



BANKING PROCEDURE AND CONTROL OF CASH

Chapter 6

Learning Objectives

1. Depositing, writing, and endorsing checks for a checking account.
2. Reconciling a bank statement.
3. Establishing and replenishing a petty cash fund; setting up an auxiliary petty cash record.
4. Establishing and replenishing a change fund.
5. Handling transactions involving cash short and over.

Cash

- Most easily stolen, lost, or mishandled
- Need to protect all cash receipts and to control cash payments
- Establish good *internal control*, a system of procedures and methods to safeguard cash and monitor operations

Internal Control Examples

- ❑ Responsibilities and duties of employees are divided
- ❑ All cash receipts are deposited into the bank on a daily basis
- ❑ All cash payments are made by check
- ❑ Employees are rotated
- ❑ All checks are authorized for payment
- ❑ Bank accounts are reconciled monthly

Learning Objective 1

Depositing, writing, and endorsing checks for a checking account

Checking Account: Getting Started

- Signature Card - verifies the authenticity of the signature on all checks
- Deposit Slip - form used when making deposits
 - ▣ Lists each check individually
 - ▣ Lists total amount of currency, coins & checks being deposited
- Debit Card - carries MasterCard/Visa logo
- Use anywhere MasterCard/Visa are accepted
- Amount of purchase is deducted directly from the checking account

Checking Account: Check Endorsement

- Endorsement – signing or stamping of one's name on back of check
- Payee has transferred the right to deposit or cash the check to someone else

Checking Account: Check Endorsement

□ Types

- **Blank endorsement** – does not specify that a particular entity must endorse it
- **Full endorsement** – entity signing the back of the check indicates the name of the entity to whom the check is to be paid
- **Restrictive endorsement** – stamped for deposit only

Checking Account: Check Endorsement

Blank Endorsement

Becca Baker

204109

Full Endorsement

Pay to the order of
Sunshine Bank
Becca's Jewelry Store
204109

Restrictive Endorsement

Payable to the order of
Sunshine Bank
for deposit only.
Becca's Jewelry Store
204109

Journal Entries to Record Deposits

□ Proceeds of cash sales

Date	Accounts	PR	Dr.	Cr.
	Cash		500 00	
	Sales			500 00

□ Proceeds of collections of company accounts receivable

Date	Accounts	PR	Dr.	Cr.
	Cash		750 00	
	Accounts Receivable			750 00

Other Sources of Revenue

- Credit cards, which are issued by financial institutions and by credit card companies
 - ▣ MasterCard, VISA, and Discover
 - ▣ American Express
- A drawback is that merchants typically must pay a service fee

Other Sources of Revenue

- Debit cards are issued by banks, savings and loan institutions, and credit unions on behalf of depositors
- Card is not an extension of credit
- Holder cannot spend more than the balance currently in his or her account
- With minor exceptions, it is the same as a credit card

The Checkbook

- When checking account is first opened, checks are issued
- Check – written order signed by **drawer** instructing a **drawee** to pay specific sum of money to **payee**
- Cancelled Checks - have been processed by the bank and are no longer negotiable

FIGURE 6.5

FIGURE 6.5
A Company Check

Check stub is used to record journal entries.

To whom check is payable, or payee

The word *and* should be used only to signify the decimal position (i.e., to distinguish between dollars and cents).

Date check written

Check number

Code number to identify bank

Amount of check

Signature (same as on the signature card) of drawer, or one who orders the bank to pay a sum of money

When it processes the check, the bank imprints the amount it paid here. This amount should match what is written for the amount of the check.

Drawee is the bank at which the drawer has an account.

Becca's Jewelry Store account number (preprinted)

Check number (preprinted)

A line is drawn after $\frac{XX}{100}$ to fill up space and ensure that the amount cannot be changed.

BAL FORD	3,447 00
DEPOSITS	
TOTAL	3,447 00
THIS PAYMENT	580 00
THIS PAYMENT	
BAL FORD	2,867 00

1st 2 digits -12- Designates Federal Reserve District (1-12)

3rd digit - 2 - Identifies Federal Reserve check processing center

4th digit - 0 - Identifies the state

5th - 8th digit - Identifies the bank

9th digit - 3 - Used for computer checking

Amount mismatch

- If the written amount on the check does not match the amount expressed in figures, the bank may:
 - ▣ Pay the amount written in words
 - ▣ Return the check unpaid, or
 - ▣ Contact the drawer to see what was intended

In-Company Records

Checks Written for the Month of April

Date	Check No.	Payment To	Amount	Description
Apr. 2	10	Quality Insurance	\$ 500	Insurance paid in advance
7	11	ABC Wholesalers	400	Merchandise
9	12	Payroll	800	Salaries
10	13	Times Newspaper	100	Advertising
12	14	Verizon	99	Telephone
15	15	Ziegler Wholesalers	580	Merchandise
15		ATM Withdrawal	<u>50</u>	Postage
Total Amount of Checks Written:			<u>\$2,529</u>	
Deposits and Credits			\$6,446	
Withdrawals and Fees			<u>-2,529</u>	
Balance in Account			<u><u>\$3,917</u></u>	

Bank Statement

- Reflects all activity in the account during that period
 - Starts off with the beginning balance
 - The checks that the bank has paid are subtracted
 - Any deposits received are added to the account
 - Other charges or additions are indicated by special codes

A Bank Statement



Sunshine Bank

Becca's Jewelry Store
1257 Young Road
Hamilton, NJ 08619

ACCOUNT
NUMBER 20 410 9

CLOSING
PERIOD 4/30/1X

AMOUNT
ENCLOSED \$ _____

RETURN THIS PORTION WITH YOUR PAYMENT IF YOU ARE NOT USING OUR AUTOMATIC PAYMENT PLAN

Address Correction on Reverse Side

CHECKING ACCOUNT

ON	YOUR BALANCE WAS	NO.	WE SUBTRACTED CHECKS TOTALING	LESS SERVICE CHARGE	NO.	WE ADDED DEPOSITS OF	MAKING YOUR PRESENT BALANCE
	0	5	1,949.00	5.00	4	5,546.00	3,592.00

DATE	CHECKS • WITHDRAWALS • PAYMENTS	DEPOSITS • INTEREST • ADVANCES	BALANCE
4/1		5,000.00	5,000.00
4/2	500.00		4,500.00
4/4		340.00	4,840.00
4/7	400.00		4,440.00
4/9	800.00		3,640.00
4/10	100.00		3,540.00
4/12	99.00		3,441.00
4/15		89.00	3,530.00
4/15	50.00 ATM		3,480.00
4/27		117.00	3,597.00
4/30	5.00 SC		3,592.00

Learning Objective 2

Reconciling a bank statement

Bank Reconciliation Process

- Process of reconciling the checkbook balance with the bank balance given on the bank statement
- Steps:
 - ▣ Calculate deposits in transit and outstanding checks
 - ▣ Recognize service charges and fees

Bank Reconciliation Process

CHECKS OUTSTANDING			
NUMBER	AMOUNT		
<i>15</i>	<i>580 00</i>	1. Enter balance shown on this statement	<i>3,592 00</i>
		2. If you have made deposits since the date of this statement add them to the above balance.	<i>900 00</i>
		3. SUBTOTAL	<i>4,492 00</i>
		4. Deduct total of checks outstanding	<i>580 00</i>
		5. ADJUSTED BALANCE This should agree with your check-book.	<i>3,912 00*</i>
TOTAL OF CHECKS OUTSTANDING	<i>580 00</i>		

Additional Transactions

- NSF (nonsufficient funds) - a check that has been returned because the drawer did not have enough money in its account to pay the check
- Debit memorandum - a deduction from the account holder's balance
- Credit memorandum - an increase in the account holder's balance

Step-by-step Instructions for Preparing a Bank Reconciliation

- Prepare a list of deposits in transit.
- Prepare a list of outstanding checks.
- Record any bank charges or credits.
- Compute the cash balance per your books.
- Enter bank balance on the reconciliation.
- Total the deposits in transit.
- Total the outstanding checks.
- Compute the balance per the reconciliation.
- The result should equal the balance shown in your general ledger.

Trends in Banking

- ❑ Electronic funds transfer (EFT) is a way to transfer funds electronically without the use of paper checks.
- ❑ Automatic teller machines (ATMs) allow customers to make deposits, withdraw money, and obtain account balances without having to stand in line when the bank is open.

Advantages of Online Banking

- ❑ Convenience: Unlike your corner site, online banks never close.
- ❑ Availability: You can log on instantly to your online bank and take care of business 24/7.
- ❑ Transaction speed: Online bank sites generally execute and confirm transactions as quickly or even faster than ATM processing speeds.
- ❑ Efficiency: You can access and manage all of your bank accounts from one secure site.
- ❑ Effectiveness: Many online banking sites now offer sophisticated tools to help you manage all of your assets more effectively.

Disadvantages of Online Banking

Although online banking has many advantages, it also has some disadvantages:

- ❑ Start-up may take time: In order to register, you will probably have to provide some personal identification and sign a form at a branch bank.
- ❑ Learning curve: Banking sites can be difficult to navigate at first.
- ❑ Bank site changes: Even the largest banks periodically upgrade their online programs, adding new features in unfamiliar places.
- ❑ Trust: For many people, the biggest hurdle to online banking is learning to trust it.

Fraudulent practices

- Phishing involves fake e-mails that attempt to obtain information about online banking customers.
- Skimming is the theft of credit card information used in an otherwise legitimate debit card or credit card transaction.

Tips to Help You Avoid Becoming a Skimming Victim

- ❑ Keep your PIN safe. Don't give it to anyone.
- ❑ Watch out for people who try to "help" you at an ATM.
- ❑ Look at the ATM before using it. If it doesn't look right, don't use it.
- ❑ If an ATM has any unusual signage, don't use it.
- ❑ If your card is not returned after the transaction or after pressing cancel, immediately contact the institution that issued the card.
- ❑ Check your statement to be sure that no unusual withdrawals appear on it.

Learning Objective 3

Establishing and replenishing a petty cash fund; setting up an auxiliary petty cash record

Petty Cash Fund

- Account dedicated to paying small day-to-day expenses
- Recorded in an auxiliary record
- Later summarized, journalized, and posted
- Asset account, normal debit balance
- Custodian – oversees the fund

Setting Up the Petty Cash Fund

- A new asset, called Petty Cash, is created by writing a check and reducing the asset Cash

Accounts Affected	Category	↓ ↑	Rules
Petty Cash	Asset	↑	Dr.
Cash (checks)	Asset	↓	Cr.

Date		Account Title and Description	PR	Dr.			Cr.		
201X									
May	1	Petty Cash				6000			
		Cash						6000	
		Establishment of petty cash and change fund.							

Operating the Petty Cash Fund

- Petty Cash account is debited or credited if size of fund is changed
- Vouchers used when money is removed from the fund
- Filled out each time a payment is made
- Vouchers are sequentially numbered
- Voucher totals plus cash on hand should equal the original petty cash balance

Petty Cash Vouchers

- Contains:
 - ▣ The voucher number (which will be in sequence)
 - ▣ The date
 - ▣ To whom the payment was made
 - ▣ The amount of payment
 - ▣ The reason for payment
 - ▣ The signature of the person approving
 - ▣ The signature of the person receiving
 - ▣ The account to which the item will be charged

Petty Cash Voucher Example

Petty Cash Voucher No. 1

Date: May 2, 201X

Amount: \$3.00

Paid To: Al's Cleaning

For: Cleaning Package

Approved By: John Sullivan

Payment Received By: Al Smith

Debit Account No.: 619

Auxiliary Petty Cash Record

- At the end of May, the following items are documented by vouchers:

201X

May

2	Cleaning package, \$3.00
5	Postage stamps, \$9.00
8	First-aid supplies, \$15.00
9	Delivery expense, \$6.00
14	Delivery expense, \$15.00
27	Postage stamps, \$6.00

Auxiliary Petty Cash Record

- Voucher information is transferred to this record:

					Category of Payments				
Date	Voucher No.	Description	Receipts	Payments	Postage Expense	Delivery Expense	Sundry		
							Account	Amount	
201X May	1	Establishment	60 00						
	2	1 Cleaning		3 00			Cleaning	3 00	
	5	2 Postage		9 00	9 00				
	8	3 First Aid		15 00			Misc.	15 00	
	9	4 Delivery		6 00		6 00			
	14	5 Delivery		15 00		15 00			
	27	6 Postage		6 00	6 00				
		Total	60 00	54 00	15 00	21 00		18 00	

Replenish The Petty Cash Fund

- No postings are done from the auxiliary record
- The compiled information is used as a basis for the formal journal entry
- A check is issued for the expense total and cashed; the cash is replaced in the petty cash box
- Debits are a summary of the totals of expenses

Replenish The Petty Cash Fund

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Date	Account Title and Description	PR	Dr.	Cr.		
201X May 1	Petty Cash		6000			
	Cash			6000		
	Establishment					
~~~~~						
	31 Postage Expense		1500			
	Delivery Expense		2100			
	Cleaning Expense		300			
	Miscellaneous Expense		1500			
	Cash			5400		
	Replenishment					

Petty cash is an asset. →

Note that the Petty Cash account is not listed in replenishment unless we raise or lower the basic amount. To raise it we would debit it; to lower it we would credit it. →

## **Learning Objective 4**

**Establishing and replenishing a change fund**

# Setting Up a Change Fund

- Change Fund is made up of various denominations
- Fund is placed in the cash register drawer and used to make change

Accounts Affected	Category	↓ ↑	Rules
Change Fund	Asset	↑	Dr.
Cash	Asset	↓	Cr.

	Apr.	1	Change Fund																
			Cash																
			Establish change fund																



# Learning Objective 5

Handling transactions involving cash short and over

# Cash Short and Over Account

- ❑ Errors often happen in making change
- ❑ Must record both overages and shortages
- ❑ A shortage is considered a miscellaneous expense
- ❑ An overage is considered as other-income

<b>Cash Short and Over</b>	
Dr. shortage	Cr. overage

# Example 1: Shortages and Overages in Sales

- On December 5, a pizza shop rang up sales of \$560 for the day but only had \$530 in cash

Accounts Affected	Category	↓ ↑	Rules
Cash	Asset	↑	Debit \$530
Cash Short and Over	Misc. Exp.	↑	Debit \$30
Sales	Revenue	↑	Credit \$560

Dec.	5	Cash				530 00			
		Cash Short and Over				30 00			
		Sales						560 00	
		Cash shortage							

# Example 1: Shortages and Overages in Sales

- On December 5 a pizza shop rang up sales of \$560 for the day but had \$610 in cash.

Accounts Affected	Category	↓ ↑	Rules
Cash	Asset	↑	Debit \$610
Cash Short and Over	Other Income	↑	Credit \$50
Sales	Revenue	↑	Credit \$560

Dec.	5	Cash				610 00			
		Cash Short and Over						50 00	
		Sales						560 00	
		Cash overage							

# Example 2: Cash Short and Over in Petty Cash

- A local computer company established petty cash for \$200. On November 30, the petty cash box had \$160 in vouchers as well as \$32 in coin and currency.

Accounts Affected	Category	↓ ↑	Rules
Postage Expense	Expense	↑	Debit \$90
Supplies Expense	Expense	↑	Debit \$70
Cash Short and Over	Misc. Expense	↑	Debit \$8
Cash	Asset	↓	Credit \$168

Nov.	30	Postage Expense				90 00			
		Supplies Expense				70 00			
		Cash Short and Over				8 00			
		Cash							168 00

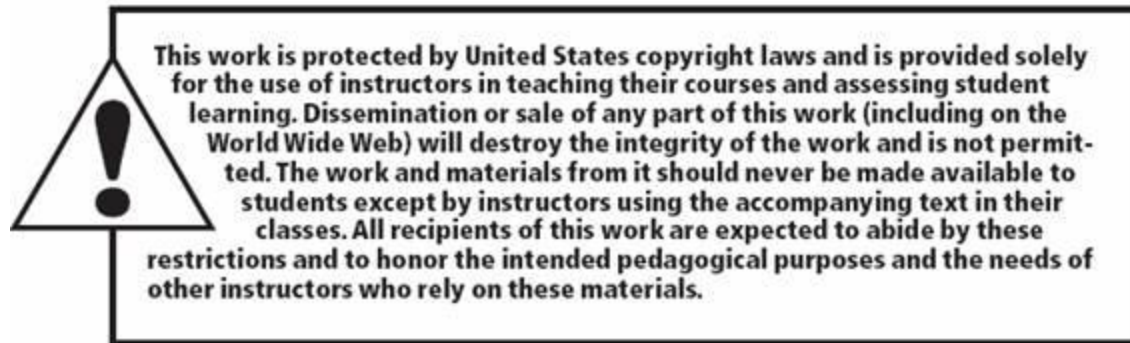
# Example 2: Cash Short and Over in Petty Cash

- In the case of an overage, the Cash Short and Over would be a credit as other income.

# Questions



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