CHAPTER 5 – CASH CONTROL SYSTEMS

In accounting, money is generally referred to as cash.

- Most businesses make major cash payments by check and use a petty cash fund for small items (such as postage and some supplies).

- Because of the frequency of cash transactions, there are more chances to make errors recording cash transactions than any other type of transaction.

- Businesses use bank accounts to keep their money; the record of checks written can be compared to the bank's record of checks paid to check accuracy.

- **A business form ordering a bank to pay cash from a bank account is known as a check.**

5-1 Checking Accounts

Checking account – A bank account from which payments can be ordered by a depositor.

- To open a checking account, the customer must sign a signature card for the bank records. If several people write checks for the company, they must all sign the signature card.

- A bank customer prepares a deposit slip whenever cash or checks are put into the checking account. Deposit slips vary from bank to bank.

- Checks may be listed on the deposit slip according to the bank number on each check or by the name on the check. The bank gives the depositor a receipt.

- When a deposit is made, a bank gives the depositor a receipt.

- The deposit is recorded on the check stub and a subtotal is found.

- No journal entry is made for a deposit because cash receipts are journalized at the time cash is received, not at the time it's put into the bank.

- Ownership of a check can be transferred. The first owner signs the check along with the words "Pay to the order of" and someone else's name.

- ***Endorsement*** – A signature or stamp on the back of a check transferring ownership.

- Federal laws require than an endorsement be confined to a limited amount of space (there is a line on the back, below which you cannot sign–why is this?)

- An endorsement should be signed exactly as the person's name appears on the front of the check. Ex. – if a check was made out to D. Shew, I would sign it that way.

- There might be several endorsements on a check. Each endorser guarantees payment of the check. If a bank does not receive payment from the person who signed the check, each endorsers is liable.

Blank Endorsement – An endorsement consisting of only the endorser's signature.

- If a check with a blank endorsement is lost, anyone can cash it.
- Use this only when you're at the bank, ready to cash the check or deposit it into your account.

Special Endorsement – An endorsement indicating a new owner.

- May also be called Endorsement in full.
- Must include the words "Pay to the Order of" and the name of the new check owner.

Restrictive Endorsement – An endorsement restricting further transfer of a check's ownership.

- This limits use of the check to what is stated in the endorsement.
- Usually this includes the words "For Deposit Only."
- Many businesses have a stamp prepared with a restrictive endorsement. When a check is received, it is immediately stamped, preventing unauthorized persons from cashing the check if it is lost or stolen.

- TechKnow Consulting uses printed checks with check stubs attached. Consecutive numbers are preprinted on the checks.

- A check stub is a business's record of each check written for a cash payment transaction. The check stub is prepared first; then the check is written.

Postdated check – One with a future date on it.

Banks usually refuse to accept altered checks. If an error is made when preparing a check, a new check should be prepared.

- A check that contains errors must be marked as "VOID" in large letters across both the check and its stub.
- TechKnow Consulting records a voiced check in the journal

5-2 Bank Reconciliation

Bank Statement Reconciliation

- A bank statement is reconciled by verifying that information on a bank statement and a checkbook are in agreement. This must be done as soon as the bank statement is received.

- Tech Know Consultings canceled checks are received with the bank statement and are arranged in numeric order.
- A check mark is placed on the corresponding check stub.
- A check stub with no check mark means it is an outstanding check.

The bank deducts a service charge from Tech Know Consulting's checking account each month.

- This must be recorded on the check stub.
- This must be recorded in the journal as a cash payment even though a check was not prepared.
- A memorandum is the source document since no check was written.
- A separate account could be used for recording this, but most businesses simply use the Miscellaneous Expense account.

5-3 Dishonored Checks and Electronic Banking

Dishonored check – a check that a bank refuses to pay.

- May be dishonored for several reasons:
    - Check appears to be altered.
    - Signature of the person who signed the check does not match the one on the signature card at the bank.
    - 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 the check.
    - 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 stated. 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 so that all checks will be honored.

- Occasionally money for a dishonored check can be collected directly from the party who wrote the check. Usually, however, the money cannot be collected and becomes an expense to the business.

- Most banks charge a fee for handling dishonored checks. This fee is an expense of the business receiving a dishonored check.

- A business can attempt to collect this fee from the party who wrote the check, but usually this attempt will fail.

- Because the bank deducts the amount of the dishonored check plus a fee from the account, Tech Know Consulting records this as a cash payment transaction.

- Because no check was written, a memorandum is prepared as the source document.

- When Tech Know receives a check on account, the following happens:

Cash	Debit
AR/Customer Name	Credit

- In the future, if a check is dishonored and returned to Tech Know, the following happens:

AR/Customer Name	Debit
Cash	Credit

    - The new amount includes the fee charged by the bank.

Electronic funds transfer (EFT) – A computerized cash payments system that uses electronic impulses to transfer funds.

- Many businesses use EFT to pay vendors.
- To use EFT, a business makes arrangements with its bank to process EFT transactions and arrangements are made with vendors to accept EFT payments on account.
- After setting up EFT, a phone call is all that is needed to transfer funds from the business's account to the vendor's account.
- The person responsible for requesting transfers should be given a password, and the bank should only accept requests from anyone who knows the password.
- The journal entry is the same except that no check is written; therefore the source document is a memorandum.
- A cash payment made by EFT is recorded on the check stub as Other.

Debit card – a bank card that automatically deducts the amount of any purchase from the check account of the cardholder.

- No need to write out a check.
- It is important to record these transactions in the check register.
- The journal entry is the same as any other cash purchase except that no check is written; therefore the source document is a memorandum.
  - Example – cash purchase of supplies
- A cash payment made with a debit card is recorded on the check stub as Other.

5-4 Petty Cash

Petty Cash – an amount of cash kept on hand and used for making small payments.

- Example – postage, sometimes advertising
- A business usually has some small payment where it doesn't make sense to write a check.
- A separate cash fund is kept for this purpose and is usually in a locked box.
- The actual amount kept on hand varies from business to business.
- Petty cash is an asset.

Establishing a petty cash fund

- When petty cash is established:
  Petty Cash   debit
  Cash   credit

Making payments from petty cash

- Cash is taken out and a slip is prepared and put into the box giving the purpose and amount of the payment.

Petty cash slip – a form showing proof of a petty cash payment.

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

Replenishing petty cash

- As cash is paid out, the amount in the box decreases.
- Eventually, there will not be enough cash left in the box for more payments.
- A business decides how low to allow this cash amount to get before replenishing.
- In addition, a business usually replenishes at the end of each month.
- A proof must be completed before replenishing it:

  Cash left in box
  \+ Total of petty cash slips
  = Petty cash fund

- The balance of the account is always the original amount of the fund.

Entry to replenish petty cash:

Each account affected	Debit
Cash	Credit

Petty Cash is not affected.