

CHAPTERS 1-30

College Accounting

Price
Haddock
Farina

Cash Receipts, Cash Payments, and Banking Procedures

Section 1: Cash Receipts

Section Objectives

1. Record cash receipts in a cash receipts journal.
2. Account for cash short or over.
3. Post from the cash receipts journal to subsidiary and general ledgers.

The type of cash receipts depends on the nature of the business.

- **Supermarkets receive checks as well as currency and coins.**
- **Department stores receive checks in the mail from charge account customers.**
- **Wholesalers usually receive cash in the form of checks.**

Cash Sales and Sales Taxes

Consider the cash sales entries for January 8 in the cash receipts journal for The Style Shop.

Recording of Cash Sales

CASH RECEIPTS JOURNAL

PAGE 1

DESCRIPTION	POST. REF.	ACCOUNTS RECEIVABLE CREDIT	SALES TAX PAYABLE CREDIT	SALES CREDIT	OTHER ACCOUNTS CREDIT			CASH DEBIT
					ACCOUNT NAME	POST. REF.	AMOUNT	
Roy Anderson		432.00						432.00
8 Cash Sales				360.00	4,500.00			4,860.00

Confirm that total credits equal total debits.

Consider the cash sales entries for January 8 in the cash receipts journal for The Style Shop.

Occasionally errors occur when making change.

When errors happen, the cash in the cash register is either more or less than the cash listed on the audit tape.

CASH RECEIPTS JOURNAL

DATE	DESCRIPTION	POST. REF.	ACCOUNTS RECEIVABLE CREDIT	SALES TAX PAYABLE CREDIT	SALES CREDIT	OTHER ACCOUNTS CREDIT			CASH DEBIT
						ACCOUNT NAME	POST. REF.	AMOUNT	
20--									
Jan. 7	R. Anderson		432.00						432.00
8	Cash Sales			212.80	3,040.00				4,860.00
11	Vickie Bowman		270.00						270.00
12	Investment					M. Amos, Capital		15,000.00	15,000.00
13	Barbara Coe		540.00						540.00
15	Cash Sales			384.00	4,800.00	Cash Short/Over		18.00	5,166.00

Debits are not the normal balance of the Other Accounts Credit column, so the debit entry is circled.

Cash Discounts on Sales

- **The Style Shop does not offer cash discounts.**
- **However, many wholesale businesses offer cash discounts to customers who pay within a certain time period. These are sales discounts.**
- **Businesses with many sales discounts add a Sales Discounts Debit column to the cash receipts journal.**

Promissory Notes

On July 31 The Style Shop accepted a six-month promissory note from Stacey Fairley, who owed \$800 on account.

\$800.00

Six months

AFTER DATE

I

PROMISE TO PAY

July 31, 20--

TO THE ORDER OF

The Style Shop

Eight hundred and no/100

DOLLARS

-PAYABLE AT

First Texas Bank

VALUE RECEIVED

with interest at 9%

NO. 30

DUE

January 31, 20--

Stacey Fairley

On July 31 The Style Shop recorded a general journal entry to increase notes receivable and to decrease accounts receivable for \$800.

The asset account, Notes Receivable, was debited. The Accounts Receivable account was credited.

GENERAL JOURNAL

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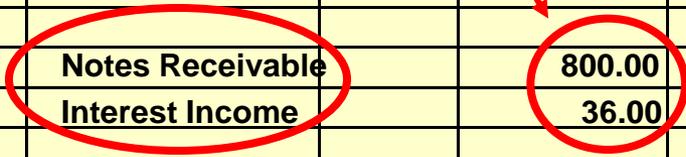
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
20-- July 31	Notes Receivable Accounts Rec./Stacee Fairley Received a 6-month, 9% note from Stacee Fairley to replace open account		800.00	800.00

Amount owed	=	\$800
Interest rate	=	9% per year
Rate for six-month period	=	(9%) 2
	=	4.5%
Interest amount	=	\$800 x 4.5%
	=	\$36
Total amount with interest	=	\$800 + \$36
	=	\$836

CASH RECEIPTS JOURNAL

DATE	DESCRIPTION	POST.	ACCOUNTS RECEIVABLE	SALES TAX PAYABLE	SALES	OTHER ACCOUNTS CREDIT		CASH DEBIT
						ACCOUNT NAME	POST. REF.	
20--								
Jan. 7	Roy Anderson							432.00
8	Cash Sales							4,860.00
11	V. Bowman							270.00
12	Investment						15,000.00	15,000.00
13	Coe		535.00					540.00
15	Cash Sales			384.00	4,800.00	Cash Short/Over	18.00	5,166.00
16	A. Sanchez		108.00					108.00
17	Cash Refund					Supplies	75.00	75.00
22	Fred Wu		400.00					400.00
22	Cash Sales			400.00	5,000.00			5,400.00
29	Cash Sales			216.00	2,700.00	Cash Short/Over	16.00	2,932.00
31	K. Ramirez		108.00					108.00
31	M. Davis		275.00					275.00
31	Cash Sales			440.00	5,500.00			5,940.00
31	Collection of note/S. Fairley					Notes Receivable	800.00	
						Interest Income	36.00	836.00

The note and the interest are recorded in the Other Accounts Credit section.



Objective 3

Post from the cash receipts journal to subsidiary and general ledgers

The column totals are posted to the general ledger.

CASH RECEIPTS JOURNAL

PAGE 1

DATE	DESCRIPTION	POST. REF.	ACCOUNTS RECEIVABLE CREDIT	SALES TAX PAYABLE CREDIT	SALES CREDIT	OTHER ACCOUNTS CREDIT			CASH DEBIT
						ACCOUNT NAME	POST. REF.	AMOUNT	
20--									
Jan. 7	Roy Anderson		432.00						432.00
8	Cash Sales			212.80	4,500.00				4,860.00
11	V. Bowman		270.00						270.00
12	Investment					M. Amos		15,000.00	15,000.00
13	Coe		535.00						540.00
15	Cash Sales			384.00	4,800.00	Cash Short/Over		18.00	5,166.00
16	A. Sanchez		108.00						108.00
17	Cash Refund					Supplies		75.00	75.00
22	Fred Wu		400.00						400.00
22	Cash Sales			400.00	5,000.00				5,400.00
29	Cash Sales			216.00	2,700.00	Cash Short/Over		16.00	2,932.00
31	K. Ramirez		108.00						108.00
31	M. Davis		275.00						275.00
31	Cash Sales			440.00	5,500.00				5,940.00
31	note/S. Fairley					Notes Receivable	109	800.00	
						Interest Income	491	36.00	836.00
31	Totals		2,133.00	1,800.00	22,500.00			15,909.00	42,342.00
			(111)	(231)	(401)			(X)	(101)

CASH RECEIPTS JOURNAL

DATE	DESCRIPTION	POST. REF.	ACCOUNTS RECEIVABLE CREDIT	SALES TAX PAYABLE CREDIT	SALES CREDIT	OTHER ACCOUNTS CREDIT		CASH DEBIT	
						ACCOUNT TITLE	POST. REF.		AMT.
20-- Jan. 7	R. Anderson	✓	432.00						432.00

The “CR1” indicates that the transaction appears on page 1 of the cash receipts journal.

Name Roy Anderson **Terms** n/30
Address 8913 S. Hampton Rd, Dallas, Texas 75232-6002

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE
20-- Jan. 1	Balance	✓			432.00
3	Sales Slip 1101	S1	432.00		864.00
7		CR1		432.00	432.00
31	Sales Slip 1110	S1	267.50		699.50

Cash Receipts, Cash Payments, and Banking Procedures

Section 2: Cash Payments

Section Objectives

4. Record cash payments in a cash payments journal.
5. Post from the cash payments journal to subsidiary and general ledgers.
6. Demonstrate a knowledge of procedures for a petty cash fund.
7. Demonstrate a knowledge of internal control routines for cash.

Objective 5

Posting from Cash Payment Journal to Subsidiary and General Ledger

CASH PAYMENTS JOURNAL

DATE	CK. NO.	EXPLANATION	POST. REF.	ACCOUNTS PAYABLE DEBIT	OTHER ACCOUNTS DEBIT		PURCH. DISCOUNT CREDIT	CASH CREDIT
					ACCOUNT TITLE	POST. REF.		
20-- Jan. 3	111	January rent			Rent Expense	634	1500.00	1500.00

ACCOUNT Rent Expense ACCOUNT NO. 634

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-- Jan. 3		CP1	1500.00		1500.00	

The "CP1" indicates that the entry is recorded on page 1 of the cash payments journal.

Objective 6 Demonstrate a knowledge of procedures for a petty cash fund

A petty cash voucher shows:

PETTY CASH VOUCHER 1

Voucher number

NOTE: This form must be computer processed

DESCRIPTION OF EXPENDITURE	ACCOUNT TO BE CHARGED	AMOUNT	
Office Supplies	Supplies 129	16	25
	Total	16	25

RECEIVED

THE SUM OF Sixteen ----- **DOLLARS AND** 25/100 **CENTS**

SIGNED L.T. Green **DATE** 2/3/-- **APPROVED BY** M.A. **DATE** 2/3/--

Metroplex Office Supply Co.

Replenishing the Fund

The total vouchers plus the cash on hand should always equal the amount of the fund—\$175 for The Style Shop.

Replenish the petty cash fund at the end of each month or sooner if the fund is low.

The following internal control procedures apply to petty cash:

- 1. Use the petty cash fund only for small payments that cannot conveniently be made by check.**
- 2. Limit the amount set aside for petty cash to the approximate amount needed to cover one month's payments from the fund.**
- 3. Write petty cash fund checks to the person in charge of the fund, not to the order of "Cash."**

The following internal control procedures apply to petty cash:

- 4. Assign one person to control the petty cash fund. This person has sole control of the money and is the only one authorized to make payments from the fund.**
- 5. Keep petty cash in a safe, a locked cash box, or a locked drawer.**
- 6. Obtain a petty cash voucher for each payment. The voucher should be signed by the person who receives the money and should show the payment details. This provides an audit trail for the fund.**

Objective 7

Demonstrate a knowledge of internal control routines for cash

- 1. Have only designated employees receive and handle cash. In some businesses employees handling cash are bonded.**
- 2. Keep cash receipts in a cash register, a locked cash drawer, or a safe while they are on the premises.**
- 3. Make a record of all cash receipts as the funds come into the business.**
- 4. Check the funds to be deposited against the record made when the cash was received. The employee who checks the deposit is someone other than the one who receives or records the cash.**

Essential Cash Receipt Controls

- 5. Deposit cash receipts in the bank promptly. Deposit the funds intact. The person who makes the bank deposit is someone other than the one who receives and records the funds.**
- 6. Enter cash receipt transactions in the accounting records promptly. The person who records cash receipts is not the one who receives or deposits the funds.**
- 7. Have the monthly bank statement sent to and reconciled by someone other than the employees who handle, record, and deposit the funds.**

Essential Cash Payment Controls

- 1. Make all payments by check except for payments from special purpose cash funds such as a petty cash fund.**
- 2. Issue checks only with an approved bill, invoice, or other document that describes the reason for the payment.**
- 3. Have only designated personnel approve bills and invoices.**
- 4. Have checks prepared and recorded in the checkbook or check register by someone other than the person who approves the payments.**

Essential Cash Payment Controls

5. **Have still another person sign and mail the checks to creditors.**
6. **Use prenumbered check forms.**
7. **During the bank reconciliation process, compare the canceled checks to the checkbook or check register. The person responsible for this should be someone other than the person who prepares or records the checks.**
8. **Enter promptly in the accounting records all cash payment transactions. The person who records cash payments should not be the one who approves payments or the one who writes the checks.**

Cash Receipts, Cash Payments, and Banking Procedures

Section 3: Banking Procedures

Section Objectives

8. Write a check, endorse checks, prepare a bank deposit slip, and maintain a checkbook balance.
9. Reconcile the monthly bank statement.
10. Record any adjusting entries required from the bank reconciliation.

Objective 8

Write a check, endorse checks, prepare a bank deposit slip, and maintain a checkbook balance.

Checks and Check Stubs

No. 111	BAL BRO'T FORD	12,025.00	The Style Shop	No. 111
Carter Group	20 --		2010 Trendsetter Lane.	11-8640 1210
Turner Real Estate Assoc.			Dallas, TX 75268	DATE <u>January 3</u> 20 --
TO ORDER OF			PAY TO THE ORDER OF Carter Group	\$ 1,500.00
FOR			<i>One thousand five hundred</i>	_____ DOLLARS
	TOTAL	11,175.00	FIRST SECURITY NATIONAL BANK	
AMOUNT THIS CHECK		1,500.00	Dallas, TX 75267-6205	
BALANCE		8,125.00	MEMO <u>Rent for January</u>	Mary Amos
			⑆ ⑆ 2 ⑆ 0 ⑆ 8 6 4 0 ⑆ ⑆ ⑆ ⑆ 9 ⑆ ⑆ 0 7 6 7 8 8 9 ⑆ ⑆	

This check is a negotiable financial instrument.

Endorsements

Full Endorsement

PAY TO THE ORDER OF
FIRST SECURITY NATIONAL BANK
THE STYLE SHOP
38-14-98867

Blank Endorsement

Mary Amos
38-14-98867

Restrictive Endorsement

PAY TO THE ORDER OF
FIRST TEXAS NATIONAL BANK
FOR DEPOSIT ONLY
THE STYLE SHOP
38-14-98867

Sometimes the difference between the bank balance and the book balance is due to errors.

Errors made by banks	Errors made by businesses
Arithmetic errors	Arithmetic errors
Giving credit to the wrong depositor	Not recording a check or deposit
Charging a check against the wrong account	Recording a check or deposit for the wrong amount

Many banks require that errors in the bank statement be reported within a short period of time, usually 10 days.

Other than errors, there are four reasons why the book balance of cash may not agree with the balance on the bank statement.

- 1. Outstanding checks.**
- 2. Deposit in transit.**
- 3. Service charges and other deductions not recorded in the business records.**
- 4. Deposits, such as the collection of promissory notes, not recorded in the business records.**

Format of a bank reconciliation statement

First Section

Bank statement balance

+ deposits in transit

– outstanding checks

+ or – bank errors

Adjusted bank balance

Second Section

Book balance

+ deposits not recorded

– deductions

+ or – errors in books

Adjusted book balance

≠

=

Steps to prepare the bank reconciliation statement:

First Section

- 1. Enter the balance on the bank statement.**
- 2. Compare the deposits in the checkbook with the deposits on the bank statement.**
- 3. List the outstanding checks.**
- 4. List any bank errors.**
- 5. Compute the adjusted bank balance.**

Steps to prepare the bank reconciliation statement:

Second Section

- 1. Enter the balance in books from the Cash account.**
- 2. Record any deposits made by the bank that have not been recorded in the accounting records.**
- 3. Record deductions made by the bank.**
- 4. Record any errors in the accounting records that were discovered during the reconciliation process.**
- 5. Compute the adjusted book balance.**

The Style Shop		
Bank Reconciliation Statement		
January 31, 20--		
Bank statement balance		21,838.50
Additions:		
Deposit of January 31 in transit	5,940.00	
Check incorrectly charged to account	1,600.00	7,540.00
		29,378.50
Deductions for outstanding checks:		
Check 124 of January 31	565.00	
Check 125 of January 31	4,950.00	

Notice that the adjusted bank balance and the adjusted book balance agree.

Check 130 of January 31	175.00	
Total outstanding checks		15,537.80
Adjusted bank balance		13,840.70
Book balance		14,390.70
Deductions:		
NSF Check	525.00	
Bank service charge	25.00	550.00
Adjusted book balance		13,840.70

Objective 10

Record any adjusting entries from the bank reconciliation

For The Style Shop, two entries must be made.

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DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
Jan 31	Accts. Rec./David Newhouse Bank Fees Expense Cash To record NSF check and service charge		525.00 25.00	550.00

1. The first entry is for the NSF check from David Newhouse, a credit customer.
2. The second entry is for the bank service charge.

The effect of the two items is a decrease in the Cash account balance.

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