



Cash Control Systems

AFTER STUDYING CHAPTER 6, YOU WILL BE ABLE TO:

1. Define accounting terms related to using a checking account and a petty cash fund.
2. Identify accounting concepts and practices related to using a checking account.
3. Prepare business papers related to using a checking account.
4. Reconcile a bank statement.
5. Journalize dishonored checks and electronic banking transactions.
6. Establish and replenish a petty cash fund.

TERMS PREVIEW

checking account

endorsement

blank

endorsement

special

endorsement

restrictive

endorsement

postdated check

bank statement

dishonored check

electronic funds

transfer

debit card

petty cash

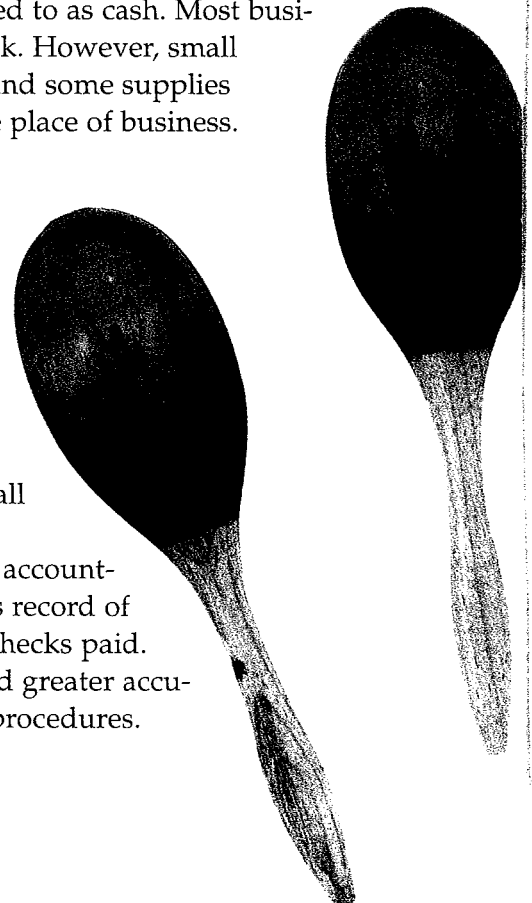
petty cash slip

HOW BUSINESSES USE CASH

In accounting, money is usually referred to as cash. Most businesses make major cash payments by check. However, small cash payments for items such as postage and some supplies may be made from a cash fund kept at the place of business.

Because cash transactions occur more frequently than other types of transactions, more chances occur to make recording errors affecting cash. Cash can be transferred from one person to another without any question about ownership. Also, cash may be lost as it is moved from one place to another.

As a safety measure, Encore Music keeps most of its cash in a bank. Because all cash receipts are placed in a bank, Encore Music has written evidence to support its accounting records. Encore Music can compare its record of checks written with the bank's record of checks paid. Greater control of Encore Music's cash and greater accuracy of its cash records result from these procedures.



ACCOUNTING IN YOUR CAREER

MANAGING CASH AND THE CHECKING ACCOUNT

Raymond Gutierrez owns Gutierrez Employment Agency. Raymond started this business a year ago and operated it alone until two months ago. He hired Shanelle Gibson as an administrative assistant to handle the accounting for the business and to assist him in other responsibilities when needed. Shanelle has reorganized the record keeping for the agency, and by filling in on other tasks has freed Raymond to spend more time building contacts with employers and placing clients. The business is growing rapidly.

In their regular weekly meeting to review their goals, Shanelle says, "Raymond, I enjoy working here, and I think I have really helped you be more successful. I'd like to make two proposals that will give you more time to devote to your activities." Shanelle proceeds to outline the proposals.

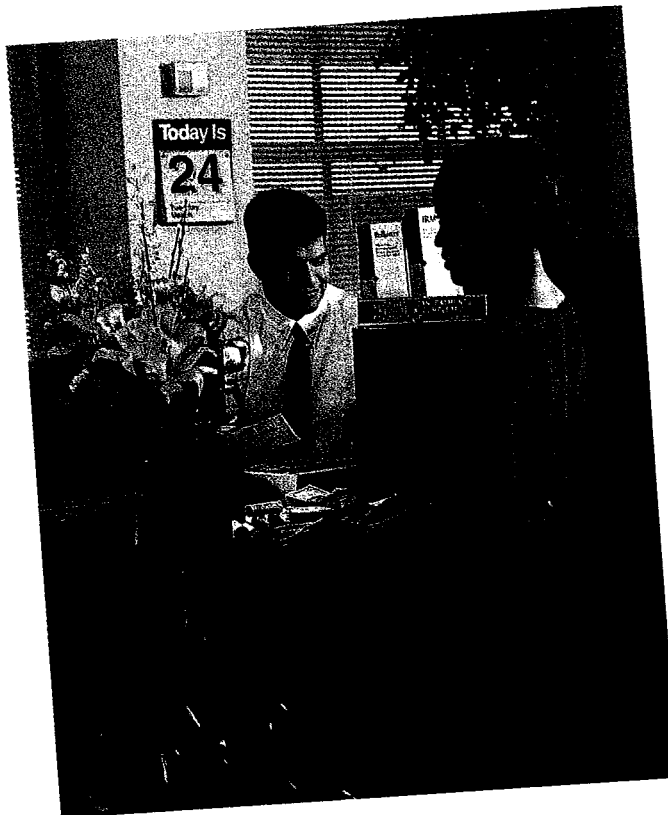
She recommends establishing a petty cash fund for making small cash payments, such as urgent office supplies and postage and delivery fees. She has already arranged to have overnight delivery services billed to the firm, so only small delivery fees will be paid from petty cash. She thinks \$100.00 would be a sufficient balance to avoid replenishing petty cash too frequently.

Her second recommendation is to take over writing and signing all checks, receiving and depositing all cash receipts, and reconciling the bank statement—tasks that Raymond currently performs.

Raymond tells Shanelle that he will consider her proposals and that he appreciates her good work and concern for making the business more efficient.

Critical Thinking:

1. Is the proposal to establish a petty cash fund a good idea?
2. What is your opinion of Shanelle's proposal to take over managing cash and the checking account?



6-1 Checking Accounts

DEPOSITING CASH

AUG 1 20-- D10000.00 RDS

Peoples national bank
Tampa, FL 33602

For deposit to the account of

ENCORE MUSIC
530 Anoka Avenue
Tampa, FL 33601

63-109
631

Date August 1 20 --

Currency		
Coin		
Checks	63-108	10,000 00
TOTAL		10,000 00

0063101098: 431452119

CUSTOMER RECEIPT

A business form ordering a bank to pay cash from a bank account is known as a check. A bank account from which payments can be ordered by a depositor is called a **checking account**.

When a checking account is opened, the bank customer must provide a signature on a signature card for the bank records. If several persons are authorized to sign checks, each person's signature must be on the signature card.

A bank customer prepares a deposit slip each time cash or checks are placed in a bank account. Deposit slips may differ slightly from one bank to another. Each bank designs its own deposit slips to fit the bank's recording machines.

However, all deposit slips contain the same basic information.

Checks are listed on a deposit slip according to the bank number on each check. For example, the number 63-108 identifies the bank on which the \$10,000.00 check is written.

When a deposit is made, a bank gives the depositor a receipt. Many banks use a copy of the deposit slip with a printed or stamped verification as the receipt. The printed verification, *Aug 1 20-- D10000.00 RDS*, is printed along the top left edge of the deposit slip. This printed verification means that a total of \$10,000.00 was deposited on August 1. The initials *RDS* next to the amount are those of the bank employee who accepted the deposit.

DEPOSIT RECORDED ON A CHECK STUB

NO. 1 \$ _____

Date _____ 20 ____

To _____

For _____

BAL. BRO'T. FORD.		0 00
AMT. DEPOSITED	8 1 --	10,000 00
SUBTOTAL	Date	10,000 00
OTHER:		
SUBTOTAL:		
AMT. THIS CHECK		
BAL. CAR'D. FORD.		

After the deposit is recorded on the check stub, a checkbook subtotal is calculated. The balance brought forward on Check Stub No. 1 is zero. The previous balance, \$0.00, *plus* the deposit, \$10,000.00, *equals* the subtotal, \$10,000.00.

Cash receipts are journalized at the time cash is received. Later, the cash receipts are deposited in the checking account. Therefore, no journal entry is needed for deposits because the cash receipts have already been journalized.

BLANK ENDORSEMENT, SPECIAL ENDORSEMENT, AND RESTRICTIVE ENDORSEMENT

[Blank Endorsement]

Endorse here
X Barbara Treviño

DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE
Reserved for Financial Institution Use

[Special Endorsement]

Endorse here
X Pay to the order of
Eleanor Johnson
Barbara Treviño

DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE
Reserved for Financial Institution Use

[Restrictive Endorsement]

Endorse here
X For deposit only to
the account of
ENCORE MUSIC
Barbara Treviño

DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE
Reserved for Financial Institution Use

Ownership of a check can be transferred. The name of the first owner is stated on a check following the words *Pay to the order of*. Therefore, the person to whom payment is to be made must indicate that ownership of the check is being transferred. One person transfers ownership to another person by signing on the back of a check. A signature or stamp on the back of a check transferring ownership is called an **endorsement**. Federal regulations require that an endorsement be confined to a limited amount of space that is indicated on the back of a check.

An endorsement should be signed exactly as the person's name appears on the front of the check. For example, a check made payable to B. A. Treviño is endorsed on the back as *B. A. Treviño*. Immediately below that endorsement, Ms. Treviño writes her official signature, *Barbara Treviño*.

Ownership of a check might be transferred several times, resulting in several endorsements. Each endorser guarantees payment of the check. If a bank does not receive payment from the person who signed the check, each endorser is individually liable for payment.

Three types of endorsements are commonly used, each having a specific use in transferring ownership.

Blank Endorsement

An endorsement consisting only of the endorser's signature is called a **blank endorsement**. A blank endorsement indicates that the subsequent owner is whoever has the check.

If a check with a blank endorsement is lost or stolen, the check can be cashed by anyone

who has possession of it. Ownership may be transferred without further endorsement. A blank endorsement should be used *only* when a person is at the bank ready to cash or deposit a check.

Special Endorsement

An endorsement indicating a new owner of a check is called a **special endorsement**. Special endorsements are sometimes known as endorsements in full.

Special endorsements include the words *Pay to the order of* and the name of the new check owner. Only the person or business named in a special endorsement can cash, deposit, or further transfer ownership of the check.

Restrictive Endorsement

An endorsement restricting further transfer of a check's ownership is called a **restrictive endorsement**. A restrictive endorsement limits use of the check to whatever purpose is stated in the endorsement.

Many businesses have a stamp prepared with a restrictive endorsement. When a check is received, it is immediately stamped with the restrictive endorsement. This prevents unauthorized persons from cashing the check if it is lost or stolen.



The Federal Deposit Insurance Corporation (FDIC) protects depositors from banks that fail. Bank deposits are generally covered up to \$100,000 per depositor.

COMPLETED CHECK STUB AND CHECK

1 →	NO. 1	\$ 1,577.00	
2 →	Date	August 3	20 --
3 →	To	Quick Clean Supplies Co.	
4 →	For	Supplies	
	BAL. BRO'T. FORD.		0 00
	AMT. DEPOSITED	817	10,000 00
	SUBTOTAL		10,000 00
	OTHER:		
	SUBTOTAL:		10,000 00
5 →	AMT. THIS CHECK		1,577 00
6 →	BAL. CAR'D. FORD.		8,423 00

Encore Music	NO. 1	68-109
530 Anoka Avenue	August 3	20 --
Tampa, FL 33601		
PAY TO THE ORDER OF	Quick Clean Supplies Co.	\$1,577.00
	One thousand five hundred seventy-seven and ^{no} / ₁₀₀ DOLLARS	
Peoples national bank		
Tampa, FL 33602		
FOR	Supplies	Barbara Treviño

Encore Music uses printed checks with check stubs attached. Consecutive numbers are preprinted on Encore Music's checks. Consecutive numbers on checks provide an easy way of identifying each check. Also, the numbers help keep track of all checks to assure that none are lost or misplaced.

A check stub is a business's record of each check written for a cash payment transaction. (CONCEPT: Objective Evidence) To avoid forgetting to prepare a check stub, the check stub is prepared before the check is written.

After the check stub is completed, the check is written.

STEPS

Preparing check stubs

1. Write the amount of the check, \$1,577.00, in the space after the dollar sign at the top of the stub.
2. Write the date of the check, August 3, 20—, on the Date line at the top of the stub.
3. Write to whom the check is to be paid, Quick Clean Supplies Co., on the To line at the top of the stub.
4. Record the purpose of the check, Supplies, on the For line.
5. Write the amount of the check, \$1,577.00, in the amount column at the bottom of the stub on the line with the words *Amt. This Check*.
6. Calculate the new checking account balance, \$8,423.00, and record the new balance in the amount column on the last line of the stub. The new balance is calculated as shown below.



Subtotal	—	Amount of	=	New
		This Check		Balance
\$10,000.00	—	\$1,577.00	=	\$8,423.00

Preparing checks

7. Write the date, August 3, 20—, in the space provided. The date should be the month, day, and year on which the check is issued. A check with a future date on it is called a **postdated check**. Most banks will not accept postdated checks because money cannot be withdrawn from a depositor's account until the date on the check.
8. Write to whom the check is to be paid, Quick Clean Supplies Co., following the words *Pay to the order of*. If the person to whom a check is to be paid is a business, use the business's name rather than the owner's name. (CONCEPT: Business Entity) If the person to whom the check is to be paid is an individual, use that person's name.
9. Write the amount in figures, \$1,577.00, following the dollar sign. Write the figures close to the printed dollar sign. This practice prevents anyone from writing another digit in front of the amount to change the amount of the check.

10. Write the amount in words, *One thousand five hundred seventy-seven and no/100*, on the line with the word *Dollars*. This written amount verifies the amount written in figures after the dollar sign. Begin the words at the extreme left. Draw a line through the unused space up to the word *Dollars*. This line prevents anyone from writing in additional words to change the amount. If the amounts in words and in figures are not the same, a bank may pay only the amount in words. Often, when the amounts do not agree, a bank will refuse to pay the check.
11. Write the purpose of the check, *Supplies*, on the line labeled For. (On some checks this space is labeled Memo.) Some checks do not have a line for writing the purpose of the check.
12. Sign the check. A check should not be signed until each item on the check and its stub has been verified for accuracy.

RECORDING A VOIDED CHECK

GENERAL JOURNAL						PAGE 5
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
20 15	VOID	C20	✓			20
21						21

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

Banks usually refuse to accept altered checks. If any kind of error is made in preparing a check, a new check should be prepared. Because checks are prenumbered, all checks not used should be retained for the records. This practice helps account for all checks and assures that no checks have been lost or stolen.

A check that contains errors must be marked so that others will know that it is not to be used.

The word *VOID* is written in large letters across both the check and its stub.

When Encore Music records a check in its general journal, the check number is placed in the general journal's Doc. No. column. If a check number is missing from the Doc. No. column, there is a question whether all checks have been journalized. To assure that all check numbers are listed in the general journal, Encore Music records voided checks in the journal.

S Recording a voided check in the general journal

- T**
1. Record the date, 15, in the Date column.
 2. Write the word *VOID* in the Account Title column.
 3. Write the check number, C20, in the Doc. No. column.
 4. Place a check mark in the Post. Ref. column.
 5. Place a dash in both the Debit and Credit columns.
- E**
- P**
- S**

REMEMBER

Always complete the check stub before writing the check. Otherwise you may forget to record the amount of the check on the check stub.

TERMS REVIEW

checking account restrictive endorse-
endorsement ment
blank endorsement postdated check
special
endorsement

AUDIT YOUR UNDERSTANDING

1. List the three types of endorsements.
2. List the steps for preparing a check stub.
3. List the steps for preparing a check.

WORK TOGETHER

Endorsing and writing checks

Write the answers to the following problems in the *Working Papers*. Your instructor will guide you through the following examples. You are authorized to sign checks for Balsam Lake Accounting.

4. For each of these situations, prepare the appropriate endorsement.
 - a. Write a blank endorsement.
 - b. Write a special endorsement to transfer a check to Kelsey Sather.
 - c. Write a restrictive endorsement to deposit a check in the account of Balsam Lake Accounting.
5. Record the balance brought forward on Check Stub No. 78, \$1,805.75.
6. Record a deposit of \$489.00 made on October 30 of the current year on Check Stub No. 78.
7. Prepare check stubs and write the following checks. Use October 30 of the current year as the date.
 - a. Check No. 78 to Corner Garage for repairs, \$162.00.
 - b. Check No. 79 to St. Croix Supply for supplies, \$92.00.

ON YOUR OWN

Endorsing and writing checks

Write the answers to the following problems in the *Working Papers*. Work these problems independently. You are authorized to sign checks for Dresser Hair Care.

8. For each of these situations, prepare the appropriate endorsement.
 - a. Write a special endorsement to transfer a check to Kent Benson.
 - b. Write a restrictive endorsement to deposit a check in the account of Dresser Hair Care.
9. Record the balance brought forward on Check Stub No. 345, \$3,054.55.
10. Record a deposit of \$587.00 made on May 31 of the current year on Check Stub No. 345.
11. Prepare check stubs and write the following checks. Use May 31 of the current year as the date.
 - a. Check No. 345 to Uniforms Plus for uniform rental, \$275.00.
 - b. Check No. 346 to HairWorld for supplies, \$593.00.

6-2 Bank Reconciliation

BANK STATEMENT

Peoples national bank
Tampa, FL 33602

STATEMENT OF ACCOUNT FOR
ENCORE MUSIC
530 Anoka Avenue
Tampa, FL 33601

ACCOUNT NUMBER
43-452-119

STATEMENT DATE
August 30, 20--

BALANCE FROM PREVIOUS STATEMENT	NO. OF CHECKS	AMOUNT OF CHECKS	NO. OF DEPOSITS	AMOUNT OF DEPOSITS	SERVICE CHARGES	STATEMENT BALANCE
0.00	11	5,504.00	14	14,001.00	3.00	8,494.00

DATE	CHECK	AMOUNT	CHECK	AMOUNT	DEPOSIT	BALANCE
08/01/--						0.00
08/01/--						
08/04/--	1	1,577.00			10,000.00	10,000.00
08/07/--	2	1,200.00				8,423.00
08/12/--						7,223.00
08/13/--	4	250.00	6	100.00	425.00	7,648.00
08/14/--	3	1,360.00				7,298.00
08/15/--						5,938.00
08/16/--					120.00	6,058.00
08/17/--	5	45.00			416.00	6,474.00
08/18/--	7	68.00			409.00	6,838.00
08/19/--	8	200.00			295.00	7,065.00
08/20/--	9	200.00			354.00	7,219.00
08/21/--					300.00	7,319.00
08/24/--					270.00	7,589.00
08/25/--					300.00	7,889.00
08/26/--					310.00	8,199.00
08/27/--					245.00	8,444.00
08/28/--					290.00	8,734.00
08/29/--	10	70.00			267.00	9,001.00
08/30/--	11	434.00				8,931.00
	SC	3.00				8,497.00
						8,494.00

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.

A report of deposits, withdrawals, and bank balances sent to a depositor by a bank is called a **bank statement**.

When a bank receives checks, the amount of each check is deducted from the depositor's account. The bank stamps the checks to indicate that the checks are canceled and are not to be transferred further. Canceled checks are returned to a depositor with a bank statement. Outstanding checks are those checks issued by a depositor but not yet reported on a bank statement. Outstanding deposits are those deposits made at a bank but not yet shown on a bank statement. Account service charges are also listed on a bank statement.

Although banks seldom make mistakes, occasionally a check or deposit might be recorded in a

wrong account. When a bank statement is received, a depositor should verify its accuracy. If errors are discovered, the bank should be notified at once. However, a bank's records and a depositor's records may differ while the bank's records are still correct. The difference may exist for several reasons.

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 math or recording errors.

BANK STATEMENT RECONCILIATION

RECONCILIATION OF BANK STATEMENT

1 Date August 31, 20--
(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

Balance on Check Stub No. <u>14</u>		\$ 8,275 00
DEDUCT BANK CHARGES:		
Description	Amount	
Service Charge	\$ 3 00	
Total bank charges		3 00
Adjusted Check Stub Balance		\$ 8,272 00

Balance On Bank Statement		\$ 8,494 00
ADD OUTSTANDING DEPOSITS:		
Date	Amount	
8/31/--	\$ 290 00	
Total outstanding deposits		290 00
SUBTOTAL		\$ 8,784 00

Ck. No.	Amount	Ck. No.	Amount
12	12 00		
13	500 00		
Total outstanding checks		512 00	
Adjusted Bank Balance		\$ 8,272 00	

A bank statement is reconciled by verifying that information on a bank statement and a checkbook are in agreement. Reconciling immediately is an important aspect of cash control.

Encore Music's canceled checks are received with the bank statement. The returned checks are arranged in numeric order. For each canceled

check, a check mark is placed on the corresponding check stub. A check stub with no check mark indicates an outstanding check.

Encore Music receives a bank statement dated August 30 on August 31. Encore Music uses a reconciliation form printed on the back of the bank statement.

S Reconciling a bank statement

1. Write the date on which the reconciliation is prepared, *August 31, 20--*.
2. In the left amount column, list the balance brought forward on Check Stub No. 14, the next unused check stub, \$8,275.00.
3. In the space for bank charges, list any charges. The only such charge for Encore Music is the bank service charge, \$3.00. The bank service charge is labeled SC on the bank statement.
4. Write the adjusted check stub balance, \$8,272.00, in the space provided at the bottom of the left amount column. The balance on the check stub, \$8,275.00, minus the bank's service charge, \$3.00, equals the adjusted check stub balance, \$8,272.00.
5. Write the ending balance shown on the bank statement, \$8,494.00, in the right amount column.
6. Write the date, 8/31/--, and the amount, \$290.00, of any outstanding deposits in the space provided. Add the outstanding deposits. Write the total outstanding deposits, \$290.00, in the right amount column.
7. Add the ending bank statement balance to the total outstanding deposits. Write the total, \$8,784.00, in the space for the Subtotal.

8. List the outstanding checks, Nos. 12 and 13, and their amounts, \$12.00 and \$500.00, in the space provided. Add the amounts of the outstanding checks, and write the total, \$512.00, in the right amount column.
9. Calculate the adjusted bank balance, and write the amount, \$8,272.00, in the space provided at the bottom of the right amount column. The subtotal, \$8,784.00, minus the total outstanding checks, \$512.00, equals the adjusted bank balance, \$8,272.00.
10. Compare adjusted balances. The adjusted balances must be the same. The adjusted check stub balance is the same as the adjusted bank balance. Because the two amounts are the same, the bank statement is reconciled. The completed reconciliation form is filed for future reference. If the two adjusted balances are not the same, the error must be found and corrected before any more work is done.

RECORDING A BANK SERVICE CHARGE ON A CHECK STUB

NO. 14		\$	
Date			20
To			
For			
BAL. BRO'T. FOR'D.		7,985	00
AMT. DEPOSITED	8,371 --	290	00
SUBTOTAL	Date	8,275	00
OTHER: Service Charge	3.00		
		3	00
SUBTOTAL:		8,272	00
AMT. THIS CHECK			
BAL. CAR'D. FOR'D.			

Label **1** points to the "OTHER: Service Charge 3.00" line.

2 Amount points to the "3 00" amount in the right column.

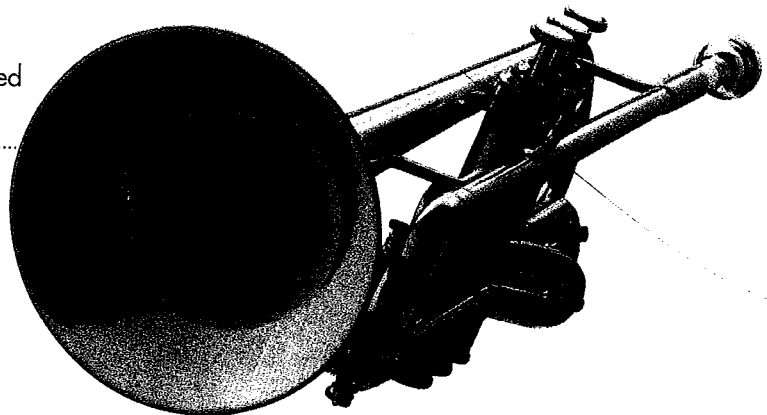
3 New Subtotal points to the "8,272 00" subtotal in the right column.

The bank deducts the service charge from Encore Music's checking account each month. Although Encore Music did not write a check for the bank service charge, this cash payment must

be recorded in Encore Music's accounting records as a cash payment. First, Encore Music makes a record of a bank service charge on a check stub.

S Recording a bank service charge on a check stub

1. Write *Service Charge* \$3.00 on the check stub under the heading Other.
2. Write the amount of the service charge, \$3.00, in the amount column.
3. Calculate and record the new subtotal, \$8,272.00, on the Subtotal line. A new Balance Carried Forward is not calculated until after Check No. 14 is written.



JOURNALIZING A BANK SERVICE CHARGE

Debit

GENERAL JOURNAL 2 PAGE 2

Date	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
1 31	Miscellaneous Expense	M3		3.00	
	Cash				3.00

Credit 3 4 Source Document

Because the bank service charge is a cash payment for which no check is written, Encore Music prepares a memorandum as the source document. Encore Music's bank service charges are relatively small and occur only once a month. Therefore, a separate ledger account for the expense is not used. Instead, Encore Music records the bank service charge as a miscellaneous expense.

August 31. Received bank statement showing August bank service charge, \$3.00. Memorandum No. 3.

Miscellaneous Expense	
3.00	
Cash	3.00

A memorandum is the source document for a bank service charge transaction. (**CONCEPT: Objective Evidence**) The analysis of this transaction is shown in the T accounts.

The expense account, Miscellaneous Expense, is debited for \$3.00 to show the decrease in owner's equity. The asset account, Cash, is credited for \$3.00 to show the decrease in assets.

S Journalizing a bank service charge

- T
E
P
S**
- 1. Date.** Write the date, 31, in the Date column.
 - 2. Debit.** Write the title of the account debited, *Miscellaneous Expense*, in the Account Title column. Write the debit amount, \$3.00, in the Debit column.
 - 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Cash*, in the Account Title column. Write the credit amount, \$3.00, in the Credit column.
 - 4. Source document.** Write the source document number, M3, in the Doc. No. column.

SMALL BUSINESS SPOTLIGHT

Three factors generally motivate people to start a new business: the desire to control their own destinies, the desire to work more closely with customers, and the desire to achieve substantial profits.

TERM REVIEW

bank statement

AUDIT YOUR UNDERSTANDING

1. List four reasons why a depositor's records and a bank's records may differ.
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?

WORK TOGETHER

Reconciling a bank statement and recording a bank service charge

Forms are given in the *Working Papers*. Your instructor will guide you through the following examples.

On July 29 of the current year, DeepClean received a bank statement dated July 28. The following information is obtained from the bank statement and from the records of the business.

Bank statement balance	\$1,528.00	Outstanding checks:	
Bank service charge	2.00	No. 103	\$ 70.00
Outstanding deposit, July 28	150.00	No. 105	35.00
		Checkbook balance on Check Stub No. 106	1,575.00

3. Prepare a bank statement reconciliation. Use July 29 of the current year as the date.
4. Record the service charge on Check Stub No. 106.
5. Record the service charge on general journal page 14. Use Memo. No. 44 as the source document.

ON YOUR OWN

Reconciling a bank statement and recording a bank service charge

Forms are given in the *Working Papers*. Work these problems independently.

On Sept. 30 of the current year, Ajax Service Co. received a bank statement dated Sept. 29. The following information is obtained from the bank statement and from the records of the business.

Bank statement balance	\$3,208.00	Outstanding checks:	
Bank service charge	5.00	No. 214	\$ 90.00
Outstanding deposits:		No. 215	135.00
September 29	310.00	No. 217	50.00
September 30	330.00	Checkbook balance on Check Stub No. 218	3,578.00

6. Prepare a bank statement reconciliation. Use Sept. 30 of the current year as the date.
7. Record the service charge on Check Stub No. 218.
8. Record the service charge on general journal page 28. Use Memo. No. 74 as the source document.

6-3 Dishonored Checks and Electronic Banking

RECORDING A DISHONORED CHECK ON A CHECK STUB

The diagram shows a check stub with the following fields and values:

NO. 41	\$	
Date		20
To		
For		
BAL. BRO'T. FOR'D.		6,128 00
AMT. DEPOSITED		6,128 00
SUBTOTAL		50 00
OTHER: <i>Dish. Check</i>		50.00
SUBTOTAL:		6,078 00
AMT. THIS CHECK		
BAL. CAR'D. FOR'D.		

Annotations:

- 1** Label: Points to the "OTHER:" line.
- 2** Amount: Points to the "50.00" value in the "OTHER:" line.
- 3** New Subtotal: Points to the "6,078 00" value in the "SUBTOTAL:" line.

A check that a bank refuses to pay is called a **dishonored check**. Banks may dishonor a check for a number of reasons. (1) The check appears to be altered. (2) The signature of the person who signed the check does not match the one on the signature card at the bank. (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 the check. (6) The account of the person who wrote the check has insufficient funds to pay the check.

Issuing a check on an account with insufficient funds is illegal in most states. Altering or forging a check is illegal in all states. A dishonored check may affect the credit rating of the person or business who issued the check. Checking accounts and records should be maintained in such a way that all checks will be honored when presented to the bank.

Sometimes money for a dishonored check

can be collected directly from the person or business who wrote the check. Often, however, the value of a dishonored check cannot be recovered and becomes an expense to the business.

Most banks charge a fee for handling dishonored checks that have been previously accepted for deposit. This fee is an expense of the business receiving a dishonored check. Encore Music's bank charges a \$15.00 fee for handling dishonored checks. Encore Music attempts to collect the \$15.00 fee in addition to the amount of the dishonored check.

When Encore Music receives a check, it records the check as a cash debit and deposits the check in the bank. When a check is dishonored, the bank deducts the amount of the check plus the fee, \$15.00, from Encore Music's checking account. Therefore, Encore Music records a dishonored check as a cash payment transaction.

S Recording a dishonored check on a check stub

- 1.** Write *Dishonored check \$50.00* on the line under the heading Other. The amount is the total of the dishonored check, \$35.00, plus the service fee of \$15.00.
- 2.** Write the total of the dishonored check, \$50.00, in the amount column.
- 3.** Calculate and record the new subtotal, \$6,078.00, on the Subtotal line. A new Balance Carried Forward is not calculated until after Check No. 41 is written.

JOURNALIZING A DISHONORED CHECK

GENERAL JOURNAL							PAGE 8	
Date	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT			
1 29	Accts. Rec.—Learn N Play	M55		50.00		19		
	Cash				50.00	20		
						21		
						22		
						23		

During August, Encore Music received no checks that were subsequently dishonored. However, in November Encore Music did receive a check from Learn N Play that was eventually dishonored.

November 29. Received notice from the bank of a dishonored check from Learn N Play, \$35.00, plus \$15.00 fee; total, \$50.00. Memorandum No. 55.

Accounts Receivable—Learn N Play	
50.00	
Cash	
	50.00

Because Encore Music did not write a check for this payment, a memorandum is prepared as the source document. (*CONCEPT: Objective*

Evidence) The analysis of this transaction is shown in the T accounts.

All checks received are deposited in Encore Music's checking account. The entry for each cash receipts transaction includes a debit to Cash. If a check is subsequently returned as dishonored, the previous cash debit for the amount of the check must be offset by a cash credit. The asset account, Cash, is credited for \$50.00 to show the decrease in assets.

When Encore Music originally received the check from Learn N Play, Accounts Receivable—Learn N Play was credited to reduce the balance of the account. When Encore Music finds out that the check was not accepted by the bank, the account, Accounts Receivable—Learn N Play, must be increased to show that this amount, plus the bank charge, is still owed to Encore Music. The asset account, Accounts Receivable—Learn N Play, is debited for \$50.00 to show the increase in assets.

S Journalizing a dishonored check

- 1. Date.** Write the date, 29, in the Date column.
- 2. Debit.** Write the title of the account debited, *Accounts Receivable—Learn N Play*, in the Account Title column. Write the debit amount, \$50.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Cash*, in the Account Title column. Write the credit amount, \$50.00, in the Credit column.
- 4. Source document.** On the first line of this entry, write the source document number, *M55*, in the Doc. No. column.

REMEMBER

Checking accounts and records should be maintained in such a way that all checks will be honored when presented to the bank.

JOURNALIZING AN ELECTRONIC FUNDS TRANSFER

GENERAL JOURNAL						
DATE		ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
1	2	Accts. Pay.—Kelson Enterprises	M10		350.00	
		Cash				350.00

A computerized cash payments system that uses electronic impulses to transfer funds is called **electronic funds transfer**. Many businesses use electronic funds transfer (EFT) to pay vendors. To use EFT, a business makes arrangements with its bank to process EFT transactions. Arrangements are also made with vendors to accept EFT payments on account. After arranging for EFT payments on account, a telephone call is all that is needed to transfer funds from the business's account to the vendor's account.

To control cash payments through EFT, the person responsible for requesting transfers should be given a password. The bank should not accept EFT requests from any person unable to provide an established password.

Superior Cleaning Service uses electronic funds transfer to make payments on account to

vendors. The journal entry for making payments on account through EFT is the same as when a check is written. The only change is the source document used to prove that the transaction did occur. Superior Cleaning Service uses a memorandum as the source document for an EFT. A note is written on the memorandum to describe the transaction.

September 2. Paid cash on account to Kelson Enterprises, \$350.00, using EFT. Memorandum No. 10.

Accounts Payable—Kelson Enterprises	
350.00	
Cash	
	350.00

The source document for this transaction is Memorandum No. 10. (*CONCEPT: Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The liability account, Accounts Payable—Kelson Enterprises, is decreased by a debit, \$350.00. The asset account, Cash, is decreased by a credit, \$350.00.

A cash payment made by EFT is recorded on the check stub as Other. This procedure keeps the checkbook in balance during the time lag from when the EFT is made until receipt of the bank statement. The EFT payments are verified as part of the regular bank statement reconciliation process. EFT payments are identified in the Check column of the bank statement by the notation EFT, rather than by a check number.

S Journalizing an electronic funds transfer

**T
E
P
S**

- 1. Date.** Write the date, 2, in the Date column.
- 2. Debit.** Write the title of the account debited, *Accounts Payable—Kelson Enterprises*, in the Account Title column. Write the debit amount, \$350.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Cash*, in the Account Title column. Write the credit amount, \$350.00, in the Credit column.
- 4. Source document.** On the first line of this entry, write the source document number, M10, in the Doc. No. column.

JOURNALIZING A DEBIT CARD TRANSACTION

GENERAL JOURNAL							PAGE 17	
Date	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
1	12	5 Supplies	M12		24.00		12	
	13	Cash				24.00	13	
	14						14	

Debit 2

Source Document

Credit 3

A bank card that, when making purchases, automatically deducts the amount of the purchase from the checking account of the cardholder is called a **debit card**. There is one major difference between a debit card and a credit card. When a purchase is made with a debit card, the amount of the purchase is automatically withdrawn from the checking account of the cardholder. A debit card eliminates the need to actually write out a check for the purchase. However, the effect is the same. The checking account balance is reduced by the amount of the purchase. A debit card also eliminates the need to carry a checkbook.

When using a debit card, it is important to remember to record all withdrawals to avoid errors in the checking account.

Superior Cleaning Service uses a debit card to make some purchases. Recording a cash payment made by a debit card is similar to recording a cash payment made by electronic funds transfer.

Superior Cleaning Service uses a memorandum as the source document for a debit card purchase. A note is written on the memorandum to describe the transaction.

September 5. Purchased supplies, \$24.00, using debit card. Memorandum No. 12.

Supplies	
24.00	
Cash	
	24.00

The source document for this transaction is Memorandum No. 12. (*CONCEPT: Objective Evidence*) The analysis of this transaction is shown in the T accounts.

The asset account, Supplies, is increased by a debit, \$24.00. The asset account, Cash, is decreased by a credit, \$24.00.

A cash payment made with a debit card is recorded on the check stub as Other. This procedure keeps the checkbook in balance during the time lag from when the debit card payment is made until receipt of the bank statement. The debit card payments are verified as part of the regular bank statement reconciliation process. Debit card payments are identified as a Purchase on the bank statement, with the date, time, location, and the amount of the debit card transaction stated.

S Journalizing a debit card purchase

- 1. Date.** Write the date, 5, in the Date column.
- 2. Debit.** Write the title of the account debited, *Supplies*, in the Account Title column. Write the debit amount, \$24.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Cash*, in the Account Title column. Write the credit amount, \$24.00, in the Credit column.
- 4. Source document.** On the first line of this entry, write the source document number, *M12*, in the Doc. No. column.

TERMS REVIEW

dishonored check
electronic funds transfer
debit card

AUDIT YOUR UNDERSTANDING

1. List six reasons why a bank may dishonor a check.
2. What account is credited when electronic funds transfer is used to pay cash on account?
3. What account is credited when a debit card is used to purchase supplies?

WORK TOGETHER

Recording dishonored checks, electronic funds transfers, and debit card purchases

Write the answers to this problem in the *Working Papers*. Your instructor will guide you through the following example.

4. Enter the following transactions on page 6 of a general journal.

Transactions:

- March 15. Received notice from the bank of a dishonored check from Christopher Ikola, \$63.00, plus \$10.00 fee; total, \$73.00. Memorandum No. 121.
16. Paid cash on account to Laura Spinoza, \$135.00, using EFT. Memorandum No. 122.
17. Purchased supplies, \$31.00, using debit card. Memorandum No. 123.

ON YOUR OWN

Recording dishonored checks, electronic funds transfers, and debit card purchases

Write the answers to this problem in the *Working Papers*. Work this problem independently.

5. Enter the following transactions on page 12 of a general journal.

Transactions:

- June 12. Received notice from the bank of a dishonored check from Tina Horasky, \$55.00, plus \$15.00 fee; total, \$70.00. Memorandum No. 76.
13. Paid cash on account to Paul Mancini, \$112.00, using EFT. Memorandum No. 77.
14. Purchased supplies, \$79.00, using debit card. Memorandum No. 78.

6-4 Petty Cash

ESTABLISHING A PETTY CASH FUND

GENERAL JOURNAL PAGE 1

Date	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
1	17	Petty Cash	C8		200.00	
		Cash				200.00
			Source Document			

Credit

An amount of cash kept on hand and used for making small payments is called **petty cash**. A business usually has some small payments for which writing a check is not time or cost effective. Therefore, a business may maintain a separate cash fund for making small cash payments. The actual dollar amount considered to be a small payment differs from one business to another. Ms. Treviño has set \$20.00 as the maximum amount to be paid at any one time from the petty cash fund.

The petty cash account is an asset with a normal debit balance. The balance of the petty cash account increases on the debit side and decreases on the credit side.

Petty Cash	
Debit	Credit
NORMAL BALANCE	
↑	↓

On August 17, Ms. Treviño decided that Encore Music needed a petty cash fund of \$200.00. This amount should provide for small cash payments during a month.

Petty Cash is debited for \$200.00 to show the increase in this asset account balance. Cash is credited for \$200.00 to show the decrease in this asset account balance.

Ms. Treviño cashed the check and placed the \$200.00 in a locked petty cash box at her place of business. Only Ms. Treviño is authorized to make these payments.

STEPS

Establishing a petty cash fund

- 1. Date.** Write the date, 17, in the Date column.
- 2. Debit.** Write the title of the account debited, *Petty Cash*, in the Account Title column. Write the debit amount, \$200.00, in the Debit column.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Cash*, in the Account Title column. Write the credit amount, \$200.00, in the Credit column.
- 4. Source document.** On the first line of this entry, write the source document number, C8, in the Doc. No. column.

MAKING PAYMENTS FROM A PETTY CASH FUND WITH A PETTY CASH SLIP

PETTY CASH SLIP		No. 1
Date:	<u>August 18, 20--</u>	
Paid to:	<u>Tribune</u>	
For:	<u>Newspaper Ad</u>	\$ <u>5.00</u>
Account:	<u>Advertising Expense</u>	
Approved: <u>Barbara Treviño</u>		

Each time a small payment is made from the petty cash fund, Ms. Treviño prepares a form showing the purpose and amount of the payment. A form showing proof of a petty cash payment is called a **petty cash slip**.

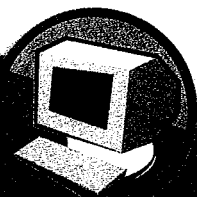
A petty cash slip shows the following information. (1) Petty cash slip number. (2) Date of petty cash payment. (3) To whom paid. (4)

Reason for the payment. (5) Amount paid.

(6) Account in which amount is to be recorded.

(7) Signature of person approving the petty cash payment.

The petty cash slips are kept in the petty cash box until the fund is replenished. No entries are made in the journal for the individual petty cash payments.



TECHNOLOGY
FOR BUSINESS

ELECTRONIC SPREADSHEETS AND BANK RECONCILIATION

Businesses often use forms to prepare accounting reports. Electronic spreadsheet software is a useful tool for preparing such accounting reports. Unlike paper forms, however, electronic spreadsheets contain formulas that automatically perform calculations.

An *electronic spreadsheet* displayed on a computer monitor consists of a group of rows and columns. Such spreadsheets can be extremely large, having hundreds of columns and thousands of rows. The space where a column intersects with a row is a *cell*. For example, cell A17 is located at the intersection of column A and row 17. This is known as the *cell address*.

The power of an electronic

spreadsheet comes from the ability to let the software make calculations. This is accomplished by attaching formulas to different cells.

A bank reconciliation form increases the efficiency of verifying a bank statement. A spreadsheet can be created with all the formulas necessary to complete a bank reconciliation. For example, a formula attached to a certain cell can calculate the total outstanding deposits.

After the bank reconciliation is printed, the same spreadsheet can be used to reconcile other bank statements. Preparing a bank reconciliation using an electronic spreadsheet can help assure that the calculations are accurate.

REPLENISHING PETTY CASH

GENERAL JOURNAL							PAGE 2	
Date	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
1	31	Miscellaneous Expense	C12		7.00		9	
		Advertising Expense			5.00		10	
		Cash		Source Document		12.00	11	
							12	

As petty cash is paid out, the amount in the petty cash box decreases. Eventually, the petty cash fund must be replenished and the petty cash payments recorded. Encore Music replenishes its petty cash fund whenever the amount on hand is reduced to \$75.00. Also, the petty cash fund is always replenished at the end of each month so that all of the expenses are recorded in the month they are incurred.

Before petty cash is replenished, a proof of the fund must be completed.

Petty cash remaining in the petty cash fund	\$188.00	+	-
Plus total of petty cash slips	+ 12.00	÷	x
Equals petty cash fund	\$200.00		

The last line of the proof must show the same total as the original balance of the petty cash fund, \$200.00. If petty cash does not prove, the errors must be found and corrected before any more work is done.

The proof shows that a total of \$12.00 has been paid out of petty cash. An inspection of the petty cash slips shows that \$7.00 has been paid for miscellaneous expenses and \$5.00 has been paid for advertising. Therefore, an additional \$12.00 must be placed in the fund. Encore Music will write a check to replenish the fund.

August 31. Paid cash to replenish the petty cash fund, \$12.00: miscellaneous expense, \$7.00; advertising, \$5.00. Check No. 12.

Unless the petty cash fund is permanently increased or decreased, the balance of the account is always the original amount of the fund. The check issued to replenish petty cash is

a credit to Cash and does not affect Petty Cash. When the check is cashed, the money is placed in the petty cash box. The amount in the petty cash box changes as shown below.

Amount in petty cash box before fund is replenished	\$188.00	+	-
Amount from check issued to replenish petty cash	+ 12.00	÷	x
Amount in petty cash box after fund is replenished	\$200.00		

The total amount in the petty cash box, \$200.00, is again the same as the balance of the petty cash account.

Journalizing the entry to replenish petty cash

- 1. Date.** Write the date, 31, in the Date column.
- 2. Debit.** Write the title of the first account debited, *Miscellaneous Expense*, in the Account Title column. Write the amount to be debited to Miscellaneous Expense, \$7.00, in the Debit column on the same line as the account title. On the next line, write the title of the second account debited, *Advertising Expense*, in the Account Title column. Write the amount to be debited to Advertising Expense, \$5.00, in the Debit column on the same line as the account title.
- 3. Credit.** On the next line, indented about 1 centimeter, write the title of the account credited, *Cash*, in the Account Title column. Write the credit amount, \$12.00, in the Credit column.
- 4. Source document.** On the first line of this entry, write the source document number, C12, in the Doc. No. column.

TERMS REVIEW

petty cash
petty cash slip

AUDIT YOUR UNDERSTANDING

1. Why do businesses use petty cash funds?
2. Why is Cash and not Petty Cash credited when a petty cash fund is replenished?

WORK TOGETHER

Establishing and replenishing a petty cash fund

Write the answers to this problem in the *Working Papers*. Your instructor will guide you through the following example.

3. Journalize the following transactions completed during July of the current year. Use page 13 of a general journal. The abbreviation for check is C.

Transactions:

- July 3. Paid cash to establish a petty cash fund, \$250.00. C57.
 31. Paid cash to replenish the petty cash fund, \$78.00: supplies, \$25.00; miscellaneous expense, \$8.00; repairs, \$45.00. C97.

ON YOUR OWN

Establishing and replenishing a petty cash fund

Write the answers to this problem in the *Working Papers*. Work this problem independently.

4. Journalize the following transactions completed during August of the current year. Use page 14 of a general journal. The abbreviation for check is C.

Transactions:

- Aug. 1. Paid cash to establish a petty cash fund, \$500.00. C145.
 31. Paid cash to replenish the petty cash fund, \$134.00: supplies, \$33.00; miscellaneous expense, \$70.00; advertising, \$31.00. C177.

After completing this chapter, you can

1. Define accounting terms related to using a checking account and a petty cash fund.
2. Identify accounting concepts and practices related to using a checking account.
3. Prepare business papers related to using a checking account.
4. Reconcile a bank statement.
5. Journalize dishonored checks and electronic banking transactions.
6. Establish and replenish a petty cash fund.

EXPLORE ACCOUNTING

CASH CONTROLS

Cash transactions occur more frequently than other types of transactions. Because cash is easily transferred from one person to another, a business must try to safeguard its cash to protect it and other assets from errors.

An unintentional error occurs when someone mistakenly records an incorrect amount or forgets to record a transaction. An intentional error occurs when someone intentionally records an incorrect amount or purposely forgets to record a transaction in order to cover up fraud or theft. Good cash control procedures should guard against both types of errors.

One common method of controlling cash is to insist that all cash payments over a

certain amount be paid by check. In addition, checks should be prenumbered so that it is easy to account for each check. The document number column of a journal can be used to ensure that all checks issued are recorded in the journal. Other cash controls are to have one person responsible for authorizing all checks and requiring a source document in support of each cash payment.

One of the best ways to safeguard assets is to separate duties so that one employee does not have total control of an entire set of processes. For example, one employee could receive and record the receipt of cash on account; a second employee could make and record deposits; and a third employee could reconcile the bank statement. By separating

the duties, it is less likely that errors will be made.

A company that does not have enough employees to institute the separation of duties concept may hire a certified public accountant (CPA) to perform some of these duties on a regular basis.

Research Assignment:

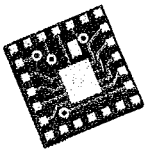
Talk to a business person to determine what kind of controls are in place to safeguard cash. Schools, hospitals, charitable organizations, and government offices as well as retail, wholesale, and service businesses should have established controls that are being followed. Summarize and present your findings to your class.

6-1**APPLICATION PROBLEM**
Endorsing and writing checks

You are authorized to sign checks for Accounting Tutors. Forms are given in the *Working Papers*.

Instructions:

1. For each of the following situations, prepare the appropriate endorsement.
 - a. Write a blank endorsement.
 - b. Write a special endorsement to transfer a check to Bryan Astrup.
 - c. Write a restrictive endorsement to deposit a check in the account of Accounting Tutors.
2. Record the balance brought forward on Check Stub No. 608, \$9,811.71.
3. Record a deposit of \$1,359.00 made on September 30 of the current year on Check Stub No. 608.
4. Prepare check stubs and write the following checks. Use September 30 of the current year as the date.
 - a. Check No. 608 to Oak Street Supplies for supplies, \$1,050.00.
 - b. Check No. 609 to Blaine Tribune for advertising, \$92.00.
 - c. Check No. 610 to Bryce Kassola for rent, \$750.00.

6-2**APPLICATION PROBLEM**
Reconciling a bank statement and recording a bank service charge

Forms are given in the *Working Papers*. On May 31 of the current year, Parties Plus received a bank statement dated May 30. The following information is obtained from the bank statement and from the records of the business.

Bank statement balance	\$2,482.00
Bank service charge	10.00
Outstanding deposit, May 30	756.25
Outstanding checks:	
No. 310	421.76
No. 311	150.50
Checkbook balance on Check Stub No. 312	2,675.99

Instructions:

1. Prepare a statement reconciliation. Use May 31 of the current year as the date.
2. Record the service charge on Check Stub No. 312.
3. Record the bank service charge on general journal page 10. Use Memorandum No. 58 as the source document.

6-3**APPLICATION PROBLEM**
Recording dishonored checks, electronic funds transfers, and debit card purchases

Enter the following transactions on page 3 of the general journal given in the *Working Papers*.

Transactions:

- Feb. 15. Received notice from the bank of a dishonored check from Patricia Dubay, \$125.00, plus \$20.00 fee; total, \$145.00. Memorandum No. 217.
16. Paid cash on account to Alec Hongo, \$354.00, using EFT. Memorandum No. 218.
17. Purchased supplies, \$89.00, using debit card. Memorandum No. 219.

6-4

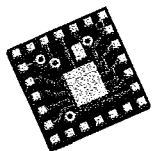
APPLICATION PROBLEM**Establishing and replenishing a petty cash fund**

Journalize the following transactions completed during November of the current year. Use page 22 of the general journal given in the *Working Papers*. The abbreviation for check is C.

Transactions:

- Nov. 5. Paid cash to establish a petty cash fund, \$300.00. C527.
 30. Paid cash to replenish the petty cash fund, \$165.00: supplies, \$57.00; miscellaneous expense, \$58.00; repairs, \$40.00; postage, \$10.00. C555.

6-5

MASTERY PROBLEM**Reconciling a bank statement; journalizing a bank service charge, a dishonored check, and petty cash transactions**

Joseph Cruz owns a business called LawnMow. Selected general ledger accounts are given below.

110 Cash	140 Prepaid Insurance	535 Repair Expense
115 Petty Cash	320 Joseph Cruz, Drawing	540 Supplies Expense
120 Accts. Rec.—Stacey Griffith	520 Miscellaneous Expense	550 Utilities Expense
130 Supplies	530 Rent Expense	

Instructions:

1. Journalize the following transactions completed during August of the current year. Use page 20 of the general journal given in the *Working Papers*. Source documents are abbreviated as follows: check, C; memorandum, M.

Transactions:

- Aug. 21. Paid cash to establish a petty cash fund, \$200.00. C61.
 24. Paid cash for repairs, \$235.00. C62.
 26. Paid cash for supplies, \$40.00. C63.
 27. Received notice from the bank of a dishonored check from Stacey Griffith, \$35.00, plus \$15.00 fee; total, \$50.00. M22.
 28. Paid cash for miscellaneous expense, \$12.00. C64.
 31. Paid cash to owner for personal use, \$300.00. C65.
 31. Paid cash to replenish the petty cash fund, \$55.00: supplies, \$35.00; miscellaneous expense, \$20.00. C66.
2. On August 31 of the current year, LawnMow received a bank statement dated August 30. Prepare a bank statement reconciliation. Use August 31 of the current year as the date. The following information is obtained from the August 30 bank statement and from the records of the business.

Bank statement balance	\$1,521.00
Bank service charge	5.00
Outstanding deposit, August 31	430.00
Outstanding checks, Nos. 65 and 66	
Checkbook balance on Check Stub No. 67	1,601.00

3. Continue using the general journal and journalize the following transaction.

Transaction:

- Aug. 31. Received bank statement showing August bank service charge, \$5.00. M23.

CHALLENGE PROBLEM**Reconciling a bank statement and recording a bank service charge**

Use the bank statement, canceled checks, and check stubs given in the *Working Papers*.

Instructions:

1. Compare the canceled checks with the check stubs. For each canceled check, place a check mark next to the appropriate check stub number. For each deposit shown on the bank statement, place a check mark next to the deposit amount on the appropriate check stub.
2. Prepare a bank statement reconciliation. Use August 29 of the current year as the date.
3. Record the following transactions on page 8 of a general journal. The abbreviation for memorandum is M.

Transactions:

- Sept. 1. Received bank statement showing August bank service charge, \$5.00. M25.
1. Received notice from the bank of a dishonored check from Sheldon Martindale, \$170.00, plus \$5.00 fee; total, \$175.00. M26.
4. Record the bank service charge and dishonored check on Check Stub No. 165.

**INTERNET ACTIVITY**

Point your browser to

<http://accounting.swpco.com>

Choose **First-Year Course**, choose **Activities**, and complete the activity for Chapter 6.

Applied Communication

All businesses are affected to some degree by issues and events that occur in the areas in which the businesses are located. For example, a city may gain an industry that will employ many people for a long time. Or, a town might build new roads or schools.

Instructions: Collect three to five newspaper or magazine articles about issues in your area that you think will affect local businesses. For each article, prepare a written list of consequences that a business might encounter.

Cases for Critical Thinking

Case 1 Iris Velez has a personal checking account for which she receives a bank statement every three months. She does not prepare a reconciliation. Sueanne Merker also has a personal checking account for which she receives bank statements once a month. She prepares a bank statement reconciliation for each bank statement received. Is Ms. Velez or Ms. Merker following the better procedure? Explain.

Case 2 Dorset Company decides to establish a petty cash fund. The owner, Edna Dorset, wants to establish a \$100.00 petty cash fund and limit payments to \$20.00 or less. The manager, Roy Evans, suggests a petty cash fund of \$3,000.00 limited to payments of \$50.00 or less. Mr. Evans claims this limit will help him avoid writing so many checks. Do you agree with Ms. Dorset or Mr. Evans? Explain.