

ACCT 100 – Chapter 9 Outline

I. Control of Cash

Throughout the month, a business keeps a record of all money received (deposits) and all money paid (checks) in a **Check Register**. The bank is keeping track of the same information for the company and at the end of the month the bank prepares a summary of all the deposits and checks posted to the account – this summary is the **Bank Statement**.

The bank statement represents an independent (or second party) proof of your cash activity. It is one of the most important things you can do to insure the accuracy of your cash. A bank reconciliation is exactly what the name implies...a bringing together (a reconciliation) of the two balances: The company's and the bank's.

If the company's cash balance exactly matched the bank's cash balance, there would not be any reason to reconcile the account. This rarely, if ever, happens. Most of the time, any difference in the two amounts is due to timing differences between when the company records transactions and when the bank receives and records transactions. This does not necessarily mean that there are errors...just a lag in time between when items get recorded. What the company needs to concern itself with are items that don't match up between its records and the bank's records. It is quite normal for the check register and the Bank Statement to have different ending balances, so we must reconcile the two documents.

A. The Reconciliation

We will identify all of the differences between the ending balance per the company check register and the ending balance per the bank statement.

There are two parts to the Bank Reconciliation. 1) The first part starts with the balance per the bank statement and we will increase or decrease this balance with any amounts we show in our records that are not on the bank statement. 2) The second part starts with the balance per the cash ledger and we will increase or decrease this balance with any amounts the bank statement shows that we do not have in our records.

1. Format of the bank reconciliation

Balance per Bank	XXXX	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

The diagram consists of two vertical arrows. The left arrow starts from the 'Adjusted Balance' label and points up to the 'XXXX' value. The right arrow starts from the 'Adjusted Balance' label and points up to the 'XXXX' value. A horizontal line connects the two arrows at their base, and a text box is centered below this line.

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.

2. The two reconciled balances **MUST** equal. This is the correct balance in cash.
3. Journal Entries

The items on the Book Balance side of the reconciliation have increased or decreased our bank account, so we need journal entries to increase or decrease our cash balance.

- a. Additions

DR	Cash
CR	Notes Receivable
CR	Interest Income

- b. Deductions

DR	Miscellaneous Expense (bank svc charge)
DR	Accounts Receivable (NSF check)
CR	Cash

B. Petty Cash Fund

A small amount of cash kept in the office for small or unexpected purchases. The business will decide on an amount, for example \$250, and will start each month with exactly \$250 in the Petty Cash fund.

1. To establish the Petty Cash fund

DR	Petty Cash
CR	Cash in Bank

2. To record amounts spent from Petty Cash

DR	Miscellaneous Expense/Office Expense
CR	Cash in Bank

3. The only times the "Petty Cash" account is used in a journal entry:

1. To establish the petty cash fund
2. To increase the petty cash fund amount
for example: the company now wants to start each month with \$300
3. To decrease the petty cash fund amount
for example: the company now wants to start each month with \$200

On April 1, 2022, Terry Yockey Company decides establish a petty cash fund and will start each month with \$250. During April, \$50 was spent at Krispy Kreme for donuts for the office; \$125 was spent on gas for employees to run errands for the company; \$60 was spent on office supplies. On April 30, 2022, Terry Yockey Company decided to increase the monthly amount in the petty cash fund to \$300.

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2022						1
2	Apr	1					2
3							3
4							4
5		30					5
6							6
7							7
8							8
9							9
		30					

C. Cash Over/Short

Companies that make some or all of their sales for cash must start each day with a change fund, a combination of change and small bills to make change for their customers.

To calculate the amount of cash collected during the day, the change fund amount must be deducted from the total cash in the cash register. We hope the amount of cash collected agrees exactly to the amount of sales for the day, but that does not always happen. When the cash is different from the sales, the difference goes to an account called "Cash Over/Short".

Happy Jack Jump Ropes only accepts cash. They start each day with a \$200 change fund. Sales for February 6, 2022, totaled \$639.54; the total cash in the cash drawer at the end of the day was \$843.12. The sales for February 7, 2022, totaled \$419.55; the total cash in the cash drawer at the end of the day was \$617.73.

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	2022						1
2	Feb	6					2
3							3
4							4
5							5
6		7					6
7							7
8							8
9							9

Balance per bank statement:

Additions:

Deductions:

Adjusted balance

=====

Balance per books

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 _____

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

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

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

General Journal

	DATE	DESCRIPTION	PR	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
13						13
14						14
15						15
16						16
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28						28
29						29
30						30
31						31
32						32
33						33
34						34
35						35
36						36
37						37
38						38
39						39
40						40
41						41

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
13						13
14						14
15						15
16						16
17						17
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29						29
30						30
31						31
32						32
33						33
34						34
35						35
36						36