



LESSON 5-1

Checking Accounts



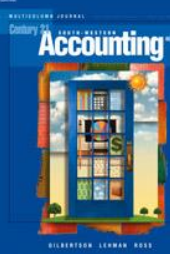
TERMS REVIEW

- **checking account**—a bank account from which payments can be ordered by a depositor
- **Endorsement**—a signature or stamp on the back of a check transferring ownership
- **blank endorsement**—consisting only of the endorser's signature
- **special endorsement**—an endorsement indicating a new owner of a check (sometimes known as endorsements in full):
"Pay to the Order Of"
- **restrictive endorsement**—restricting further transfer of a check's ownership : *"For Deposit Only"*
- **postdated check**—a check with a future date on it (most banks will not accept these because money cannot be withdrawn from a depositor's account until the date on the check)



Endorsements

- An endorsement should be signed exactly as the person's name appears on the front of the check.
- Ownership of a check might be transferred several times, resulting in several endorsements.
- Each endorser guarantees payment of the check.
- If a bank does not receive payment from the person who signed the check, each endorser is individually liable for payment.



ENDORSEMENTS

Endorse here
X *Kim Park*

DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE
Reserved for Financial Institution Use

Blank Endorsement

Endorse here
X *Pay to the order of*
Eleanor Johnson
Kim Park

DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE
Reserved for Financial Institution Use

Special Endorsement

Endorse here
X *For deposit only to*
the account of
TECHKNOW CONSULTING
Kim Park

DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE
Reserved for Financial Institution Use

Restrictive Endorsement



DEPOSITING CASH

AUG 1 20-- D5000.00 RDS

 Pacific national bank
Portland, OR 97203

For deposit to the account of

TECHKNOW CONSULTING
7549 Broadway
Portland, OR 97202-2531

24-317
1230

Date August 1, 20 --

Currency		
Coin		
Checks		
<u>24-108</u>	<u>5,000</u>	<u>00</u>
TOTAL	<u>5,000</u>	<u>00</u>

⑆ 1 23003 175⑆ 43⑈452119⑈

CUSTOMER RECEIPT



DEPOSIT RECORDED ON A CHECK STUB

page 119

NO. 1	\$ _____
Date _____	20 _____
To _____	
For _____	
<hr/>	
BAL. BRO'T. FOR'D.	0 00
AMT. DEPOSITED	8 1 -- 5,000 00
SUBTOTAL	Date 5,000 00
OTHER:	

SUBTOTAL:	
AMT. THIS CHECK	
BAL. CAR'D. FOR'D.	



Check and Check Stub

- Consecutive numbers on checks and check stubs provide an easy way of identifying each check.
- The numbers help keep track of all checks to assure that none are lost or misplaced.
- A check stub is a business' record of each check written for a cash payment transaction. (*Objective Evidence*)
- To avoid forgetting to prepare a check stub, the check stub is prepared **before** the check is written.
- After the check stub is completed, the check is written.



COMPLETED CHECK STUB

NO. **1** \$ 275.00 **1**

Date August 3 20-- **2**

To Port City Supply Co. **3**

For Supplies **4**

BAL. BRO'T. FOR'D.		0	00
AMT. DEPOSITED	<u>8</u> <u>1</u> --	5,000	00
SUBTOTAL	Date	5,000	00
OTHER:			
SUBTOTAL:		5,000	00
AMT. THIS CHECK		275	00
BAL. CAR'D. FOR'D.		4,725	00

5

6

1. Write the amount of the check.
2. Write the date of the check.
3. Write to whom the check is to be paid.
4. Record the purpose of the check.
5. Write the amount of the check.
6. Calculate the new checking account balance.



COMPLETED CHECK

page 121

7 *August 3,* 20 *--*

8 **9**
10
11 **12**

TechKnow Consulting
 7549 Broadway
 Portland, OR 97202-2531

NO. 1 24-317
1230

PAY TO THE ORDER OF *Port City Supply Co.* \$ *275.00*

Two hundred seventy-five and ^{no}/₁₀₀ DOLLARS

Pacific national bank
 Portland, OR 97203
Supplies

Kim Park

⑆ 23003 ⑆ 75 ⑆ 43 ⑆ 452 ⑆ 19 ⑆

For Classroom Use Only

7. Write the date.
8. Write to whom the check is to be paid.
9. Write the amount in figures.
10. Write the amount in words.
11. Write the purpose of the check.
12. Sign the check.



Voided Checks

- Banks usually refuse to accept altered checks.
- If any kind of error is made in preparing a check, a new check should be prepared.
- Because checks are prenumbered, all checks not used should be retained for the records.
 - This practice helps account for all checks and assures that no checks have been lost or stolen.
- A check that contains errors must be marked so that others will know that it is not to be used.
- The word **VOID** is written in large letters across both the check and its stub.
- To assure that all check numbers are accounted for they are listed in the journal.



RECORDING A VOIDED CHECK

JOURNAL										PAGE 5
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
				1	2		3	4		5
20	15 VOID	C20	✓							20
21										21

1. Record the date.
2. Write the word **VOID** in the Account Title column
3. Write the check number.
4. Place a check mark in the Post. Ref. column.
5. Place a dash in the Cash Credit column.



LESSON 5-2

Bank Reconciliation




TERM REVIEW

- **bank statement** – a report of deposits, withdrawals, and bank balances sent to a depositor by a bank
- **Bank statement reconciliation** – verifying that information on a bank statement and a checkbook are in agreement

BANK STATEMENT

page 124

Turn to
page 124

 STATEMENT OF ACCOUNT FOR						
TECHKNOW CONSULTING 7549 Broadway Portland, OR 97202-2531				ACCOUNT NUMBER 43-452-119		
				STATEMENT DATE August 30, 20--		
BALANCE FROM PREVIOUS STATEMENT	NO. OF CHECKS	AMOUNT OF CHECKS	NO. OF DEPOSITS	AMOUNT OF DEPOSITS	SERVICE CHARGES	STATEMENT BALANCE
0.00	11	2,821.00	14	8,125.00	8.00	5,304.00
DATE	CHECK	AMOUNT	CHECK	AMOUNT	DEPOSIT	BALANCE
08/01/--						0.00
08/01/--					5,000.00	5,000.00
08/04/--	1	275.00				4,725.00
08/07/--	2	1,200.00				3,525.00
08/12/--					495.00	4,020.00
08/13/--	4	300.00	6	125.00		3,595.00
08/14/--	3	300.00				3,295.00
08/15/--					250.00	3,545.00
08/16/--					195.00	3,740.00
08/17/--	5	40.00			175.00	3,875.00
08/18/--	7	78.00			205.00	4,002.00
08/19/--	8	100.00			180.00	4,082.00
08/20/--	9	125.00			210.00	4,167.00
08/21/--					225.00	4,392.00
08/24/--					205.00	4,597.00
08/25/--					275.00	4,872.00
08/26/--					290.00	5,162.00
08/27/--					205.00	5,367.00
08/28/--					215.00	5,582.00
08/29/--	10	70.00				5,512.00
08/30/--	11	200.00				5,312.00
	SC	8.00				5,304.00
PLEASE EXAMINE AT ONCE - IF NO ERRORS ARE REPORTED WITHIN 10 DAYS THE ACCOUNT WILL BE CONSIDERED CORRECT. REFER ANY DISCREPANCY TO OUR ACCOUNTING DEPARTMENT IMMEDIATELY.						



BANK STATEMENT

- When a bank receives checks, the amount of each check is deducted from the depositor's account.
- The bank stamps the checks to indicate that the checks are cancelled and are not to be transferred further.
- Account service charges are also listed on a bank statement.



Reasons Why The Bank Statement and Depositor's Records May Not Agree

- A service charge may not have been recorded in the depositor's business records *(you will not know the exact amount until you receive the bank statement—may differ month to month)*
- Outstanding deposits may be recorded in the depositor's records but not on a bank statement
- Outstanding checks may be recorded in the depositor's records but not on a bank statement
- A depositor may have made math or recording errors
 - If a bank makes an error, the bank should be notified at once! -- it happens!



Verifying the Information on Bank Statement and Checkbook

- Reconciling immediately is an important aspect of cash control
- For each cancelled check listed on the bank statement, a check mark (✓) is placed on the corresponding check stub
- A check stub with **no check mark** (✓) indicates an **outstanding** check (not received by bank yet)—same with deposits
- The bank deducts a service each month from the checking account
 - *No check is written for the service charge, but must be recorded as a cash payment in the journal and recorded on the check stub*



BANK STATEMENT RECONCILIATION

1. Date
2. Check Stub Balance
3. Service Charge
4. Adjusted Check Stub Balance
5. Bank Statement Balance
6. Outstanding Deposits
7. Subtotal
8. Outstanding Checks
9. Adjusted Bank Balance
10. Compare Adjusted Balances

RECONCILIATION OF BANK STATEMENT August 31, 20--
(Date)

Balance on Check Stub No. <u>14</u> \$ <u>4,972.00</u>	Balance on Bank Statement \$ <u>5,304.00</u>																						
DEDUCT BANK CHARGES:	ADD OUTSTANDING DEPOSITS:																						
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Description</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td><u>Service Charge</u></td> <td>\$ <u>8.00</u></td> </tr> <tr> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> </tr> <tr> <td>Total bank charges ▶</td> <td><u>8.00</u></td> </tr> </tbody> </table>	Description	Amount	<u>Service Charge</u>	\$ <u>8.00</u>							Total bank charges ▶	<u>8.00</u>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Date</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td><u>8/31/--</u></td> <td>\$ <u>190.00</u></td> </tr> <tr> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> </tr> <tr> <td>Total outstanding deposits ▶</td> <td><u>190.00</u></td> </tr> </tbody> </table>	Date	Amount	<u>8/31/--</u>	\$ <u>190.00</u>					Total outstanding deposits ▶	<u>190.00</u>
Description	Amount																						
<u>Service Charge</u>	\$ <u>8.00</u>																						
Total bank charges ▶	<u>8.00</u>																						
Date	Amount																						
<u>8/31/--</u>	\$ <u>190.00</u>																						
Total outstanding deposits ▶	<u>190.00</u>																						
Adjusted Check Stub Balance \$ <u>4,964.00</u>	Adjusted Bank Balance \$ <u>4,964.00</u>																						

SUBTOTAL \$ <u>5,494.00</u>																									
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Ck. No.</th> <th>Amount</th> <th>Ck. No.</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td><u>12</u></td> <td><u>30.00</u></td> <td> </td> <td> </td> </tr> <tr> <td><u>13</u></td> <td><u>500.00</u></td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td>Total outstanding checks ▶</td> <td colspan="2"> </td> <td><u>530.00</u></td> </tr> </tbody> </table>	Ck. No.	Amount	Ck. No.	Amount	<u>12</u>	<u>30.00</u>			<u>13</u>	<u>500.00</u>											Total outstanding checks ▶			<u>530.00</u>	<p>Adjusted Bank Balance \$ <u>4,964.00</u></p>
Ck. No.	Amount	Ck. No.	Amount																						
<u>12</u>	<u>30.00</u>																								
<u>13</u>	<u>500.00</u>																								
Total outstanding checks ▶			<u>530.00</u>																						

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RECORDING A BANK SERVICE CHARGE ON A CHECK STUB

NO. 14 \$ _____

Date _____ 20__

To _____

For _____

BAL. BRO'T. FOR'D.		4,782	00
AMT. DEPOSITED ...	8 31 -- Date	190	00
SUBTOTAL		4,972	00
OTHER:			
<i>Service Charge 8.00</i>			
		8	00
SUBTOTAL:		4,964	00
AMT. THIS CHECK			
BAL. CAR'D. FOR'D.			

1. Write *Service Charge \$8.00* on the check stub under the heading "Other."
2. Write the amount of the service charge in the amount column.
3. Calculate (subtract) and record the new subtotal on the Subtotal line.



JOURNALIZING A BANK SERVICE CHARGE

- Because the bank service charge is a cash payment for which no check is written, a memorandum is prepared as the source document
- A separate ledger account for the expense is not used
- Instead the bank service charge is recorded as a miscellaneous expense
 - Miscellaneous is debited
 - Cash is credited



JOURNALIZING A BANK SERVICE CHARGE

August 31. Received bank statement showing August bank service charge, \$8.00. Memorandum No. 3.

JOURNAL										PAGE 2
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
31	Miscellaneous Expense	M3	4	8.00					8.00	14

- Date.** Write the date.
- Debit.** Write the title of the account to be debited. Record the amount debited.
- Credit.** Record the amount credited.
- Source document.** Write the source document number.

Miscellaneous Expense	
8.00	
Cash	
	8.00



LESSON 5-3

Dishonored Checks and Electronic Banking



TERMS REVIEW

- **Dishonored check**—a check that a bank refuses to pay
- **Electronic funds transfer (EFT)**—a computerized cash payments system that transfers fund without the use checks
- **Debit card**—a bank card that automatically deducts the amount of a purchase from the checking account of the cardholder



DISHONORED CHECK REASONS:

- Insufficient funds (illegal)
- Check appears to be altered (illegal)
- Signature of person who signed the check does not match the one on the signature card at the bank—forging a check (illegal)
- The amounts written in figures and in words do not agree
- The check is postdated
- The person who wrote the check has stopped payment on the check



DISHONORED CHECK

- Sometimes money for a dishonored check can be collected directly from the person or business that wrote the check
- Often, however, the value of a dishonored check cannot be recovered and becomes an expense to the business
- Most banks charge a fee for handling dishonored checks that have been previously accepted for deposit
 - The fee is an expense of the business receiving a dishonored check (\$35 for example)
 - The business in turn attempts to collect this fee along with the amount of the check from the person who wrote it



RECORDING A DISHONORED CHECK ON A CHECK STUB

NO. 41	\$ _____
Date _____	20 ____
To _____	
For _____	
<hr/>	
BAL. BRO'T. FOR'D.	6,128 00
AMT. DEPOSITED ...	
SUBTOTAL	6,128 00
OTHER: <i>Dis. Check 105.00</i>	
1 _____	105 00 2
SUBTOTAL:	6,023 00 3
AMT. THIS CHECK	
BAL. CAR'D. FOR'D.	

1. Write *Dishonored check \$105.00* on the line under the heading "Other."
2. Write the total of the dishonored check in the amount column.
3. Calculate and record the new subtotal on the Subtotal line.



JOURNALIZING A DISHONORED CHECK

November 29. Received notice from the bank of a dishonored check from Campus Internet Café, \$70.00, plus \$35.00 fee; total, \$105.00. Memorandum No. 55.

JOURNAL											PAGE 8
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH				
				DEBIT	CREDIT		DEBIT	CREDIT			
19 29	Accts. Rec.—Campus Internet Cafe	M55		105.00						105.00	19

- Date.** Write the date.
- Debit.** Write the title of the account to be debited.
- Credit.** Write the amount credited.
- Source document.** Write the source document number.

Accounts Receivable—Campus Internet Cafe	
105.00	
Cash	
	105.00



ELECTRONIC FUNDS TRANSFER

- Many businesses use electronic funds to pay vendors
- The transfer of funds from the business' account to the vendor's account can be completed via the Internet or a telephone call
- The journal entry for making payments on account through EFT is the same as when a check is written
- The only change is the source document used for the transfer
 - A memorandum is created for the transaction
 - Liability account (Accounts Payable) is decreased by a debit
 - Cash account is decreased by a credit



JOURNALIZING AN ELECTRONIC FUNDS TRANSFER

September 2. Paid cash on account to Kelson Enterprises, \$350.00, using EFT. Memorandum No. 10.

JOURNAL										PAGE 17
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
7	2 Accts. Pay.—Kelson Enterprises	M10	4	350.00					350.00	7
8										8

Diagram illustrating the journal entry components with numbered callouts:

- 1**: Points to the date (7) in the first column.
- 2**: Points to the account title (2 Accts. Pay.—Kelson Enterprises) in the second column.
- 3**: Points to the amount credited (350.00) in the CASH CREDIT column.
- 4**: Points to the source document number (M10) in the DOC. NO. column.

- Date.** Write the date.
- Debit.** Write the title of the account to be debited. Record the amount debited.
- Credit.** Record the amount credited.
- Source document.** Write the source document number.

Accounts Payable—Kelson Enterprises	
350.00	
Cash	
	350.00



DEBIT CARD TRANSACTIONS

- There is one major difference between debit card and credit card transactions:
 - **Debit card**—automatically deducted from the checking account of the card holder (checking account balance is reduced)
 - **Credit card**—payment is made at a future date
- A cash payment made with a debit card is recorded on the check stub as “Other”
- Debit card payments are identified as a Purchase on the bank statement, with the date, time, location, and the amount of the debit card transaction stated



JOURNALIZING A DEBIT CARD TRANSACTION

*September 5. Purchased supplies, \$24.00, using debit card.
Memorandum No. 12.*

JOURNAL										PAGE 17
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
12	5 Supplies	M12	4	24.00					24.00	12
13										13

Diagram illustrating the journal entry with numbered steps:

- 1: Date (5)
- 2: Debit (Supplies, 24.00)
- 3: Credit (Cash, 24.00)
- 4: Source document (M12)

- Date.** Write the date.
- Debit.** Write the title of the account to be debited. Record the amount debited.
- Credit.** Record the amount credited.
- Source document.** Write the source document number.

Supplies	
24.00	
Cash	
	24.00



LESSON 5-4

Petty Cash



TERMS REVIEW

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- **petty cash**—an amount of cash kept on hand and used for making small payments
- **petty cash slip**—a form showing proof of a petty cash payment



PETTY CASH

- A business usually has some small payments for which writing a check is not time or cost effective
- A business may maintain a separate cash fund for making small cash payments
 - The actual dollar amount considered to be a small payment differs from one business to another (\$20, \$50, \$100)
- Petty Cash account is an **ASSET** with a normal balance of **DEBT BALANCE**
 - Petty Cash is debited (a check is written to fund the account)
 - Cash is credited



ESTABLISHING A PETTY CASH FUND

August 17. Paid cash to establish a petty cash fund, \$100.00.
Check No. 8.

JOURNAL										PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
17	17 Petty Cash	C8	4	100 00					100 00	17
18										18

- Date.** Write the date.
- Debit.** Write the title of the account to be debited. Record the amount debited.
- Credit.** Record the amount credited.
- Source document.** Write the source document number.

Petty Cash	
Debit	Credit
NORMAL BALANCE	
↑ Increase	↓ Decrease
Petty Cash	
100.00	
Cash	
	100.00



PETTY CASH SLIP

- Each time a small payment is made from the petty cash fund, a form is prepared showing the purpose and amount of the payment
- Petty Cash form shows the following:
 - Petty cash slip number
 - Date of petty cash payment
 - To whom paid
 - Reason for the payment
 - Amount paid
 - Account in which the amount is to be recorded
 - Signature of person approving the petty cash payment

MAKING PAYMENTS FROM A PETTY CASH FUND WITH A PETTY CASH SLIP

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PETTY CASH SLIP

No. 1

Date: August 18, 20--Paid to: TribuneFor: Newspaper Ad \$ 10.00Account: Advertising ExpenseApproved: Kim Park



PETTY CASH

- The petty cash slips are kept in the petty cash box until the fund is replenished
 - *No entries are made in the journal for the individual petty cash payments*
- As petty cash is paid out, the amount in the box decreases
- Eventually, the petty cash fund must be replenished and the petty cash payments recorded
- Also, petty cash is **always** replenished at the end of each month so that all of the expenses are recorded in the month they are incurred



PETTY CASH

- Before petty cash is replenished, a proof of the fund must be completed:

Petty cash remaining in the petty cash fund	\$ 70.00
Plus total of petty cash slips	<u>+ 30.00</u>
Equals petty cash fund	\$100.00

- The last line of the proof must show the same total as the original balance of the petty cash fund.
- If petty cash does not prove, the errors must be found and corrected before any more work is done
- The check issued to replenish petty cash is a credit to Cash and does not effect Petty Cash account--only those accounts used (see petty cash slips)



REPLENISHING PETTY CASH

August 31. Paid cash to replenish the petty cash fund, \$30.00: miscellaneous expense, \$20.00; advertising, \$10.00. Check No. 12.

JOURNAL										PAGE 2
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
10	31	Miscellaneous Expense	C12	4	20 00				30 00	10
11	1	Advertising Expense			10 00					11

- 1. Date.** Write the date.
- 2. Debit.** Write the title of the first account to be debited. Write the amount to be debited. Write the title of the second account to be debited. Record the amount to be debited.
- 3. Credit.** Record the amount credited.
- 4. Source document.** Write the source document number.