

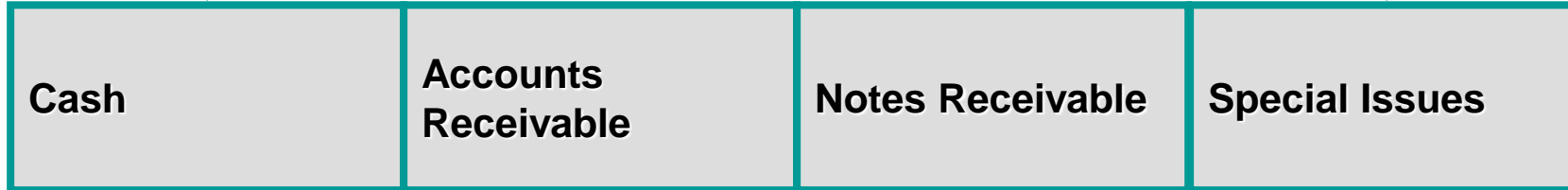
Chapter 3
Cash And Cash Equivalent

Cash

Learning Objectives

- 1. Establish and account for a Change Fund.**
- 2. Establish and account for a Petty Cash Fund.**
- 3. Describe the use of commercial banking services for cash transactions.**
- 4. Analysis: Compute and explain liquidity measures, the doomsday ratio and the quick or acid test ratio**

Cash and Receivables



- What is cash?
- Reporting cash
- Summary of cash-related items

- Recognition
- Valuation
- Impairment evaluation process

- Recognition
- Valuation

- Fair value option
- Derecognition of receivables
- Presentation and analysis

Cash and Cash Equivalents

What is Cash?

A **financial asset**: also a **financial instrument**.

Financial Instrument: Any contract that gives rise to a financial asset of one entity and a financial liability or equity interest of another entity.

Financial Assets

Cash

Loans and receivables

Investments in debt securities

Investments in equity securities

Non-Financial Assets

Inventory

Prepaid expenses

Property, plant, and equipment

Intangible assets

Cash Is:

- Most liquid asset.
- Standard medium of exchange.
- Basis for measuring and accounting for all other items.
- Current asset.

Examples: coin, currency, available funds on deposit at the bank, money orders, certified checks, cashier's checks, personal checks, bank drafts and savings accounts.

Cash equivalents:

Short term investments that are highly liquid

- Able to be converted to known amounts of cash. (*maturities of 3 months or less*)
- so near their maturity that they present insignificant risk of changes in interest rates.

Examples:

- Treasury bills,
- Bank deposits and commercial paper(issued by public corporations) ,
- and money market funds.

Classification of Cash, Cash Equivalents, and Non-Cash Items

Item	Classification	Comment
Cash	Cash	If unrestricted, report as cash. If restricted, identify and classify as current and non-current assets.
Petty cash and change funds	Cash	Report as cash.
Short-term paper	Cash equivalents	Investments with maturity of less than 3 months, often combined with cash.
Short-term paper	Short-term investments	Investments with maturity of 3 to 12 months.
Postdated checks and IOU's	Receivables	Assumed to be collectible.
Travel advances	Receivables	Assumed to be collected from employees or deducted from their salaries.
Postage on hand (as stamps or in postage meters)	Prepaid expenses	May also be classified as office supplies inventory.
Bank overdrafts	Cash	If no offsetting allowed, current liability.
Compensating balances	Cash separately classified as a deposit maintained as compensating balance	Classify as current or non-current in the statement of financial position. Disclose separately in notes details of the arrangement.

Reporting Cash:

The reporting of cash is relatively straightforward, **issues relate to the reporting of:**

- 1. Cash equivalents:** are short-term, highly liquid investments.
- 2. Restricted cash:** from “regular” cash for reporting purposes
Petty cash, payroll, and dividend funds are examples of cash set aside for a particular purpose..
- 3. Bank overdrafts:** occur when a company writes a check for more than the amount in its cash account..

Establish Change Fund

KAYOKO'S GIFTS BALANCE SHEET As of 12/31/07

The Chart of Accounts is modified to include a new ledger account "Change Fund"

<u>ASSETS</u>		<u>LIABILITIES</u>	
Cash	14,650	Accounts Payable	45,000
Change Fund	0	<i>Current liabilities</i>	45,000
Accounts Receivable	1,240	Notes Payable	16,500
Inventory	104,500	Total	61,500
Supplies	2,100		
<i>Current assets</i>	122,490	<u>EQUITY</u>	
Equipment	54,650	Owner, Capital	238,130
Total	299,630	Total	299,630

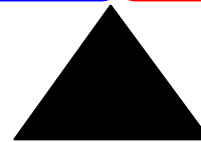
Establish Change Fund

KAYOKO'S GIFTS BALANCE SHEET

As of 12/31/07

A journal entry moves the change fund total from Cash to "Change Fund"

<u>ASSETS</u>		<u>LIABILITIES</u>	
Cash	14,500	Accounts Payable	45,000
Change Fund	150	<i>Current liabilities</i>	45,000
Accounts Receivable	1,240	Notes Payable	16,500
Inventory	104,500	Total	61,500
Supplies	2,100		
<i>Current assets</i>	122,490	<u>EQUITY</u>	
Equipment	54,650	Owner, Capital	238,130
Total	299,630	Total	299,630



Establish Change Fund

GENERAL JOURNAL				Page 15
Date	Description	PR	Debit	Credit
14-Sep	■ Change Fund	105	150.00	
	■ Cash	100		150.00
	<i>Establish Change Fund</i>			

LEDGER						
Account Name: ■ CASH					Acct #: 100	
Date	Item	Post Ref.	Debit	Credit	BALANCE	
					Debit	Credit
2007	Balance Forward				14,650.00	
14-Sep		J15		150.00	14,500.00	

Account Name: ■ CHANGE FUND					Acct #: 105	
Date	Item	Post Ref.	Debit	Credit	BALANCE	
					Debit	Credit
2007						
14-Sep		J15	150.00		150.00	

Change Fund Controls:

Some of the important controls to consider when dealing with cash drawers are:

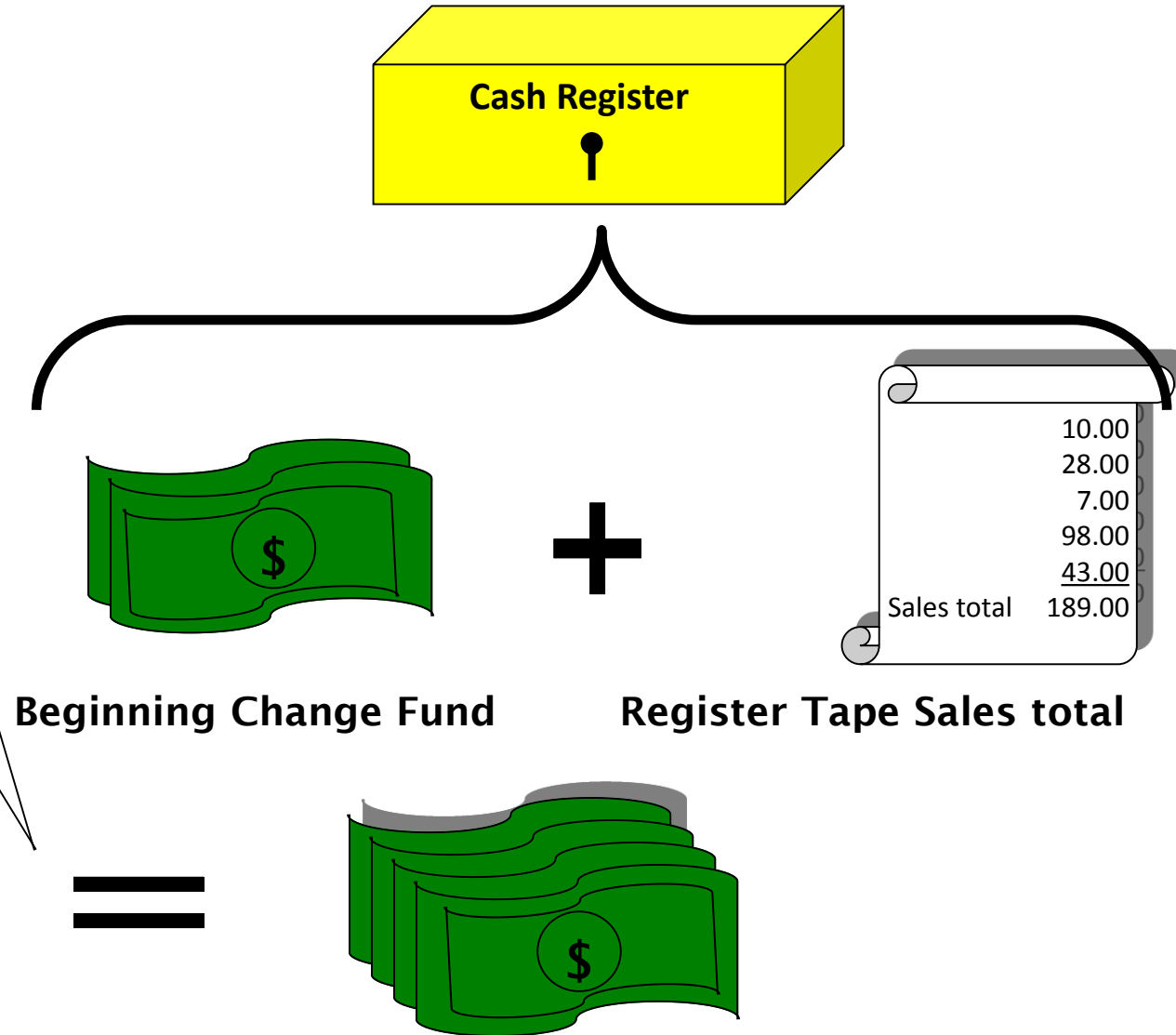
- Individual responsibility
- Segregation of duties

The cashier must accept responsibility for the change fund and cash received.

The cashier should not be allowed to record the results of cash sales activities into the accounting system.

Change Fund Equation

At any point in time, the total of the cash register tape for sales plus the beginning change fund should equal the total ending cash count.



Ending Cash Count

Journalize Cash Sales

1. The cash count total of \$1,043 is not journalized.
2. We simply record the effect on the regular cash account with a **debit** for the actual increase in cash \$1,043 - \$150 = \$893
3. No entry is made to the Change Fund except to increase or decrease it.

GENERAL JOURNAL				Page 15
Date	Description	PR	Debit	Credit
15-Sep	■ Cash	100	893.00	
	■ Cash Short & Over	599	2.00	
	■ Sales	400		895.00

LEDGER						
Account Name: ■ CASH					Acct #: 100	
Date	Item	Post Ref.	Debit	Credit	BALANCE	
					Debit	Credit
2007	Balance Forward				14,500.00	
15-Sep		J15	893.00		15,393.00	

LEDGER						
Account Name: ■ SALES					Acct #: 400	
Date	Item	Post Ref.	Debit	Credit	BALANCE	
					Debit	Credit
2007	Balance Forward					56,340.00
15-Sep		J15		895.00		57,235.00

LEDGER						
Account Name: ■ CASH SHORT & OVER					Acct #: 599	
Date	Item	Post Ref.	Debit	Credit	BALANCE	
					Debit	Credit
2007	Balance Forward				3.00	
15-Sep		J15	2.00		5.00	

Problem:

End of day register tape cash sales total is \$558.25

Cash count is \$759.25

Change Fund is \$200

Required:

Journalize the day's cash revenue

Journalize Cash Sales

1. The cash count total of \$759.25 isn't journalized.
2. The actual increase in cash is: \$759.25 minus \$200 = \$559.25.
3. Record the increase in cash, the day's sales total and balance the entry with Cash Short & Over as necessary.

GENERAL JOURNAL				Page 15
Date	Description	PR	Debit	Credit
15-Sep	■ Cash	100	559.25	
	■ Cash Short & Over	599		1.00
	■ Sales	400		558.25

LEDGER						
Account Name: ■ CASH					Acct #: 100	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward				17,400.00	
15-Sep		J15	559.25		17,959.25	

LEDGER						
Account Name: ■ SALES					Acct #: 400	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward					41,800.00
15-Sep		J15		558.25		42,358.25

LEDGER						
Account Name: ■ CASH SHORT & OVER					Acct #: 599	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward				3.00	
15-Sep		J15		1.00	2.00	

Establish and account for a Petty Cash Fund.

**Cash is called “liquid” for a good reason.
It flows easily and must be protected carefully by firms.**

However small or “petty”, theft of petty cash over time can seriously damage an unsuspecting firm.

Establish Petty Cash

THOMPSON'S EQUIPMENT BALANCE SHEET

As of 12/31/07

The Chart of Accounts is modified to include a new ledger account "Petty Cash"

ASSETS

Cash	55,750
Petty Cash	0
Accounts Receivable	88,000
Inventory	125,600
Supplies	1,200
<i>Current assets</i>	<u>270,550</u>
Equipment	<u>75,400</u>
Total	616,500

LIABILITIES

Accounts Payable	166,700
<i>Current liabilities</i>	<u>166,700</u>
Notes Payable	<u>185,000</u>
Total	351,700

EQUITY

Owner, Capital	<u>264,800</u>
Total	616,500

Establish Petty Cash

THOMPSON'S EQUIPMENT BALANCE SHEET

As of 12/31/07

A journal entry moves the petty cash amount from Cash to "Petty Cash"

<u>ASSETS</u>		<u>LIABILITIES</u>	
Cash	55,500	Accounts Payable	166,700
Petty Cash	250	<i>Current liabilities</i>	166,700
Accounts Receivable	88,000	Notes Payable	185,000
Inventory	125,600	Total	351,700
Supplies	1,200		
<i>Current assets</i>	270,550		
Equipment	75,400	<u>EQUITY</u>	
Total	616,500	Owner, Capital	264,800
		Total	616,500

GENERAL JOURNAL					Page 15
<i>Date</i>	<i>Description</i>	<i>PR</i>	<i>Debit</i>	<i>Credit</i>	
14-Sep	■ Petty Cash	110	250.00		
	■ Cash	100		250.00	
	<i>Establish Petty Cash Fund</i>				

LEDGER						
Account Name: ■ CASH					Acct #: 100	
<i>Date</i>	<i>Item</i>	<i>Post Ref.</i>	<i>Debit</i>	<i>Credit</i>	<u>BALANCE</u>	
					<i>Debit</i>	<i>Credit</i>
2007	<i>Balance Forward</i>				55,750.00	
14-Sep		J15		250.00	55,500.00	

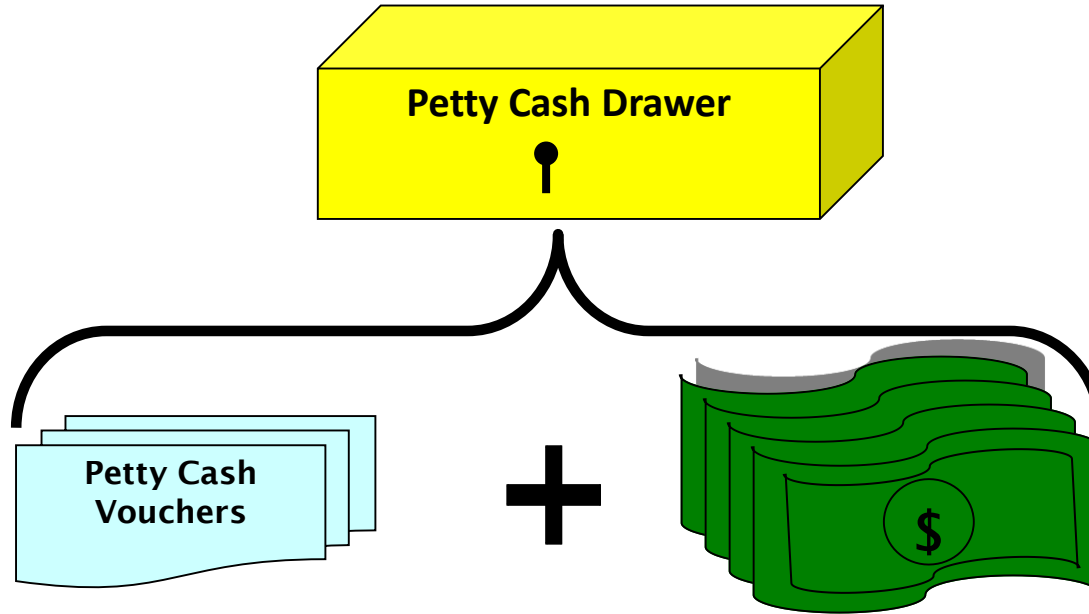
LEDGER						
Account Name: ■ PETTY CASH					Acct #: 110	
<i>Date</i>	<i>Item</i>	<i>Post Ref.</i>	<i>Debit</i>	<i>Credit</i>	<u>BALANCE</u>	
					<i>Debit</i>	<i>Credit</i>
2007						
14-Sep		J15	250.00		250.00	

Petty Cash Controls

1. Petty Cash Officer has individual responsibility for Petty Cash.
2. Require vouchers for disbursement of petty cash.
3. Vouchers signed by Petty Cash Officer and the individual in the firm receiving the cash.
4. The Petty Cash Officer not allowed to receive disbursements without second signature.
5. The Petty Cash Officer doesn't record the reimbursement of petty cash in the accounting system.

Petty Cash Equation

At any point in time the total of the cash count plus vouchers in the petty cash drawer should equal the total in the Petty Cash Fund.



=

Total of the established Petty Cash Fund

(Assumes no decrease or increase in cash due to error or theft.)

PETTY CASH VOUCHER

No. 4

Date: 9-15-07

Paid to: Western Office Supplies \$ 31.25

For: Printer cartridges

Account: Office Supplies

Approved by

Cash received by

Cass Elliot

Mervin Purvis

Petty Cash Reimbursement

Petty Cash fund: \$250:

Vouchers:

9/14 Paid \$111 for postage
9/15 Paid \$25 for delivery services
9/20 Paid \$87 for office supplies
9/24 Paid \$6 for key duplication

Vouchers total \$229. Total cash count on 30/9 is \$20

Using the equation, vouchers + cash count should equal \$250, however,

$$\begin{array}{r} \$229 \\ \underline{\quad 20} \\ \$249 \end{array}$$

Therefore, cash is short \$1 and the Cash Short and Over account will be used to record this loss (**debit**). Journal entries follow. . .

Journalize Reimbursement of Petty Cash

The Cash Short and Over account is used to balance the entry. If a credit entry is required in Cash Short and Over, a gain is indicated.

GENERAL JOURNAL					Page 15
Date	Description	PR	Debit	Credit	
30-Sep	■ Postage Expense	570	111.00		
	■ Miscellaneous Expense	580	25.00		
	■ Supplies	160	87.00		
	■ Miscellaneous Expense	580	6.00		
	■ Cash Short & Over	580	1.00		
	■ Cash			230.00	

LEDGER						
Account Name: ■ CASH SHORT & OVER					Acct #: 599	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward				3.00	
30-Sep		J15	1.00		4.00	

LEDGER						
Account Name: ■ SUPPLIES					Acct #: 160	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward				575.00	
30-Sep		J15	87.00		662.00	

LEDGER						
Account Name: ■ CASH					Acct #: 100	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward				17,600.00	
30-Sep		J15	230.00		17,370.00	

LEDGER						
Account Name: ■ POSTAGE EXPENSE					Acct #: 570	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward				368.00	
30-Sep		J15	111.00		479.00	

LEDGER						
Account Name: ■ MISCELLANEOUS EXPENSE					Acct #: 580	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward				118.00	
30-Sep		J15	25.00		143.00	
		J15	6.00		149.00	

Example:

McMann, Inc. decided to establish a petty cash fund to help ensure internal control over its small cash expenditures. The following information is available for the month of April.

1. On April 1, it established a petty cash fund in the amount of \$200.
2. A summary of the petty cash expenditures made by the petty cash custodian as of April 10 is as follows.

Delivery charges paid on merchandise purchased	\$60
Supplies purchased and used	25
Postage expense	40
I.O.U. from employees	17
Miscellaneous expense	36

The petty cash fund was replenished on April 10. The balance in the fund was \$12.

3. The petty cash fund balance was increased \$100 to \$300 on April 20.

Instructions

Prepare the journal entries to record transactions related to petty cash for the month of April.

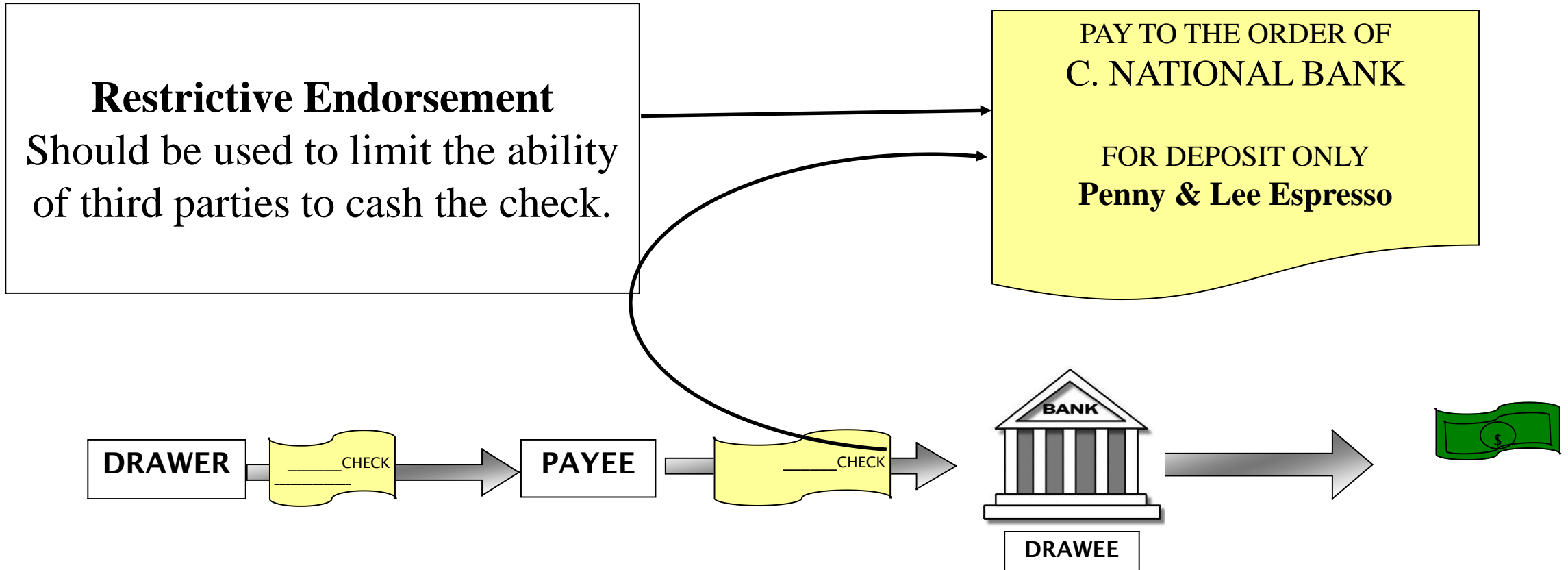
Bank Reconciliation

Bank Services involving cash transactions

- **Deposit Products-checking and savings**
- **Payroll tax deposit services**
- **Electronic funds transfers**
- **Cash management**
- **Online banking**



Payment Process Using Checks



Who is keeping track of the cash?

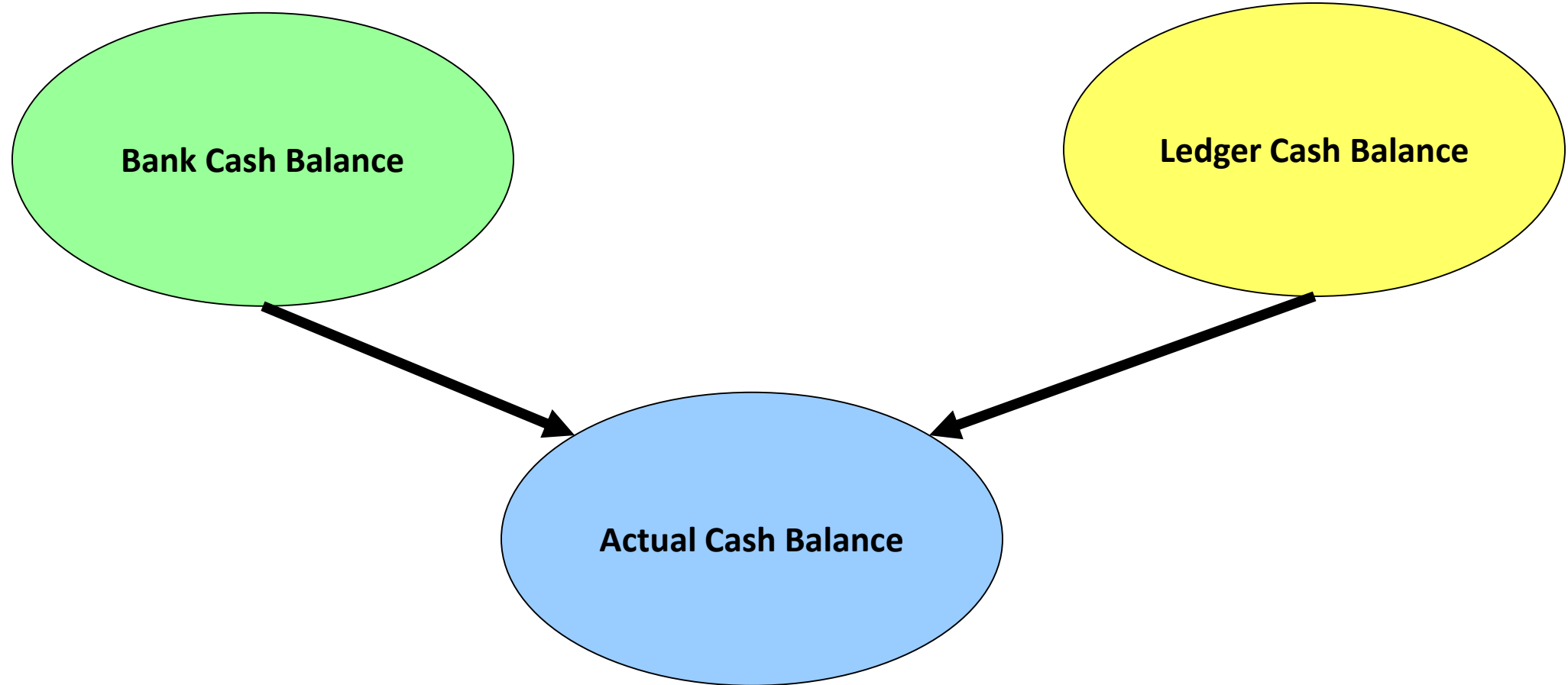
Firms that use bank checking deposit services actually have two parties that keep track of the firm's cash balances:

- 1. The firm itself and,**
- 2. The firm's bank.**

As a result, the firm must regularly compare the two balances and confirm any reasons for differences.

This process is called reconciliation

Bank Reconciliation



COAST NATIONAL BANK
 VALLEYWOOD, CA 90090 (310) 333-4444

Account #: 3489723 Checking Statement -Page 1
 9/1/07 to 9/30/07 Activity

Penny & Lee Espresso 123 Latte Drive Valleywood, CA 90090	Beginning balance:	16,543.77	Deposits:	25,274.65
	Net activity	840.98	Withdrawals:	24,934.17
	Ending balance:	17,384.75	Other Dr & Cr:	500.50 Cr

Date	Checks & Other Debits	Deposits & Other Credit	Balance	Explanation
	Ck No	Amount	Amount	
			16,543.77	
1-Sep	1105	36.34	16,507.43	
3-Sep	1106	1,236.44	26,471.39	
3-Sep		856.50	25,614.89	NSF 8/25 deposit item
6-Sep	1107	2,358.94	23,255.95	
7-Sep	1108	112.00	23,143.95	
8-Sep			23,243.95	Error 8/25 deposit
12-Sep	1109	3,467.32	19,776.63	
12-Sep	1111	12.60	19,764.03	
			19,419.03	
			28,093.28	Deposit 8,674.25
			15,413.53	
			15,338.20	
			16,594.20	Collection 7/24 deposit item
			11,983.75	
			17,383.75	Deposit 5,400.00
			17,411.25	Interest earned on deposits
			17,384.75	Bank service fee -checking
			17,384.75	Ending balance:

Why is there a difference???

LEDGER					
Account Name: ■ CASH				Acct #: 100	
Date	Item	Post Ref.	Debit	Credit	BALANCE
					Debit
9/30/07	Balance Forward				18,063.02

20-Sep					
30-Sep					
30-Sep				26.50	

Ending balance: 17,384.75

Why is there a difference?

The firm's cash balance (book or ledger balance); and the bank's cash balance are usually not the same due to *timing* differences.

1. The firm makes changes to its' cash balance that will take some time to reach the bank and;
2. The bank make changes to the firm's deposit balances that take some time to reach the firm

What changes does the firm initiate?

The firm records:

1. Checks issued -credit to cash
2. Cash received for deposit -debit to cash

Until the bank receives this information these changes are called:

1. Outstanding checks
2. Deposits in transit

What changes does the bank initiate?

The bank may add to the cash balance for:

1. Electronic funds transferred in
 2. Interest paid for deposit balances
- Collection of notes and **not-sufficient-funds (NSF)** checks

The bank may deduct cash for:

1. Service fees
2. Returned **not-sufficient-funds** NSF checks previously deposited

*These changes are communicated to the firm in the monthly statement

Reconciliation of Bank Balances

Schedule explaining any differences between the bank's and the company's records of cash.

RECONCILING ITEMS

- 1. DEPOSITS IN TRANSIT.** End-of-month deposits of cash recorded on the depositor's books in one month are received and recorded by the bank in the following month.
- 2. OUTSTANDING CHECKS.** Checks written by the depositor are recorded when written but may not be recorded by (may not "clear") the bank until the next month.
- 3. BANK CHARGES.** Charges recorded by the bank against the depositor's balance for such items as bank services, printing checks, **not-sufficient-funds (NSF) checks**, and safe-deposit box rentals. The depositor may not be aware of these charges until the receipt of the bank statement.
- 4. BANK CREDITS.** Collections or deposits by the bank for the benefit of the depositor that may be unknown to the depositor until receipt of the bank statement. Examples are note collection for the depositor and interest earned on interest-bearing checking accounts.
- 5. BANK OR DEPOSITOR ERRORS.** Errors on either the part of the bank or the part of the depositor cause the bank balance to disagree with the depositor's book balance.

Bank Reconciliation Form and Content

Balance per bank statement (end of period)		\$\$\$
Add: Deposits in transit	\$\$	
Undeposited receipts (cash on hand)	\$\$	
Bank errors that understate the bank statement balance	\$\$	\$\$
		<u> </u>
		\$\$\$
Deduct: Outstanding checks	\$\$	
Bank errors that overstate the bank statement balance	\$\$	\$\$
		<u> </u>
Correct cash balance		<u> </u> <u> </u> \$\$\$
Balance per depositor's books		\$\$\$
Add: Bank credits and collections not yet recorded in the books	\$\$	
Book errors that understate the book balance	\$\$	\$\$
		<u> </u>
		\$\$\$
Deduct: Bank charges not yet recorded in the books	\$\$	
Book errors that overstate the book balance	\$\$	\$\$
		<u> </u>
Correct cash balance		<u> </u> <u> </u> \$\$\$

Bank Reconciliation

Adjustments to the Bank and the Ledger Balance

Must result in the same adjusted cash balance to reconcile.

COAST NATIONAL BANK		Account #:		3489723		Checking Statement -Page 1	
VALLEYWOOD, CA 90090 (310) 333-4444		9/1/07 to 9/30/07		Activity			
Penny & Lee Espresso 123 Latte Drive Valleywood, CA 90090		Beginning balance:		16,543.77	Deposits:		25,274.65
		Net activity		840.98	Withdrawals:		24,934.17
		Ending balance:		17,384.75	Other Dr & Cr:		500.50 Cr
Date	Checks & Other Debits		Deposits & Other Credit		Balance	Explanation	
	Ck No.	Amount	Amount		16,543.77		
1-Sep	1105	36.34			16,507.43		
3-Sep	1106	1,236.44	Deposit	11,200.40	26,471.39		
3-Sep		856.50			25,614.89	NSF 8/25 deposit item	
6-Sep	1107	2,358.94			23,255.95		
7-Sep	1108	112.00			23,143.95		
8-Sep				100.00	23,243.95	Error 8/25 deposit	
12-Sep	1109	3,467.32			19,776.63		
12-Sep	1111	12.60			19,764.03		
15-Sep	1112	345.00			19,419.03		
16-Sep			Deposit	8,674.25	28,093.28		
19-Sep	1114	12,679.75			15,413.53		
21-Sep	1115	75.33			15,338.20		
22-Sep				1,256.00	16,594.20	Collection 7/24 deposit item	
22-Sep	1116	4,610.45			11,983.75		
26-Sep			Deposit	5,400.00	17,383.75		
30-Sep				27.50	17,411.25	Interest earned on deposits	
30-Sep		26.50			17,384.75	Bank service fee -checking	
				Ending balance:	17,384.75		

BANK STATEMENT RECONCILIATION

A review of the checks issued by the firm indicates Ck #1110 for \$323.00 and #1113 for \$86.23 are outstanding and a 9/30 deposit of \$1,488.00 has not been received by the bank. The deposit error was made by the bank.

Bank Statement Balance		Ledger Balance	
Statement ending balance	17,384.75	As of statement date	18,063.02
Add:		Add:	
Deposits in transit	1,488.00	NSF collected	1,256.00
Deduct:		Interest earned	27.50
Checks outstanding	409.23	Deduct:	
		Returned deposit -NSF	856.50
		Service fee	26.50
Adjusted balance:	18,463.52	Adjusted balance	18,463.52

Journalize adjustments

All of the adjustments to the ledger cash balance must be formally entered into the accounting system to complete the bank reconciliation

GENERAL JOURNAL					Page 9
Date	Description	PR	Debit	Credit	
6-Oct	■ T. Sim, Receivable -NSF	175/✓	856.50		
	■ Misc Expense -Bank fees	580	26.50		
	■ Cash	100		883.00	
	■ Cash	100	1,283.50		
	■ Interest Income	450		27.50	
	■ B. Pal, Receivable -Collected	175/✓		1,256.00	

When this posting is complete, the resulting cash balance should reflect all the information to date as to the true cash balance

LEDGER						
Account Name: ■ B. Pal, RECEIVABLE					Acct #: 175.9	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward				1,256.00	
6-Oct		J9		1,256.00	0.00	

LEDGER						
Account Name: ■ MISCELLANEOUS EXPENSE					Acct #: 580	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward				268.00	
6-Oct		J9	26.50		294.50	

LEDGER						
Account Name: ■ INTEREST INCOME					Acct #: 450	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward					89.55
6-Oct		J9		27.50		117.05

LEDGER						
Account Name: ■ T. Sim, RECEIVABLE					Acct #: 175.6	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward				0.00	
6-Oct		J9	856.50		856.50	

LEDGER						
Account Name: ■ CASH					Acct #: 100	
					<u>BALANCE</u>	
Date	Item	Post Ref.	Debit	Credit	Debit	Credit
2007	Balance Forward				18,063.02	
6-Oct		J9	1,283.50		19,346.52	
				883.00	18,463.52	

Journalize Adjustments

GENERAL JOURNAL					Page 9
Date	Description	PR	Debit	Credit	
6-Oct	■ T. Sim, Receivable -NSF	175/✓	856.50		
	■ Misc Expense -Bank fees	580	26.50		
	■ Cash	100		883.00	
	■ Cash	100	1,283.50		
	■ Interest Income	450		27.50	
	■ B. Pal, Receivable -Collected	175/✓		1,256.00	

When this posting is complete, the resulting cash balance should reflect all the information to date as to the true cash balance

LEDGER						
Account Name: ■ CASH					Acct #: 100	
Date	Item	Post Ref.	Debit	Credit	BALANCE	
					Debit	Credit
2007	Balance Forward				18,063.02	
6-Oct		J9	1,283.50		19,346.52	
				883.00	18,463.52	

LEDGER						
Account Name: ■ T. Sim, RECEIVABLE					Acct #: 175.6	
Date	Item	Post Ref.	Debit	Credit	BALANCE	
					Debit	Credit
2007	Balance Forward				0.00	
6-Oct		J9	856.50		856.50	

LEDGER						
Account Name: ■ B. Pal, RECEIVABLE						
Date	Item	Post Ref.	Debit	Credit	BALANCE	
					Debit	Credit
2007	Balance Forward				1,256.00	
6-Oct		J9		1,256.00	0.00	

Bank Overdrafts

When a company writes a check for more than the amount in its cash account.

- Generally **reported** as a current liability.
- Offset against cash account **only** when available cash is present in another account in the same bank on which the overdraft occurred.

E7-24 (Bank Reconciliation and Adjusting Entries) Kipling Company deposits all receipts and makes all payments by check. The following information is available from the cash records.

June 30 Bank Reconciliation

Balance per bank	\$ 7,000
Add: Deposits in transit	1,540
Deduct: Outstanding checks	<u>(2,000)</u>
Balance per books	<u>\$ 6,540</u>

Month of July Results

	<u>Per Bank</u>	<u>Per Books</u>
Balance July 31	\$8,650	\$9,250
July deposits	4,500	5,810
July checks	4,000	3,100
July note collected (not included in July deposits)	1,500	—
July bank service charge	15	—
July NSF check from a customer, returned by the bank (recorded by bank as a charge)	335	—

Instructions

- (a) Prepare a bank reconciliation going from balance per bank and balance per book to correct cash balance.
- (b) Prepare the general journal entry or entries to correct the Cash account.

(a) Angela Lansbury Company

Bank Reconciliation

July 31

Balance per bank statement, July 31		\$8,650
Add: Deposits in transit		2,350 ^a
Deduct: Outstanding checks		<u>(1,100)^b</u>
Correct cash balance, July 31		<u>\$9,900</u>
Balance per books, July 31		\$9,250
Add: Collection of note		1,000
Less: Bank service charge	\$ 15	
NSF check	<u>335</u>	<u>(350)</u>
Correct cash balance, July 31		<u>\$9,900</u>

(b)	Cash	650	
	Office Expenses—bank service charges	15	
	Accounts Receivable	335	
	Notes Receivable		1,000

