

Name: _____

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 <u>January 2,</u> 20 <u>--</u> | | |
| Currency | | |
| Coin | | |
| Checks | | |
| <u>22-1508</u> | <u>2,000</u> | <u>00</u> |
| | | |
| TOTAL | 2,000 | 00 |
| ⑆092921508⑆ 706466631835⑆ | | |
| CUSTOMER RECEIPT | | |

- Checking account: **bank account where cash comes out when using a check**
- 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__ | |
| To: _____ | | | |
| For: _____ | | | |
| BALANCE BROUGHT FORWARD | | 0 | 00 |
| AMOUNT DEPOSITED | 1 2 -- | 2,000 | 00 |
| SUBTOTAL | | 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 | |
| ENDORSE HERE | |
| X | Michael Delgado |
| DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE RESERVED FOR FINANCIAL INSTITUTION USE | |

- **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

| | |
|--|---------------------|
| Special Endorsement | |
| ENDORSE HERE | |
| X | Pay to the order of |
| | Helen Goldsmith |
| | Michael Delgado |
| DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE RESERVED FOR FINANCIAL INSTITUTION USE | |

- **Special endorsement:** **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

| | |
|--|----------------------|
| Restrictive Endorsement | |
| ENDORSE HERE | |
| X | For deposit only to |
| | the account of |
| | DELGADO WEB SERVICES |
| | Michael Delgado |
| DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE RESERVED FOR FINANCIAL INSTITUTION USE | |

- **Restrictive endorsement:** **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 | | DELGADO WEB SERVICES 25402 Rimrock Road Billings, MT 59102-1820 | | NO. 1 99-2150 929 |
| Date: <u>January 2,</u> | 20 <u>--</u> | January 2, 20 -- | | |
| TO: <u>Eastside Supplies</u> | | PAY TO THE ORDER OF <u>Eastside Supplies</u> \$ <u>165.00</u> | | |
| For: <u>Supplies</u> | | <u>One hundred sixty-five and ⁰⁰/₁₀₀</u> DOLLARS | | |
| BALANCE BROUGHT FORWARD | 0 00 | Billings National Bank Billings, MT | | |
| AMOUNT DEPOSITED <u>1</u> <u>2</u> -- | 2,000 00 | FOR <u>Supplies</u> <u>Michael Delgado</u> | | |
| SUBTOTAL | 2,000 00 | ⑆09292⑆508⑆ 70646663⑆835⑆ 00⑆ | | |
| OTHER: | | | | |
| SUBTOTAL | 2,000 00 | | | |
| AMOUNT THIS CHECK | 165 00 | | | |
| 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, these must match or a bank could refuse payment! (Generally, bank will pay the WRITTEN amount if they don't match)

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

- Postdated check: check with a future date.

F. Recording a Voided Check

| JOURNAL | | | | | | PAGE 5 |
|---------|---------------|----------|------------|-------|--------|--------|
| DATE | ACCOUNT TITLE | DOC. NO. | POST. REF. | DEBIT | CREDIT | |
| 15 | VOID | C24 | ✓ | | | 19 |
| 20 | | | | | | 20 |

1 Date 2 VOID Source Document 3 4 Check Mark Dashes 5

- Voided check: 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

| Billings National Bank Billings, MT | | | | | | |
|---|---------------------|------------------------|-----------------------|--------------------------|--------------------|----------------------|
| STATEMENT OF ACCOUNT FOR | | | | | ACCOUNT NUMBER | STATEMENT DATE |
| DELGADO WEB SERVICES 28402 Rimrock Road Billings, MT 59102-1820 | | | | | 706466631838 | January 30, 20-- |
| BALANCE FROM PREVIOUS STATEMENT | NO. OF CHECKS | AMOUNT OF CHECKS | NO. OF DEPOSITS | AMOUNT OF DEPOSITS | SERVICE CHARGES | STATEMENT BALANCE |
| 0.00 | 10 | 3,118.00 | 18 | 6,438.00 | 28.00 | 3,292.00 |

| DATE | CHECK | AMOUNT | CHECK | AMOUNT | DEPOSIT | BALANCE |
|----------|-------|--------|-------|--------|----------|----------|
| 01/01/-- | | | | | | 0.00 |
| 01/02/-- | | | | | 2,000.00 | 2,000.00 |
| 01/08/-- | 1 | 185.00 | | | | 1,815.00 |
| 01/08/-- | 2 | 900.00 | | | | 915.00 |
| 01/10/-- | | | | | 1,100.00 | 2,035.00 |
| 01/16/-- | | | | | 200.00 | 2,235.00 |
| 01/17/-- | | | | | 340.00 | 2,575.00 |
| 01/18/-- | 4 | 80.00 | 6 | 380.00 | 195.00 | 2,340.00 |
| 01/19/-- | 3 | 100.00 | | | 285.00 | 2,525.00 |
| 01/22/-- | 5 | 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/-- | | | | | 190.00 | 3,147.00 |
| 01/29/-- | 9 | 510.00 | | | 145.00 | 2,782.00 |
| 01/29/-- | | | | | 315.00 | 3,097.00 |
| 01/29/-- | | | | | 350.00 | 3,447.00 |
| 01/30/-- | 10 | 130.00 | | | | 3,317.00 |
| | BC | 25.00 | | | | 3,292.00 |
| | | | | | | 3,292.00 |

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: 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.
- 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

RECONCILIATION OF BANK STATEMENT

Date: January 31, 20--

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

| DEDUCT BANK CHARGES: | | ADD OUTSTANDING DEPOSITS: | |
|----------------------|----------|----------------------------|-------------|
| Description | Amount | Date | Amount |
| Service Charge | \$ 25.00 | 1/31/-- | \$ 685.00 |
| Total bank charges | 25.00 | Total outstanding deposits | 685.00 |
| | | SUBTOTAL | \$ 3,977.00 |

| Clk. No. | Amount | Clk. No. | Amount |
|--------------------------|----------|----------|--------|
| 11 | 35.00 | | |
| 12 | 800.00 | | |
| 13 | 545.00 | | |
| Total outstanding checks | 1,380.00 | | |

Adjusted Check Stub Balance: \$ 2,597.00

Adjusted Bank Balance: \$ 2,597.00

- 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
- Non-sufficient funds check (NSF): Not enough money in account to cash
 - 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

Diagram of a check stub with the following fields and values:

| | | |
|-------------------------|-------|------|
| NO. 52 | \$ | |
| Date: | | 20__ |
| To: | | |
| For: | | |
| BALANCE BROUGHT FORWARD | 2,112 | 00 |
| AMOUNT DEPOSITED | | |
| SUBTOTAL | 2,112 | 00 |
| OTHER: | | |
| Dishonored Check | 225 | 00 |
| SUBTOTAL | 1,887 | 00 |
| AMOUNT THIS CHECK | | |
| BALANCE CARRIED FORWARD | | |

Labels and arrows:

- Label 1 points to the "Dishonored Check" entry.
- Label 2 points to the "225 00" amount.
- Label 3 points to the "1,887 00" new subtotal.

- 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

The diagram shows a General Journal entry with the following components:

- Label 1:** Points to the **Date** (29).
- Label 2:** Points to the **Debit** account (Accts. Rec.—Valley Landscaping).
- Label 3:** Points to the **Credit** account (Cash).
- Label 4:** Points to the **Source Document** (M52).

| GENERAL JOURNAL | | | | | | | | | | | | PAGE 8 |
|-----------------|------|--------------------------------|----------|------------|-------|---|---|--------|---|---|---|--------|
| | DATE | ACCOUNT TITLE | DOC. NO. | POST. REF. | DEBIT | | | CREDIT | | | | |
| 13 | 29 | Accts. Rec.—Valley Landscaping | M52 | | 2 | 2 | 5 | 00 | | | | |
| 14 | | Cash | | | | | | | 2 | 2 | 5 | 00 |

- Journalizing a dishonored check is basically reversing the transaction made to record the check, except the fee is added
- **Accounts Receivable** is debited and **Cash** is reduced by a credit.

C. Journalizing an Electronic Funds Transfer (EFT)

June 5. Paid cash on account to Murniak Enterprises, \$380.00, using EFT. Memorandum No. 18.

- EFT: (**E**lectronic **F**unds **T**ransfer) 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

| GENERAL JOURNAL | | | | | | | | | | PAGE 22 |
|-----------------|------|---------------|----------|------------|-------|----|--|--------|----|---------|
| | DATE | ACCOUNT TITLE | DOC. NO. | POST. REF. | DEBIT | | | CREDIT | | |
| 13 | 8 | Supplies | M21 | | 75 | 00 | | | | |
| 14 | | Cash | | | | | | 75 | 00 | |

Diagram illustrating the components of a General Journal entry:

- 1 Date**: Points to the date field (8).
- 2 Debit**: Points to the debit account title (Supplies).
- 3 Credit**: Points to the credit account title (Cash).
- 4 Source Document**: Points to the document number field (M21).

- 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!

- List six reasons why a bank may dishonor a check.

- The check appears to be altered.
- The signature on the check does not match the signature on the signature card.
- 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 it.
- The account of the person who wrote the check has insufficient funds to pay the check.

- What account is credited when electronic funds transfer is used to pay cash on account?

Cash

- 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 fund.

A. Establishing a Petty Cash Fund

| GENERAL JOURNAL | | | | | | PAGE 1 |
|-----------------|---------------|----------|------------|--------|--------|--------|
| DATE | ACCOUNT TITLE | DOC. NO. | POST. REF. | DEBIT | CREDIT | |
| 19 | Petty Cash | C8 | | 100.00 | | 29 |
| 30 | Cash | | | | 100.00 | 30 |

- Petty Cash: 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

Label each area that arrows point to!

| PETTY CASH REPORT | | | | |
|---------------------------------|-------|-----------------------------------|--|------------------|
| Date: <u>January 31, 20--</u> | | Custodian: <u>Michael Delgado</u> | | |
| 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 Replenish | | | | 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.
- Cash short: **Less money in cash box than what should be left after slips are counted. (DEBIT)**
- Cash over: **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! (I.e. 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 JOURNAL | | | | | | | PAGE 2 |
|-----------------|-----------------------|----------|------------|--------|--------|----|--------|
| DATE | ACCOUNT TITLE | DOC. NO. | POST. REF. | DEBIT | CREDIT | | |
| 7 31 | Miscellaneous Expense | C11 | | 2 0 00 | | 7 | |
| 8 | Advertising Expense | | | 1 4 00 | | 8 | |
| 9 | Cash Short and Over | | | 1 00 | | 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!

1. 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.**