

CHAPTER 9

Cash Control and Banking

SECTION 9.1 REVIEW QUESTIONS (page 345)

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SECTION 9.1 REVIEW QUESTIONS (continued)

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SECTION 9.1 EXERCISES (page 346)**Exercise 1, p. 346**

- A. The _____ of a business represent the money taken in from business operations.
- B. It is customary for a business that _____ to receive payment from its customers by way of cheques through the mail.
- C. Cheques received in the mail are _____ by the mail clerk before being deposited in the bank.
- D. Sales slips are _____ to ensure that all slips are accounted for.
- E. At the end of a business day, cash register receipts are _____ in the business's bank account.
- F. An electronic cash register that is connected to a central computer is known as a _____.
- G. A small quantity of money used to start the cash register activity for the day is known as a _____.
- H. An overage produces a _____ in the Cash Short and Over account.
- I. A shortage produces a _____ in the Cash Short and Over account.
- J. Cash _____ are more common than cash _____.
- K. Businesses are required by the banks to use a _____.
- L. Cheques received by a business are endorsed _____ before being deposited.

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SECTION 9.2 REVIEW QUESTIONS (page 353)

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SECTION 9.2 EXERCISES (page 353)

Exercise 1, p. 353

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DATE	PARTICULARS	P.R.	DEBIT				CREDIT			

Exercise 2, p. 353

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SECTION 9.2 EXERCISES (continued)**Exercise 5, p. 355**

Indicate whether each of the following statements is true or false by entering a T or an F in the space provided. Explain the reason for each F response in the space provided.

- A. The amount in the Petty Cash account in the general ledger must never change. _____
- B. A petty cash voucher must be prepared for every payment out of the fund. _____
- C. The petty cash fund is used for the purpose of cutting down on the number of cheques issued. _____
- D. The accounting entry to replenish the petty cash fund is made by the keeper of the fund. _____
- E. The petty cash box is locked and put away in a safe place outside business hours. _____
- F. The keeper of the petty cash fund must never borrow from it. _____
- G. The petty cash summary is organized by general ledger accounts. _____
- H. A payment out of petty cash can only be charged to an expense account or an asset account. _____
- I. If an auditor were to check the petty cash fund, the procedure would be to total all of the cash and vouchers in the box and check this total against the balance in the Petty Cash account. _____

Explanations for F Responses

SECTION 9.3 REVIEW QUESTIONS (page 362)

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SECTION 9.3 REVIEW QUESTIONS (continued)

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SECTION 9.3 EXERCISES (page 362)

Exercise I, p. 362

A. _____

B. _____

SECTION 9.3 EXERCISES (continued)

Exercise I, p. 362 (continued)

C. _____

D. _____

E. _____

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G. _____

H. _____

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SECTION 9.3 EXERCISES (continued)

Exercise 4, p. 366 (continued)

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SECTION 9.4 REVIEW QUESTIONS (page 372)

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SECTION 9.4 REVIEW QUESTIONS (continued)

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SECTION 9.4 REVIEW EXERCISES (page 372)

Exercise 1, p. 372

A. _____ E. _____
B. _____ F. _____
C. _____ G. _____
D. _____ H. _____

Exercise 2, p. 372

SECTION 9.4 REVIEW EXERCISES (continued)

Exercise 3, p. 373 (continued)

B. _____

SECTION 9.5 REVIEW QUESTIONS (page 383)

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SECTION 9.5 REVIEW QUESTIONS (continued)

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SECTION 9.5 EXERCISES (page 383)
Exercise 1, p. 383

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SECTION 9.5 EXERCISES (continued)

Exercise 1, p. 383 (continued)

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SECTION 9.5 EXERCISES (continued)**Exercise 2, p. 383****Workbook Exercise**

Heavenly Eyes is an aerial photography company based in Charlottetown, PEI.
Its comparative statement of financial position appears in the spreadsheet below.

Heavenly Eyes Ltd. Statement of Financial Position (\$ in thousands)						
		May 31 2006	May 31 2005	Difference	Dr/Cr	
	Assets					
	<i>Current Assets:</i>					
	Cash	\$ 3 560	\$ 4 160	(600)	Cr	
Cash	Account Receivable	84 028	66 640			
Flow	Prepaid Expenses	13 050	13 597			
Operations	Other Current Assets	-	-			
	Total Current Assets	\$ 100 638	\$ 84 397			
Cash Flow	Property, Plant, and Equipment	310 110	226 210			
Investing	Accumulated Depreciation	(95 360)	(70 660)			
	Total Assets	\$ 315 388	\$ 239 947			
	Liabilities and Shareholders' Equity					
	<i>Current Liabilities:</i>					
Cash	Accounts Payable	\$ 61 721	\$ 59 555			
Flow	Other Current Liabilities	10 367	14 709			
Operations	Income Taxes Payable	2 600	2 330			
Cash Flow	Bank Loan Payable	29 500	19 500			
	Total Current Liabilities	\$ 104 188	\$ 96 094			
Financing	Long-Term Debt	50 270	20 853			
	Total Liabilities	\$ 154 458	\$ 116 947			
	Shareholders' Equity					
Cash Flow	Common Shares	\$ 41 000	\$ 14 000			
Financing	Retained Earnings	119 930	109 000			
	Total Shareholders' Equity	\$ 160 930	\$ 123 000			
	Total Liabilities and Equity	\$ 315 388	\$ 239 947			

SECTION 9.5 EXERCISES (continued)**Exercise 2, p. 383** (continued)

The spreadsheet model for Heavenly Eyes Ltd. is similar to the one you used for BrainWaves Consultants in Section 9.5, Exercise 1. Make sure you complete Exercise 1 before attempting this exercise.

You will notice a slight difference in how the two businesses are organized. BrainWaves Consultants is a sole proprietorship, while Heavenly Eyes Ltd. is a corporation. Most of the cash flow work you will do in future accounting courses will involve corporations.

For this exercise, you do not need to know much about the accounting for corporations beyond the differences shown in the equity section of the statement of financial position. For instance, a corporation is a separate legal entity owned by shareholders. Therefore, the name Shareholders' Equity is used instead of Owner's Equity. The Shareholders' Equity section has two primary accounts: Common Shares and Retained Earnings.

The Common Shares account usually indicates how much money people have paid to the company in order to become shareholders. Selling common shares to people is one way a corporation can raise funds. The Retained Earnings account is similar to the Capital account that you have used to this point in your accounting studies. Like the Capital account, Retained Earnings is increased by net income and reduced by net loss. Also, in the same manner that Capital is reduced by discretionary payments to the owner (Drawings), Retained Earnings is reduced by discretionary payments to the shareholders (Dividends).

- A. Load the spreadsheet model named *HeavenlyEyes.xls*. Complete the shaded areas of columns G and H shown in the statement of financial position on the previous page. The first answer has been done for you, showing a decrease in cash of \$600 and the overall effect of a credit in the Cash account. Make sure you use the same formulas and IF functions that are described on pages 374 to 375 of your textbook.
- B. Select the Income Statement tab. There is nothing for you to enter on this sheet, but be aware of three important numbers you must deal with later. The first two, Depreciation Expense and Loss on Sale of Equipment, are non-cash expenses. No cheques had to be written for the \$30 700 and \$10 000 amounts shown. The other important number is Net Income. You will have to turn the accrual net income of \$10 930 into a cash net income in Part C on the next page.

SECTION 9.5 EXERCISES (continued)**Exercise 2, p. 383** (continued)

C. Select the Cash Flow T tab. Your monitor should look like the spreadsheet below.

		Cash Flow "T"	
		Dr	Cr
4	Cash Flow from Operations		
5	Net Income (Accrual)	10 930	-
6	Current Accounts:		
7	Account Receivable		
8	Prepaid Expenses		
9	Other Current Assets		
10	Accounts Payable		
11	Other Current Liabilities		
12	Income Taxes Payable		
14	Non-Cash Items		
15	Depreciation Expense		
16	Loss on Sale of Equipment		
17	Gain on Sale of Equipment		
19	Cash Flow from Operations	10 930	-
21	Cash Flow from Investing		
22	Purchase of PPE		
23	Sale of PPE		
25	Cash Flow from Investing	-	-
27	Cash Flow from Financing		
28	Bank Loan Payable		
29	Long-Term Debt Acquired		
31	Common Shares Issued		
33	Cash Flow from Financing	-	-
35	Sub-totals	10 930	-
37	Net Cash Flow	10 930	-
39	Statement of Financial Position: Verification		
40	Cash Account Balance, May 31, 2005		4 160
41	Cash Account Balance, May 31, 2006		3 560
42	Decrease in Cash		(600)
44	Difference		11 530

As you can see at the bottom right of the Cash Flow T, the difference between the accrual net income of \$10 930 and the cash net income of -\$600 is \$11 530. Your task is to pare down the accrual net income so that it appears as a \$600 credit on row 37.

To start, focus your attention solely on cash flow from operations. Create IF functions like the ones described on pages 378 to 380 of your textbook to determine the cash flow from operations on row 19. If your work is accurate to this point, cash flow from operations should be a \$32 833 debit.

SECTION 9.5 EXERCISES (continued)

Exercise 2, p. 383 (continued)

D. Determining cash flow from investing can be challenging, even though this section primarily involves just two activities: the purchase and sale of property, plant, and equipment. In this year, Heavenly Eyes Ltd sold some old equipment at a loss. The original cost value of the equipment was \$20 000, the same value listed in the Property, Plant, and Equipment account in the company’s ledger.

Select the PPE Reconciliation tab. It should look like the spreadsheet below.

The screenshot shows an Excel spreadsheet with the following content:

Journal Entry: Reconstruction of PPE Sale

Accounts	Dr	Cr
Cash		
Accumulated Depreciation		
Loss on Sale		
Property, Plant, and Equipment		

Property, Plant, and Equipment

Beginning Balance	226 210	
		Sale of Equipment
	226 210	
Purchase of Equipment		
Ending Balance	310,110	

Accumulated Depreciation

	70,660	Beginning Balance
		Depreciation for the year
	70,660	
Accumulated Depreciation from Sale		
	95,360	Ending Balance

The spreadsheet also shows a 'PPE Reconciliation' tab selected at the bottom, with other tabs for Financial Position, Income Statement, Cash Flow T, and Special Reconciliations.

The beginning and ending balances in the two T-accounts above are generated by cell references to the Statement of Financial Position. Do your best to fill in the shaded cells in the T-accounts. Then, use your T-account data to reconstruct the journal entry for the sale of the \$20 000 piece of equipment. By reconstructing the sale entry, you will determine how much cash was received when the equipment was sold.

After finishing this spreadsheet, go back to the Cash Flow from the Investing section in the Cash Flow T sheet, and enter the amounts you have determined from your PPE work.

SECTION 9.5 EXERCISES (continued)**Exercise 2, p. 383** (continued)

E. The financing section of the Cash Flow T should be relatively straightforward. Click the Special Reconciliations tab to help you determine the cash flow changes that have been caused by the Bank Loan, Long-Term Debt, and Common Shares accounts. Enter the amounts you determine into the Cash Flow T worksheet.

When you have finished the Cash Flow T worksheet, the net cash flow on row 37 should be a \$600 credit, which is the same amount revealed by the comparative statements of financial position.

F. The statement of financial position and the income statement for Heavenly Eyes Ltd. show some discouraging signs. For claims on the assets, there is close to a 50/50 split between shareholders and creditors. Also, the Net Income of \$10 930 is less than 2% of the Sales figure. From the perspective of a an outside accountant, write a business letter to the shareholders of Heavenly Eyes Ltd. Make sure your letter includes some facts revealed by the cash flow results you produced.

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Name _____

Date _____

SECTION 9.5 EXERCISES (continued)

Exercise 2, p. 383 (continued)

A., B.

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Name _____

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SECTION 9.5 EXERCISES (continued)

Exercise 2, p. 383 (continued)

C.

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SECTION 9.5 EXERCISES (continued)

Exercise 2, p. 383 (continued)

D.

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E.

CHAPTER 9 REVIEW EXERCISES (continued)

Exercise 3, p. 386 (continued)

October general journal entry affecting Bank

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DATE	PARTICULARS	P.R.	DEBIT	CREDIT

Bank statement for October

Cheques		Deposits	Date	Balance
			Sep. 30	2 102.69
37.50	(526)		Oct. 30	2 065.19
		558.47	3	2 623.66
2.70	(529)	85.04 (535)	4	2 535.92
19.05	(536)		5	2 516.87
74.10	(532)	105.00 (528)	8	2 337.77
73.74	(538)	1 012.46	9	3 276.49
5.19	(531)	27.60 (539)	10	3 243.70
56.94	(534)		11	3 186.76
74.09	(543)	112.02 (533)	15	3 034.05
96.02	(NSF cheque of J. Marble)		15	2 938.03
164.02	(537)		16	2 774.01
33.21	(549)	19.65 (544)	17	2 750.74
365.12	(541)		18	2 385.62
76.75	(546)	521.06	22	2 829.93
1.95	(540)	58.36 (552)	23	2 769.62
42.96	(548)		24	2 726.66
		133.09	25	2 859.75
88.61	(551)		26	2 771.14
91.50	(554)		29	2 679.64
13.30	(555)	401.17	30	3 067.51
8.61	(557)	1 047.65 (558)	31	2 011.25
15.20	(Interest)	30.20 (Service Charges)	31	1 965.85
43.50	(Discount Fee)		31	1 922.35

Name _____

Date _____

CHAPTER 9 REVIEW EXERCISES (continued)

Exercise 3, p. 386 (continued)

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DATE		PARTICULARS	P.R.	DEBIT					CREDIT				

Questions for Further Thought p. 389

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CASE STUDIES (page 390)

Case 1 *Cola Profits Go Flat* (p. 390)

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Case 2 *Service Charges: Are They Always Fair?* (p. 391)

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CASE STUDIES (continued)

Case 3: Challenge *Trials of a Young Entrepreneur* (p. 391)

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Case 4: Group Discussion *The Good Life on Plastic Money* (p. 393)

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2. _____

CASE STUDIES (continued)

Case 4: Group Discussion *The Good Life on Plastic Money* (continued)

- 3. _____

- 4. _____

- 5. _____

CAREER

Selvan Mogan, CGA/Senior Financial Analyst for City of Toronto (page 394)

Discussion (p. 394)

- 1. _____

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