

ADMS 2500 - Introduction to Financial Accounting

Cash

1. What is Included in "Cash"
2. Sources & Uses of Cash
3. Controls on Cash
 - Bank Reconciliation
4. Accounting for Petty Cash Funds
5. Practice Past Midterms

What is Included in 'Cash'

- Bank Account Balances
- Coins & Currency
- Cheques Not Yet Deposited
- Cash on Hand
- Petty Cash
- Term Deposits

Sources & Uses of Cash

Common <i>Sources</i> of Cash	Common <i>Uses</i> of Cash
Operating:	Operating:
<i>i.e. Selling Goods</i>	<i>i.e. Purchase Merchandise Inventory</i>
Investing:	Investing:
<i>i.e. Sale of Long Term Assets</i>	<i>i.e. Purchase of Equipment</i>
Financing:	Financing:
<i>i.e. Obtaining a Loan</i>	<i>i.e. Reduce Debt</i>

Internal Controls on Cash

Cash is closely monitored in most organizations. Companies implement many internal controls to ensure that cash balances are accurate and free from theft or misuse.

Common controls include:

- Separation/segregation of duties
- Use of point of sale systems
- Require authorizations for accounting systems
- The use of cheques for cash disbursements
- Prepare cash budgets
- **Bank reconciliation**

Bank Reconciliation

- Reconcile **Bank Balance** with **Book Balance**

Bank Reconciliation Template

<u>Bank Balance:</u>	\$	<u>Book Balance:</u>	\$
+ <i>Deposits in Transit</i>		- <i>Bank Fees</i>	
		- <i>NSF Fees / NSF Cheques</i>	
- <i>Outstanding Cheques</i>		+ - <i>Interest</i>	
		- <i>Pre-authorized Payments</i>	
+ - <i>Any Bank Errors</i>		+ <i>Deposits Direct to Bank</i>	
		+ - <i>Any Book Errors</i>	
Adjusted Bank Balance:	\$	Adjusted Book Balance:	\$

Bank Reconciliation Example:

April 30th	Balance per Bank	\$ 8,500
	add: Deposits in Transit	\$,1790
	deduct: Outstanding Cheques	<u>\$(2,300)</u>
	Balance per Books	<u>\$7,990</u>

May 31st	Month of May data	<u>Per bank</u>	<u>Per books</u>
	Balance May 31	\$10,500	\$10,750
	Deposits	\$5,500	\$6,390
	Cheques	\$4,750	\$3,800
	Note collected	\$ 650	
	Bank service charge	\$ 40	
	NSF cheque	\$ 340	
	Interest received	\$ -	
	Auto withdrawals	\$ -	
	NSF cheque service charge	\$ 50	

		A	B	C	D	E
Q1	What is the Adjusted Cash book balance of as May 31?	\$11,830	\$10,750	\$11,150	\$10,500	None of A,B,C or D
Q2	What is the Adjusted Cash Balance bank records as of May 31?	\$11,580	\$12,330	\$11,830	\$10,750	None of A,B,C or D
Q3	What is the total amount deposited and cashed in May?	\$5,500	\$3,710	\$6,390	\$7,290	None of A,B,C or D
Q4	What is the total amount of deposits and in-transit as of May 31?	\$6,390	\$2,680	\$5,500	\$1,790	None of A,B,C or D
Q5	What is the total of all outstanding cheques as of April 30, 2014?	\$4,750	\$2,300	\$3,460	\$3,800	None of A,B,C or D
Q6	What is the total amount of Cheques written in May 2014?	\$2,300	\$3,460	\$4,750	\$3,800	None of A,B,C or D
Q7	What is the total of all outstanding cheques as of may 31, 2014?	\$7,050	\$1,350	\$5,140	\$8,400	None of A,B,C or D

Accounting for *Petty Cash* Fund

- Companies maintain a petty cash fund to pay for small, miscellaneous expenditures such as stamps, small delivery charges, or emergency supplies.
- The size of a petty cash fund varies depending on the needs of the business.
- A petty cash fund should be small enough so that it does not unnecessarily tie up company assets or become a target for theft.

Journal Entries to know - Petty Cash Fund

1. Setup

Dr. Petty Cash
Cr. Cash

2. Replenish Petty Cash

Dr. Various Expenses
Cr. Cash

3. Increase Petty Cash

Dr. Petty Cash
Cr. Cash

Decrease Petty Cash

Dr. Cash
Cr. Petty Cash

Petty Cash Example:

1. Setup of a Petty Cash fund at \$50.00.
2. Replenish the Petty Cash fund after \$45.00 has been used.
3. Increase/decrease the Petty Cash fund from \$50 to \$100.