

CASH

Key Topics to Know

Bank Reconciliation

- How to prepare a bank reconciliation
- Types of reconciling items and whether they affect the book balance or bank balance
- The reconciling items that require journal entries.
- Correction of accounting errors on the books

Cash and Cash Equivalents

- Cash is money, checking accounts and savings accounts
- Cash equivalents are other extremely short-term financial instruments
- Cash equivalents are extremely liquid, meaning they can be converted into cash at any time

Practice Problems

Problem #1 - Bank reconciliation and related journal entries

The following transactions occurred during the month:

- a) The bank statement balance was \$10,520; the cash account balance in the general ledger was \$14,075.
- b) Cash received on account of \$510 was recorded as \$150.
- c) Deposit of \$5,000 made on the last day of the month was not recorded on the bank statement.
- d) Bank service charges were \$ 50.
- e) The bank returned a check from a customer in the amount of \$495 because of insufficient funds.
- f) There were outstanding checks at the end of the month of \$355.
- g) The bank collected a non-interest-bearing note in the amount of \$1,500.
- h) A check written in payment of a \$250 supplier's invoice was recorded as \$25.
- i) The bank statement balance was \$10,520; the cash account balance in the general ledger was \$14,075.

- Required:
- a) Prepare the bank reconciliation.
 - b) What is the amount of cash that should be on the balance sheet?
 - c) Which of the items appearing on the bank reconciliation require a journal entry?
 - d) Journalize the entry or entries required.

Problem #2 – Bank reconciliation and related journal entries

The following information pertains to the bank reconciliation of January 31 for the G Company:

Unadjusted bank balance	\$18,900
Bank collection of a note receivable	2,000
Bank service charge	60
Deposit in transit	4,000
NSF check returned by the bank	1,800
Outstanding checks	6,000

In addition, the reconciliation revealed one error: Check #2146 for \$152, written to pay utilities expense, was incorrectly recorded in the books for \$125.

- Required:
- Prepare the bank reconciliation.
 - Journalize the entry or entries required.

Multiple Choice Questions

1. Which of the following does not contribute toward achieving internal control over cash payments?
 - a) The practice of making small cash disbursements directly from the current day's cash receipts.
 - b) The use of a voucher system.
 - c) The use of a petty cash fund.
 - d) The practice of approving every expenditure before the cash disbursement is made.

2. The bookkeeper prepared a check for \$68 but accidentally recorded it as \$86. When preparing the bank reconciliation, this should be corrected by:
 - a) Adding \$18 to the bank balance.
 - b) Subtracting \$18 from the bank balance.
 - c) Adding \$18 to the book balance.
 - d) Subtracting \$18 from the book balance.

3. After preparing a bank reconciliation, a journal entry would be required for which of the following?
 - a) A deposit in transit.
 - b) A check for \$48 given to a supplier but not yet recorded by the company's bank.
 - c) Interest earned on the company's checking account.
 - d) A deposit made by another company and credited to your account.

4. All the following are steps included in the preparation of a bank reconciliation except:
 - a) Comparing deposits listed on the bank statement with the deposits shown in the accounting records.
 - b) Arranging checks by serial numbers and comparing with those listed in the accounting records.
 - c) Deducting any debit memoranda from the balance on the bank statement.
 - d) Preparing journal entries for any adjustments to the depositor's records.

5. Which of the following is not an example of internal control over cash?
 - a) Preparation of a cash budget.
 - b) Daily deposits of cash receipts at the bank.
 - c) Combining the functions of signing checks with approval of expenditures.
 - d) Preparation of bank reconciliation.

6. When preparing a bank reconciliation, an NSF check will:
 - a) Increase the balance per depositor's records.
 - b) Decrease the balance per depositor's records.
 - c) Increase the balance per the bank statement.
 - d) Decrease the balance per the bank statement.

7. In reconciling a bank statement, which of the following items could cause the cash per the bank statement to be greater than the balance of cash shown in the depositor's accounting records?
 - a) An outstanding check.
 - b) A check returned to the depositor marked NSF.
 - c) Check 457 written for \$643 was recorded by the depositor as \$463.
 - d) A bank service charge.

8. In preparing a bank reconciliation, a service charge shown on the bank statement should be:
 - a) Added to the balance per the bank statement.
 - b) Deducted from the balance per the bank statement.
 - c) Added to the balance per the depositor's records.
 - d) Deducted from the balance per the depositor's records.

9. When a bank reconciliation has been satisfactorily completed, the only related entries to be made in the depositor's records are:
 - a) To correct errors made by the bank in recording the dollar amounts of cash transactions during the period.
 - b) To reconcile items that explain the difference between the balance per the books and the balance per the bank statement.
 - c) To record outstanding checks and bank service charges.
 - d) To record items that explain the difference between the balance per the accounting records and the adjusted cash balance.

10. A firm's bank reconciliation statement shows a book balance of \$31,640, an NSF check of \$800, and a service charge of \$40. The service charge is
 - a) Deducted from the bank balance
 - b) Added to the bank balance
 - c) Deducted from the book balance
 - d) Added to the book balance

Solutions to Problems

Problem #1 - Bank reconciliation and related journal entries

a)			
Balance per bank statement			\$10,520
Add: Deposit in transit			<u>5,000</u>
			15,520
Deduct: Outstanding checks			<u>(355)</u>
Adjusted bank balance			<u>\$15,165</u>
Cash balance per general ledger			\$14,075
Add: Error in recording deposit	360		
Note collected by bank	<u>1,500</u>		<u>1,860</u>
			\$15,935
Deduct: Error in recording check	225		
Bank service charges	50		
NSF check	<u>495</u>		<u>(770)</u>
Adjusted book balance			<u>\$ 15,165</u>

b)
The amount of cash to be reported on the balance sheet at the end of the accounting period is \$15,165.

c)
The items appearing on the above bank reconciliation that require a journal entry are:

- a) Cash received on account of \$510 was recorded as \$150.
- b) Bank service charges were \$50.
- c) A check, of a customer, in the amount of \$495 was returned by the bank because of insufficient funds.
- d) A short-term, non-interest bearing note in the amount of \$1,500 was collected by the bank.
- e) A check written in payment of a supplier's invoice in the amount of \$250 was recorded as \$25.

d)			
Cash	1,860		
Accounts Receivable		360	
Notes Receivable		1,500	
Accounts Receivable	495		
Miscellaneous Administrative Expense	50		
Accounts Payable	225		
Cash			770

Problem #2 - Bank reconciliation and related journal entries

Unadjusted bank balance	\$18,900	
+ Deposit in transit	4,000	
- Outstanding checks	<u>- 6,000</u>	
Adjusted cash balance	\$16,900	
- Note collected	- 2,000	
+ Service charge	60	
+ NSF check	- 1,800	
+ Error correction	<u>27</u>	
Unadjusted book balance	\$16,787	

Cash	140	
Accounts Receivable	1,800	
Miscellaneous Administrative Expense	60	
Notes Receivable		2,000

Solutions to Multiple Choice Questions

- 1. A
- 2. C
- 3. C
- 4. C
- 5. C
- 6. B
- 7. A
- 8. D
- 9. D
- 10. C