Lesson 5-1: Checking Accounts

Objectives:

- 1. Record deposits on check stub.
- 2. Endorse check using multiple endorsement types.
- 3. Prepare a check and check stub.
- A. How Businesses Use Cash
 - In accounting, money = cash
 - And cash usually = a check (hint: source doc)
 - Errors can occur when using cash, name 2 reasons.
 - 1. Easy to transfer from person to person
 - 2. Loss during transfer
 - 3. Recording errors
 - 4. 2.
- B. Depositing Cash

JAN 2 20-- D2000.00 HJS

Billings National Bank

Billings, MT

For deposit to the account of DELGADO WEB SERVICES 25402 Rimrock Road Billings, MT 59102-1820

Date January 2,	20	
Currency		
Coin		
Checks		
22-1508	2,000	00
TOTAL	2,000	00
CUSTOMER F	RECEIPT	

092921508 706466631835

- <u>Checking account: bank account where cash comes out when using a check</u>
- The checking account is where cash comes out when a check is written out.
- Deposit slip: bank form to add checks/money/coins to a bank account
- A deposit makes the cash balance increase or decrease? (Circle one)

C. Deposit Recorded on a Check Stub

NO.1 \$		
Date:		_ 20
То:		
For:		
BALANCE BROUGHT FORWARD	0	00
AMOUNT DEPOSITED 1 2	2,000	00
SUBTOTAL Data	2,000	00
OTHER:		
SUBTOTAL		
AMOUNT THIS CHECK		
BALANCE CARRIED FORWARD		

• Cash receipts are journalized at the time cash is received so we don't journalize them again when we finally deposit them into the bank.

D. Endorsements

- Endorsements: Signature or stamp on back of check transferring ownership
- Ownership of a check can be transferred.
- A check should be endorsed exactly as name is written on front of check
 - a. Blank Endorsement



Blank endorsement: just a signature

A blank endorsement should only be used at a bank, as it can be cashed by anyone.

b. Special Endorsement



- <u>Special endorsement:</u> An endorsement indicating a new owner of a check
- They include the words Pay to the order of and the name of the new owner.
 - Who signs at the bottom? Original owner

c. Restrictive Endorsement

ENDO	RSE HERE
х	For deposit only to
	the account of
D	ELGADO WEB SERVICES
	Michael Delgado
	T WRITE, STAMP, OR SIGN BELOW THIS LINE BESERVED FOR FINANCIAL INSTITUTION USE

- <u>Restrictive endorsement:</u> An endorsement restricting further transfer of a check's ownership
- This limits use of the check to whatever purpose is stated in the endorsement

E. Completed Check Stub and Check

	NO.1 \$ 165,00	Γ.	
	Date: January 2, 20		DELGADO NO. 1 93-2150 929
	TO: Eastside Supplies		WEB SERVICES
			25402 Rimrock Road
	For: <u>Supplies</u>		Billings, MT 59102-1820 January 2, 20
	!		
	BALANCE BROUGHT FORWARD 000		PAY TO THE Eastside Supplies s 165,00
	AMOUNT DEPOSITED 1 2 2,000 00		
	SUBTOTAL Date 2,000 00		One hundred sixty-five and 10/100 DOLLARS
	OTHER:		Billings National Bank
		i l	Billings, MT
	SUBTOTAL 2,000 00	i	FOR Supplies Michael Delgado
1	AMOUNT THIS CHECK 165 00	-	1:0929215081: 706466631835" OO1
•	BALANCE CARRIED FORWARD 1,835 00	!	

Preparing check stubs:

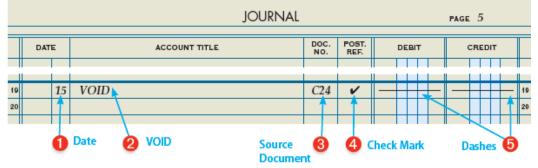
- 1. Write amount of check on stub
- 2. Write date of check on stub
- 3. Write to whom the check is to be paid on the stub
- 4. Record the purpose of the check on the stub
- 5. Write the amount of the check on the stub
- 6. Calculate the new checking account balance and record the new balance
- A check stub is a business' proof of each check written for a cash payment transaction.

Preparing check

Remember,	7.	Write the date the check is issued
these must	8.	Write to whom the check is to be paid
match or a		Multiple all a supervised in Stational
bank could refuse	9.	Write the amount in figures
payment!	10.	Write the amount in word
(Generally,	11	Write the purpose of the check
bank will pay		write the purpose of the check
the WRITTEN	12.	Sign the check
amount if they		
don't match)		

• <u>Postdated check: check with a future date.</u>

F. Recording a Voided Check



- <u>Voided check</u>: A check that cannot be processed because the maker has made it invalid
- All unused checks should be retained for records and be journalized in the GJ.
- What word goes in the Account Title of a journal entry for a voided check? VOID
- Remember ALWAYS fill out the check stub before the check!
- •

Check yourself!

1. List the three types of endorsements. Blank, Special, Restrictive

2. List the steps for preparing a check stub.

Write the amount of the check after the dollar sign at the top of the stub.

Write the date of the check on the Date line.

Write to whom the check is to be paid on the To line.

Record the purpose of the check on the For line.

Write the amount of the check after the words Amt. This Check.

Calculate the new checking account balance and record it in the amount column on the last line of the stub.

3. List the steps for preparing a check.

Write the date.

Write to whom the check is to be paid following the words Pay to the order of.

Write the amount in figures following the dollar sign.

Write the amount in words and draw a line through the unused space up to the word Dollars.

Write the purpose of the check on the line labeled For.

Sign the check

Lesson 5-2: Bank reconciliation

Objectives:

- 4. Complete bank statement reconciliation.
- 5. Create memo and journalize bank service charge.

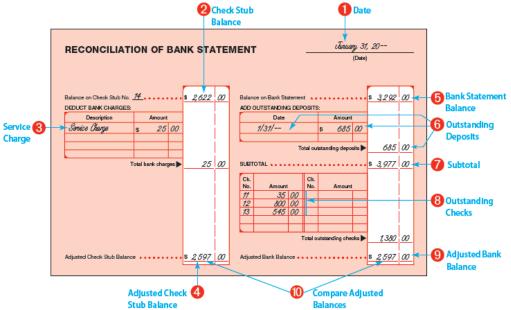
A. Bank Statement

Billi	ng			Bank	1								
			DELGADO 28402 Rin Billings, M	WEB S mrock F	load			70 	2001NT NLMBER 8466631838 TATEMENT DATE USATY 30, 20				
FROM PREVIOU STATEMENT	в		F OF	· I	OF DEPOSITS		F	CHARGES	BALANCE				
0.00		1	0 3,118.0	00	16	6,43	B.00	25.00	3,292.00				
			I										
DATE	СНЕ	ск	AMOUNT	СНЕСК	~	NOUNT	DEI	POSIT	BALANCE				
01/01/ 01/02/ 01/08/ 01/08/	1		165.00					,000.00	0.00 2,000.00 1,835.00 935.00				
01/10/	~		000.00					1		,100.00	2,035.00		
01/16/ 01/17/								200.00 340.00	2,235.00 2,575.00				
01/18/	4		80.00	6		380.00		195.00	2,340.00				
01/19/ 01/22/	3 8		100.00 400.00	7		383.00		285.00 310.00	2,625.00 2,052.00				
01/22/	°		400.00			365.00		270.00	2,322.00				
01/97/			100.00					940.00	2,322.00				

DATE	СНЕСК	AMOUNT	CHECK	AMOUNT	DEPOSIT	BALANCE
01/01/ 01/02/ 01/08/	1	165.00			2,000.00	0.00 2,000.00 1,835.00
01/08/ 01/10/	2	900.00			1 100 00	935.00
01/10/					1,100.00 200.00	2,035.00 2,235.00
01/17/					340.00	2,875.00
01/18/	4	80.00	6	350.00	195.00	2,340.00
01/19/	3	100.00			285.00	2,525.00
01/22/	8	400.00	7	383.00	310.00	2,052.00
01/22/					270.00	2,322.00
01/23/	8	100.00			240.00	2,462.00
01/24/					215.00	2,677.00
01/25/					280.00	2,957.00
01/26/ 01/29/	9	610.00			190.00 145.00	3,147.00 2,782.00
01/29/	ő	010.00			315.00	3,097.00
01/29/					360.00	3,447.00
01/30/	10	130.00				3,317.00
	SC	25.00				3,292.00
						3,292.00
PLEASE EX	AMINE AT	ONCE - F NO ERRORS A		D WITHIN 10 DAYS, THE AC	COUNT WILL BE CONSIDERED	CORRECT. REFER ANY

- Bank statement: Report of all deposits, withdrawals, and balances to bank accounts.
- Cancelled check: A check which has been paid by the bank
 - Cancelled checks are checks that have been cashed.
- Service charges are also listed on a bank statement. These are charged to upkeep the account. ٠
- List two reasons a bank statement balance may not agree with the balance on the last check stub:
- 1. Service charge not recorded
- 2. Outstanding checks or deposits
- 3. Not yet cashed or put into bank (not shown on bank statement)

B. Bank Statement Reconciliation



- Reconciling a bank statement means ensuring the balance agrees with the last check stub.
- Outstanding checks are checks that haven't been cashed yet.
- Outstanding Deposits are deposits made that aren't yet reflected on the bank statement.
- The steps to reconciling a bank statement:
 - 1. Date
 - 2. Check stub balance on top left
 - 3. Record service charge on left
 - 4. Calculate adjusted check stub balance on left
 - 5. Bank statement balance on top right
 - 6. Record outstanding deposits
 - 7. Subtotal bank statement balance (add outstanding deposits)
 - 8. Record outstanding checks
 - 9. Calculate adjusted bank balance
 - 10. Compare adjusted balances

C. Recording a Bank Service Charge on a Check Stub

- The bank automatically deducts the bank charge from the checking account each month. Since a check is never written out, it hasn't been journalized yet, so it must be journalized when a statement is received.
- To journalize it, first enter it on a check stub then journalize.
 - What is the source doc for the service charge? Memo

Check yourself!

- 1. List four reasons why a depositor's records and a bank's records may differ.
- 1. A service charge may not have been recorded in the depositor's business records.
- 2. Outstanding deposits may be recorded in the depositor's records but not on a bank statement.
- 3. Outstanding checks may be recorded in the depositor's records but not on a bank statement.
- 4. A depositor may have made a math or recording error.
 - 2. If a check mark is placed on the check stub of each canceled check, what does a check stub with no check mark indicate?

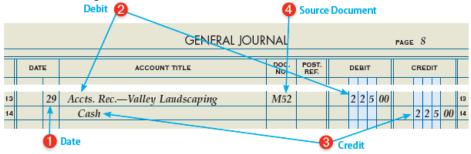
Outstanding check

Lesson 5-3: Dishonored Checks and Electronic Banking

Objectives:

- 3. Complete recordkeeping for a dishonored check.
- 4. Journalize an electronic funds transfer.
- 5. Journalize a debit card transaction.
- A. Recording a Dishonored Check on a Check Stub
 - Dishonored check: Check bank refuses to cash
 - <u>Non-sufficient funds check (NSF)</u>: Not enough money in account to cash
 - \circ $\;$ Reasons a check may be dishonored:
 - 1. NSF
 - 2. Check altered
 - 3. Signatures don't match
 - 4. Amount and words don't agree
 - 5. Post-dated
 - Usually a dishonored check becomes a(n) expense to the business, and banks charge a fee for handling.
 - Since cash is recorded when a check is received, a cash payment transaction must be journalized when a check is dishonored
 - This transaction will be the amount of the check PLUS the fee.

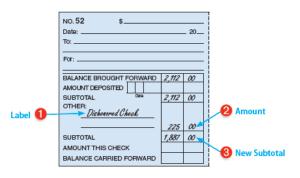
B. Journalizing a Dishonored Check



• Journalizing a dishonored check is basically reversing the transaction made to record the check, except the fee is added

June 5. Paid cash on account to Murniak Enterprises,

- Accounts Receivable is debited and Cash is reduced by a credit.
- C. Journalizing an Electronic Funds Transfer (EFT)
 - EFT: (Electronic Funds Transfer) Computerized (digital no paper) cash payment
 - Many businesses use EFT to pay vendors
 - What source doc is used for an EFT? Memo



- EFT is recorded just as any cash payment. This keeps the checkbook in balance. It is recorded on the check stub as "other".
- D. Journalizing a Debit Card Transaction

		De	bit 💋			4	Source	e Docu	imer	it				
				G	ENERAL JOUR						PAGE	22		
DAT	re			ACCOUNT TITLE		DOC NO:	POST. REF.	D	EBIT		CI	REDIT		
13	8	Suppli Casł				M21			75	00		75	00	13
14	0	Date								6	Credit	+	00	14

- Debit Card: Bank card that pulls money directly from an account
- SIDENOTE: Credit card versus Debit card:
 - A credit card is essentially a charge account. The card holder gets a set limit of how much
 - s/he can charge (or basically "borrow" from the company) to the card account.
- Different from a credit card, a debit card automatically pulls the money from the bank (checking) account.
- Source doc is? Memo
- This is also recorded on the check stub as "other" to keep the checkbook in balance.

Check yourself!

- 1. List six reasons why a bank may dishonor a check.
- 1. The check appears to be altered.
- 2. The signature on the check does not match the signature on the signature card.
- 3. The amounts written in figures and in words do not agree.
- 4. The check is postdated.
- 5. The person who wrote the check has stopped payment on it.
- 6. The account of the person who wrote the check has insufficient funds to pay the check.
- 2. What account is credited when electronic funds transfer is used to pay cash on account? Cash
 - 3. What account is credited when a debit card is used to purchase supplies?

Cash

Lesson 5-4: Petty Cash

Objectives:

- 4. Establish a petty cash fund.
- 5. Prepare a petty cash report.
- 6. Replenish a petty cash fun.

A. Establishing a Petty Cash Fund

			GENER	al journal			page 1	
	DATE		ACCOUNT TITLE	DOC. NC.	POST. REF.	DEBIT	CREDIT	
		1						
29	19	Pett	y Cash	C8		10000		29
30		C	ash <				10000	30

- <u>Petty Cash:</u> Small amount of cash kept on hand to make small payments (postage, etc.)
- Petty cash is essentially like having an envelope of cash to use to buy pop or stamps, it is for making small cash payments.
- Petty cash is a(n) asset account, with a normal debit balance.
- B. Making Payments from a Petty Cash Fund with a Petty Cash Slip
- Petty Cash Slip: Form completed when using cash from petty cash fund
- Petty cash slips are kept in the petty cash box or envelope until the fund is replenished
- No journal entries are made until the replenishment.
- C. Petty Cash Report

abel each are	a that arrows point to!			
PETTY CAS	SH REPORT			
Date: Janaa	ry 31, 20		Custodian:	ichael Delgado
	Explanation		Reconciliation	Replenish Amount
Fund Total			100,00 <	
Payments:	Miscellaneous Expense	20,00		
	Advertising Expense	14,00		
Less:	Total payments		34,00 🗸 🛁 💙	► 34,00 \
Equals:	Recorded amount on hand		66,00	
Less:	Actual amount on hand		65,00	
Equals:	Cash short (over)		1,00	1.00
Amount to Re	eplenish			35,00 <

- **Replenishing** petty cash means putting more cash from the cash account into the petty cash account and recording the expenses that have occurred.
- Petty cash is always replenished monthly to ensure all expenses are recorded in correct period. (It can be done sooner if needed.)
- A petty cash slip is proof of fund.
- The amount of the total of all the petty cash slips and the amount of actual cash on hand may vary, due to errors. This can cause more or less money to be in the box than what the petty slips and petty cash report show should be left.
- <u>Cash short:</u> Less money in cash box than what should be left after slips are counted. (DEBIT)
- <u>Cash over:</u> Less money in cash box than what should be left after slips are counted. (CREDIT)
 - What account is associated with Cash Short and Cash Over? (What account is used to make

up the difference when we replenish?) Cash short and over

- What is this account's Normal Balance? Either debit or credit
- What is it classified as? Expense

D. Replenishing Petty Cash

****REMEMBER THE PETTY CASH ACCOUNT IS **NEVER** USED WHEN RECORDING THE EXPENSES! IT IS ONLY USED FOR 1. OPENING THE ACCOUNT OR 2. ADDING MORE MONEY TO THE ACCOUNT IF A HIGHER DOLLAR AMOUNT IS NEEDED! (Ie.The petty cash fund is first established for \$50, but that wasn't enough for stamps or miscellaneous small expenses, so it is increased to \$100)****

			GENERAL JOUR		L					P	AGE	2		
	DAT	E	ACCOUNT TITLE	D(N	0C. O.	POST. REF.	 DEB	т			¢RI	EDIT		
							Z	Ţ		7				
7		31	Miscellaneous Expense	C	11		2	0	00	1				7
8			Advertising Expense		•		1	4	00	V				8
9			Cash Short and Over					1	00				1	9
10			Cash									3 !	5 00) 10

- What is the source doc for replenishment of the petty cash fund? Check
- What accounts are affected in the journal for replenishment? Expense accounts and cash
- If the cash left in the box is MORE than what the petty cash report states it should be, is Cash Short and Over debited or credited? (Circle one)
- If the cash left in the box is LESS than what the petty cash report states it should be, is Cash Short and Over **debited** or credited? (Circle one)

Check yourself!

- Why do businesses use petty cash funds?
 F or making small cash payments for which writing a check is not time- or cost-effective
- 2. Why is cash rather than petty cash credited when a petty cash fund is replenished? The check issued to replenish petty cash is a credit to Cash and does not affect Petty Cash.