjustments, cash balance per books should equal the adjusted balance per the bank reconciliation.

II. Petty Cash – small amount of cash kept on hand for incidental purchases.

- A. The only time the petty cash account is affected is when the fund is established or the amount of the fund is increased or decreased.

Entry to establish Petty Cash Fund

DR	Petty Cash	XXX	
CR	Cash		XXX

B. Entry to replenish petty cash

DR	Expenses	XXX	
CR	Cash		XXX

III. Internal Control – protect the assets and ensure that business information is accurate and ensure that regulations are being followed.

A. Objectives of Internal Control

1. Assets are safeguarded and used only for business purposes
2. Business information is accurate
3. Employees comply with laws and regulations
 - a. employee fraud – intentional act of deceiving an employer for personal gain.

B. Elements of Internal Control

1. The Control Environment
 - a. management philosophy and operating style
(if management does not seem to care, employees will get the idea that it is okay to misuse company assets; if management sends the message that it is *not* okay, employees less likely to misuse company assets)
2. Risk Assessment
 - a. all business have risk, the more risk a business has, the more stringent the internal controls should be.
3. Control Procedures
What procedures can we follow to help accomplish the objectives of internal control?
 - a. Competent Personnel – make sure we screen applicants to make sure they understand how to do their job.

- b. Rotating Duties – don't leave the same person in charge of the same tasks all the time. Rotate employees through the different job responsibilities within their department.
- c. Mandatory Vacations – make employees take their vacation time. When someone else performs their job while they are on vacation, any discrepancies will be found.
- d. Separation of Duties – separate the tasks required to complete the job so the employees are checking each others work and one person does not have complete control.
- e. Custody of Assets separate from Accounting Operations – have different people responsible for the warehouse than those that are responsible for tracking inventory in the computer.
- f. Proofs and Security Measures – have checks and balances to verify the completeness and accuracy of employee's work, such as having a supervisor review work once completed
 - 1. Monitoring
 - 2. Clues
 - 3. Information and Communication

C. Preventative vs. Detective Controls

- 1. Preventative – to prevent misappropriation of cash

Such as: separation of duties, cameras, mandatory vacations

- 2. Detective – to detect theft or misuse of assets if it should get past the preventative controls

Such as: supervisor review, bank reconciliations

Balance per Bank Statement:		
Additions:		
Deductions:		
Adjusted Balance		
Balance per Books/Company:		
Additions:		
Deductions:		
Adjusted Balance		

General Journal

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12

Balance per Bank Statement:		
Additions:		
Deductions:		
Adjusted Balance		
Balance per Books/Company:		
Additions:		
Deductions:		
Adjusted Balance		

General Journal

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12

Balance per Bank Statement:		
Additions:		
Deductions:		
Adjusted Balance		
Balance per Books/Company:		
Additions:		
Deductions:		
Adjusted Balance		

General Journal

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12

Problem 6-5B
Preparing a bank reconciliation and recording entries

P3

Shamara Systems most recently reconciled its bank balance on April 30 and reported two checks outstanding at that time, No. 1771 for \$781 and No. 1780 for \$1,425.90. Check No. 1780 was still outstanding as of May 31. The following information is available for its May 31 reconciliation.

Date	Description	Withdrawals	Deposits	Balance
May 1				\$18,290.70
May 1	Check #1771	\$ 781.00		\$17,509.70
May 2	Check #1783	\$ 382.50		\$17,127.20
May 4	Check #1782	\$1,285.50		\$15,841.70
May 4	Cash deposit		\$2,438.00	\$18,279.70
May 11	Check #1784	\$1,449.60		\$16,830.10
May 14	Cash deposit		\$2,898.00	\$19,728.10
May 18	NSF check	\$ 431.80		\$19,296.30
May 22	Cash deposit		\$1,801.80	\$21,098.10
May 25	Collected note		\$7,350.00	\$28,448.10
May 25	Check #1787	\$8,032.50		\$20,415.60
May 26	Check #1785	\$ 63.90		\$20,351.70
May 26	Cash deposit		\$2,079.00	\$22,430.70
May 29	Check #1788	\$ 654.00		\$21,776.70
May 31	Bank service charge	\$ 14.00		\$21,762.70

From Shamara Systems's Accounting Records

Cash Receipts Deposited	
Date	Cash Debit
May 4	2,438.00
14	2,898.00
22	1,801.80
26	2,079.00
31	<u>2,727.30</u>
	<u>11,944.10</u>

Cash Payments	
Check No.	Cash Credit
1782	1,285.50
1783	382.50
1784	1,449.60
1785	63.90
1786	353.10
1787	8,032.50
1788	644.00
1789	<u>639.50</u>
	<u>12,850.60</u>

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
Apr. 30	Balance				16,083.80
May 31	Total receipts	R7	11,944.10		28,027.90
31	Total payments	D8		12,850.60	15,177.30

Additional Information (a) Check No. 1788 is correctly drawn for \$654 to pay for May utilities; however, the recordkeeper misread the amount and entered it in the accounting records with a debit to Utilities Expense and a credit to Cash for \$644. The bank paid and deducted the correct amount. (b) The NSF check shown in the statement was originally received from a customer, W. Sox, in payment of her account. The company has not yet recorded its return. (c) The collection of the note on May 25 has not yet been recorded by the company.

Required

Check (1) Reconciled balance, \$22,071.50; (2) Cr. Notes Receivable, \$7,350.00

1. Prepare the May 31 bank reconciliation for Shamara Systems.
2. Prepare journal entries to adjust the book balance of cash to the reconciled balance.

Balance per Bank Statement:		
Additions:		
Deductions:		
Adjusted Balance		
Balance per Books/Company:		
Additions:		
Deductions:		
Adjusted Balance		

General Journal

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12