

Cash Control and Banking Activities

BEFORE YOU READ

Predict

1. What does the chapter title tell you?
2. What do you already know about this subject from personal experience?
3. What have you learned about this in the earlier chapters?
4. What gaps exist in your knowledge of this subject?

What You'll Learn

1. Describe the internal controls used to protect cash.
2. Describe the forms needed to open and use a checking account.
3. Record information on check stubs.
4. Prepare a check.
5. Prepare bank deposits.
6. Reconcile a bank statement.
7. Journalize and post entries relating to bank service charges.
8. Describe the uses of the electronic funds transfer system.
9. Define the terms introduced in this chapter.

Why It's Important

- ▶ Banking tasks are basic practices in business and in your personal life.



Exploring the *Real World* of Business

CONTROLLING CASH

Jamba Juice

Snacking at school does not have to be about greasy chips, candy bars, and sugary sodas. Across the nation schools are getting healthier about snacks. In many places students can now choose from smoothies like the Tropical Awakening or the Strawberry Nirvana—both popular drinks from **Jamba Juice**. Made with 100 percent fruit juices, Jamba smoothies provide three to six of the daily recommended servings of fruit.

Founded in 1990, the company now operates more than 430 stores nationwide. You can imagine how important it is to control cash as customers buy smoothies, juice, and baked goods. Companies like **Jamba Juice** use cash registers and specific bank deposit procedures to be sure that cash is properly accounted for.

What Do You Think?

What do you think is the most common problem that occurs in **Jamba Juice** stores in regard to cash?



Working in the *Real World*

APPLYING YOUR ACCOUNTING KNOWLEDGE

You cash your paycheck, stuff the cash in your wallet or billfold, and before you know it, the cash is gone! It is easy to lose track of how you spend your money. Businesses also have to watch their money carefully. One way of safeguarding cash is to keep it in the bank and write checks to make payments. You will learn about a business checking account in this chapter.

Personal Connection

1. Do you handle cash, checks, or credit cards in your job?
2. What procedures help protect cash?

Online Connection

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Working in the Real World** and select **Chapter 11**.





SECTION I

Banking Procedures

BEFORE YOU READ

Main Idea

Internal controls are steps taken to protect assets and keep reliable records.

Read to Learn...

- ▶ how a business protects cash. (p. 278)
- ▶ how to use a checking account. (p. 278)

Key Terms

internal controls
 external controls
 checking account
 check
 depositor
 signature card
 deposit slip
 endorsement
 blank endorsement
 special endorsement
 restrictive endorsement
 payee
 drawer
 drawee
 voiding a check

As You READ

It's Not What It Seems

Cash is more than dollar bills. In accounting, *cash* also means checks and funds on deposit in a bank or credit union.

In any business, cash (currency, coins, and checks) is used in daily transactions. An important part of accounting for a business, therefore, involves tracking the cash received and paid out. For example, Jamba Juice has established procedures for processing the cash received from the sale of drinks and other items. Jamba Juice also has a system of monitoring and controlling cash paid out for wages, utilities, supplies, and numerous other expenses.

Protecting Cash

How Does a Business Protect Cash?

It is important to protect cash from loss, waste, theft, forgery, and embezzlement. Cash is protected through internal controls and external controls. **Internal controls** refer to procedures within the business that are designed to protect cash and other assets and to keep reliable records. Internal controls for cash include:

1. Limiting the number of persons handling cash.
2. Separating accounting tasks involving cash. For example, one person handles cash receipts, another handles cash payments, and a different person keeps the accounting records showing the amounts received or paid.
3. Bonding (insuring) employees who handle cash or cash records.
4. Using a cash register and a safe.
5. Depositing cash receipts in the bank daily.
6. Making all cash payments by check.
7. Reconciling the bank statement.

External controls are the measures and procedures provided outside the business to protect cash and other assets. For example, banks maintain controls to protect the funds their customers deposit. These controls include verifying the accuracy of signatures on checks and maintaining records of monetary transactions.

The Checking Account

How Do You Maintain a Checking Account?

A **checking account** allows a person or business to deposit cash in a bank and to write checks against the account balance. A **check** is a written order from a depositor telling the bank to pay a stated amount of cash to the person or business named on the check. A **depositor** is a person or business that has cash on deposit in a bank.



Opening a Checking Account

A checking account helps protect cash and provides a record of cash transactions.

The Signature Card. To open a checking account, a business owner fills out a **signature card** and deposits cash in the bank. A signature card contains the signature(s) of the person(s) authorized to write checks on the account. The bank keeps the signature card on file so that it can be matched against signed checks presented for payment. The use of a signature card protects both the account holder and the bank against checks with forged signatures. See **Figure 11–1** for the signature card used to open the checking account for Roadrunner Delivery Service.

The Checkbook. When a depositor opens a checking account, checks are printed for the depositor's use. Printed checks are packaged together in a *checkbook* like the one shown in **Figure 11–2**. Each page has several detachable checks attached to check stubs, and both are numbered in sequence. Using checks with preprinted numbers helps a business keep track of every check that it writes, an important internal control.

The ABA Number. In addition to having a preprinted check number, each check is printed with the account number and an *American Bankers Association (ABA) number*. The ABA number is the fractional number printed in the upper right corner of a check, just below the check number. The ABA number identifies the bank and speeds the hand sorting of checks.

Look at the ABA number on the check in **Figure 11–3** on page 280. The number above the line and to the left of the hyphen represents the city or state where the bank is located. The number to the right of the hyphen indicates the specific bank. The number below the line is the code for the Federal Reserve district where the bank is located.

The ABA number was developed to speed the sorting of checks by hand. An updated version of the ABA number is also printed on the bottom of each check for electronic sorting. The ABA number, the account number, and the check number are printed at the bottom of the check in a special ink and typeface. These specially printed numbers are called *MICR (magnetic ink character recognition) numbers*. Can you identify the MICR numbers on the check in **Figure 11–3**?

Making Deposits

A business makes regular deposits to protect the currency, coins, and checks it receives. Most businesses make daily deposits.

Deposits are accompanied by a **deposit slip**, a bank form listing the cash and checks to be deposited. The deposit slip, also called a *deposit ticket*,

ACCT. NO.	303443	ACCOUNT NAME	Roadrunner Delivery Service
ACCT. TYPE:	<input checked="" type="checkbox"/> CKG. <input type="checkbox"/> SAV. <input type="checkbox"/> C.R.		
	<input type="checkbox"/> OTHER _____		
NO. SIGNATURES REQUIRED:	1		
SOC. SEC. NO. OR TAXPAYER I.D. NO.		SIGNATURE	Maria Sanchez
1		SIGNATURE	_____
2		SIGNATURE	_____
<small>THE INDIVIDUALS WHO HAVE SIGNED ABOVE ARE AUTHORIZED TO USE THIS ACCOUNT ACCORDING TO THE RULES AND REGULATIONS THAT APPLY TO IT AND ANY SPECIAL INSTRUCTIONS ON FILE WITH THE BANK. EACH PERSON WHO SIGNS ACKNOWLEDGES THAT THESE RULES AND REGULATIONS HAVE BEEN RECEIVED AND AGREES TO THEIR TERMS. EACH PERSON ALSO AUTHORIZES THE BANK TO REQUEST A CONSUMER REPORT FROM ANY CONSUMER REPORTING AGENCY.</small>			

FOR BANK USE			
IDENTIFICATION PRESENTED	CA State License		
COMMENTS	Sole Proprietorship—delivery service		
ACCOUNT ADDRESS	155 Gateway Blvd., Sacramento, CA 94230		
HOME PHONE	443-9696	BUSINESS PHONE	443-1692
<input checked="" type="checkbox"/> NEW ACCOUNT	<input type="checkbox"/> CAPTION CHANGE	<input type="checkbox"/> NEW SIGNATURE	<input type="checkbox"/> ADDITIONAL SIGNATURE
<input type="checkbox"/> INDIVIDUAL	<input type="checkbox"/> JOINT	<input type="checkbox"/> CORPORATE	<input checked="" type="checkbox"/> BUSINESS
<input type="checkbox"/> OTHER			
NCPS	OPENED BY	GLC	BRANCH
DATE OPENED OR CHANGED	October 1, 20--	AMOUNT DEPOSITED \$	25,000.00

Figure 11–1 Checking Account Signature Card

\$ _____	No. 101	No. 101
_____	_____	_____
_____	_____	_____
_____	_____	_____
\$ _____	No. 102	No. 102
_____	_____	_____
_____	_____	_____
_____	_____	_____
\$ _____	No. 103	No. 103
_____	_____	_____
_____	_____	_____
_____	_____	_____
\$ _____	No. 104	No. 104
_____	_____	_____
_____	_____	_____
_____	_____	_____

Figure 11–2 Checkbook

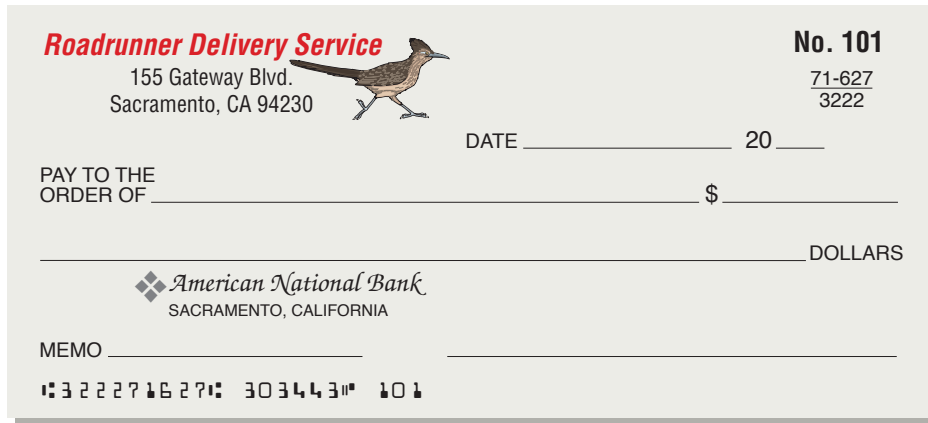


Figure 11-3 Printed Check

gives both the depositor and the bank a detailed record of the deposit. Most banks provide printed deposit slips with the depositor's name, address, and account number. A deposit slip for Roadrunner Delivery Service is shown in **Figure 11-4**.

To complete a deposit slip, follow these steps:

1. Write the date on the Date line.
2. On the Cash line, indicate the total amount of currency and coins.
3. List checks separately by their ABA numbers. Write only the number that appears above the line in the ABA number, including the hyphen. If there are many checks, list the checks by amount on a calculator tape and attach the tape to the deposit slip. On the first Checks line, write "See tape listing," followed by the total amount of the checks.
4. Add the amounts, and write the total amount on the Total line.

The checks are arranged in the order listed on the deposit slip. The deposit slip and the cash and checks are handed to a bank teller. The teller verifies the deposit and gives the depositor a receipt. The deposit receipt is usually a machine-printed form, although it may be a copy of the deposit slip stamped and initialed by the teller.

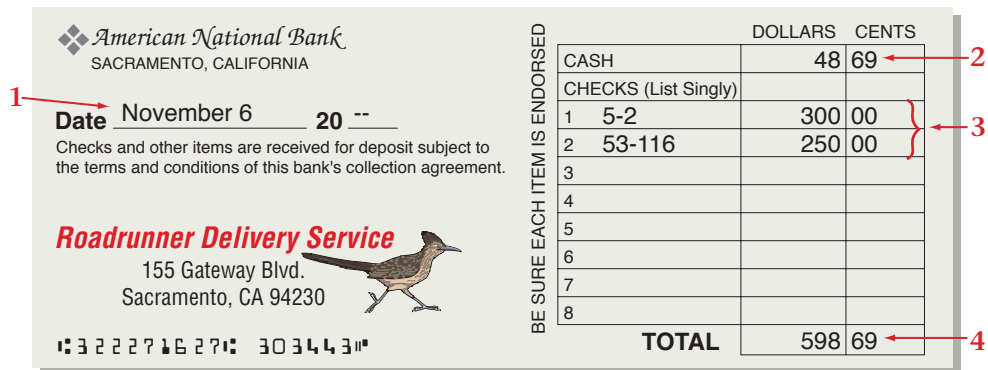


Figure 11-4 Deposit Slip

Endorsing Checks. A check is a form of property. When a business receives a check, it acquires the right to that check. To deposit the check in a checking account, the depositor endorses the check to transfer ownership to the bank. An **endorsement** is an authorized signature written or stamped on the back of a check that transfers ownership of the check.



A business can use three types of endorsements when transferring ownership of a check. The types of endorsements are shown in **Figure 11–5**:

- A **blank endorsement** includes only the signature or stamp of the depositor. It transfers ownership of the check, but it does not indicate who the new owner is. This is not a safe endorsement because the check can be cashed by anyone who presents it for payment.
- A **special endorsement** transfers ownership of the check to a specific individual or business.
- A **restrictive endorsement** transfers ownership to a specific owner and then limits, or restricts, how a check may be handled even after ownership is transferred. To protect checks from being cashed by anyone else, Roadrunner uses a restrictive endorsement that reads “For Deposit Only.” Roadrunner stamps the endorsement on the back of each check as soon as it is received.

Recording Deposits. The check stubs in the checkbook are a record of the **Cash in Bank** account. That is, the completed stubs reflect all checking account transactions: payments, deposits, and bank service charges.

To see how to record a deposit in the checkbook, refer to **Figure 11–6** and follow these steps:

1. Enter the date of the deposit on the check stub for the next unused check. Use the Add deposits line.
2. Enter the total amount of the deposit on the same line in the Dollars and Cents (amount) columns.
3. Add the deposit amounts to the amount on the Balance brought forward line. Enter the result on the Total line. This total is the new checkbook balance.

Writing Checks

Writing a check is a simple procedure. You need to follow a few important rules, however, to ensure correct recordkeeping and proper handling of the money represented by the check.

- Write checks in ink, or prepare typewritten or computer-generated checks. Some businesses use a check-writing machine that perforates the amount of the check in words on the Dollars line. These perforations protect a check from alteration. Checks written in pencil are not acceptable because they can be easily altered.
- Complete the check stub *before* writing the check. This reduces the chance of forgetting to complete the stub.

Completing the Check Stub. Because the stub serves as a permanent record of the check, it must be complete and accurate. A check stub has two parts. The upper part summarizes the details of the cash payment transaction. The lower part is a record of how the transaction affects the checking account. To see how to complete the check stub, refer to **Figure 11–7** on page 282 and follow these steps:

1. In the upper part of the stub, enter the amount of the check, the date, the name of the payee (on the To line), and the purpose of the check (on the For line). A **payee** is the person or business to which a check is written.

Blank Endorsement



Special Endorsement



Restrictive Endorsement

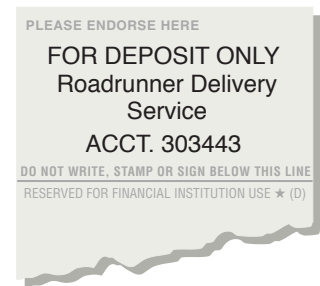


Figure 11–5
Endorsements

\$ _____	No. 103	
Date _____	20 __	
To _____		
For _____		
	Dollars	Cents
Balance brought forward	21,650	00
Add deposits 1 10/14	200	00 2
	10/15	1,200 00
Total	23,050	00 3
Less this check		
Balance carried forward		

Figure 11–6 Recording a Deposit in the Checkbook

1

\$	700.00	No. 103
Date	October 16	20 --
To	Tooley & Co. Management	
For	Rent	
	Dollars	Cents
Balance brought forward	21,650	00
Add deposits 10/14	200	00
10/15	1,200	00
Total	23,050	00
Less this check	700	00
Balance carried forward	22,350	00

\$		No. 104
Date		20 --
To		
For		
	Dollars	Cents
Balance brought forward	22,350	00
Add deposits		
Total		
Less this check		
Balance carried forward		

Figure 11-7 Filling Out the Check Stub

- If it has not already been done, enter the balance on the Total line on the lower part of the stub.
- Enter the amount of the check on the Less this check line. This amount is the same as the amount shown on the first line in the upper part of the stub.
- Subtract the check amount from the total. Enter the new balance on the Balance carried forward line.
- Enter the new balance on the first line of the bottom part of the *next* check stub, the Balance brought forward line.

Filling Out the Check. To see how to write a check, refer to Figure 11-8 and follow these steps:

- Write the date on which the check is being issued.
- Write the payee's name on the Pay To The Order Of line. Start the payee's name as far left as possible.
- Enter the amount of the check in numbers. Write clearly, and begin the first number as close to the printed dollar sign as possible.
- On the next line, write the dollar amount of the check *in words*. Start at the left edge of the line. Write any cents as a fraction. For example, write 22 cents as 22/100. Draw a line from the cents fraction to the word *Dollars*.
- Sign the check. Only an authorized person—one who has signed the signature card for the account—may sign the check. The person who signs a check is the **drawer**. The bank on which the check is written is the **drawee**.

The checkbook is now ready for the next transaction.

Voiding a Check. If an error is made while writing a check, the check is marked "Void" in large letters across the front (in ink). This is known as **voiding a check**. A new check is then prepared. When a check is voided, the stub is also voided.

Since a business needs to account for each check used, a voided check is never destroyed. Instead it is filed with the business records. A voided check may be placed in a special file, or it may simply be folded and stapled to the check stub.

\$	700.00	No. 103
Date	October 16	20 --
To	Tooley & Co. Management	
For	Rent	
	Dollars	Cents
Balance brought forward	21,650	00
Add deposits 10/14	200	00
10/15	1,200	00
Total	23,050	00
Less this check	700	00
Balance carried forward	22,350	00

Roadrunner Delivery Service 155 Gateway Blvd. Sacramento, CA 94230		103 71-627 3222
DATE <u>Oct. 16</u> 20 --		
PAY TO THE ORDER OF <u>Tooley & Co. Management</u>		\$ <u>700.00</u>
<u>Seven hundred and ^{no}/100</u>		DOLLARS
		
MEMO _____	<u>Maria Sanchez</u>	
⑆ 3 2 2 2 7 1 6 2 7 ⑆ 3 0 3 4 4 3 ⑆ 1 0 3		

Figure 11-8 Completed Stub and Check



AFTER
You READ**Reinforce the Main Idea**

Create a chart like this one to list the activities involved in maintaining a checking account. Identify how each activity helps protect cash. Add more rows as needed.

Activity	How This Activity Protects Cash

**Do the Math**

Assume you work for a health food store that prepares two deposits each day. Using the following cash register summaries, determine how much cash should be deposited after the first shift ended at 3:00 p.m. and after the second shift ended at 9:00 p.m.

	First Shift (9:00 a.m. – 3:00 p.m.)			Second Shift (3:00 p.m. – 9:00 p.m.)		
	Cash Register			Cash Register		
	1	2	3	1	2	3
Coins	35.40	29.35	18.75	24.62	19.21	14.32
Currency	395.00	425.00	300.00	218.00	349.00	216.00
Checks	900.00	875.00	725.00	725.00	645.00	829.00

**Problem 11–1 Preparing a Deposit Slip and Writing Checks**

On August 14 Loretta Harper, owner of Peabody Cards and Gifts, deposited the following items in the checking account of the business.

Cash: \$784.29

Checks: Charles Ling, drawn on American Bank of Commerce, ABA No. 32-7091; \$39.44

Keith Lopez, drawn on People's Bank, ABA No. 84-268; \$22.95

Marjorie Luke, drawn on Horizon Federal Savings and Loan, ABA No. 84-6249; \$52.95

Mable Parker, drawn on Security National Bank, ABA No. 84-2242; \$67.45

On August 15 Peabody received the July bill from Northeast Telephone for \$214.80.

On August 17 Peabody received an advertising bill from the Bayside News for \$275.00.

Instructions Using the forms provided in your working papers:

1. Complete a deposit slip.
2. Record the deposit on the check stub for Check 41.
3. Record the information for paying the telephone bill on Check Stub 41 and complete the check stub. Use August 16 as the date.
4. Prepare Check 41 to pay the telephone bill and sign your name as drawer.
5. Prepare the check stub and Check 42 to pay the bill for advertising. Use August 17 as the date and sign your name as drawer.



SECTION 2

Reconciling the Bank Statement

BEFORE YOU READ

Main Idea

The bank reconciliation is an important internal control.

Read to Learn...

- ▶ why businesses prove cash. (p. 284)
- ▶ how to read and reconcile a bank statement. (p. 284)
- ▶ about electronic funds transfer. (p. 290)

Key Terms

bank statement
canceled checks
imaged checks
reconciling the bank statement
outstanding checks
outstanding deposits
bank service charge
stop payment order
NSF check
Check 21
postdated check
electronic funds transfer system (EFTS)
bankcard
automated teller machine (ATM)

As You READ

Instant Recall

Proving To *prove* something means to compare balances and make sure they are equal.

Have you ever been surprised to find that your bank account had less money than you thought because you forgot to record a withdrawal? If so, you realize the importance of reconciling (bringing into agreement) your checkbook with your bank statement. Business owners and their accountants also need to keep up-to-date records of cash.

Proving Cash

What Is Meant by Proving Cash?

The balance in the **Cash in Bank** account in the general ledger is regularly compared with the balance in the checkbook. If all cash receipts have been deposited, all cash payments have been made by check, and all transactions have been journalized and posted, the **Cash in Bank** account balance should agree with the checkbook balance. Comparing these two cash balances regularly is part of the internal control of cash. Some businesses prove cash daily or weekly, while others prove cash on a monthly basis.

If the **Cash in Bank** balance does not agree with the checkbook balance, and the trial balance has been proved, the error is probably in the checkbook. The following checkbook errors are the most common:

- faulty addition or subtraction
- failure to record a deposit or a check
- a mistake in copying the balance forward amount to the next check stub

If an error is made in the checkbook, the proper place to enter the correction is on the next unused check stub. For example, suppose Check 22 for \$84.60 was recorded on the check stub as \$48.60. The error is found when cash is proved. By this time several other checks have been written, so the next unused check stub is 31. In this case the amount of the error ($\$84.60 - \$48.60 = \$36.00$) is subtracted from the balance brought forward on Check Stub 31 (see **Figure 11-9**). A note is made on Check Stub 22 to indicate that the error is corrected on Check Stub 31.

The Bank Statement

What Is a Bank Reconciliation?

A **bank statement** is an itemized record of all transactions in a depositor's account over a given period, usually a month. Typical bank statements include the following information:

1. the checking account balance at the beginning of the period
2. a list of all deposits made by the business during the period
3. a list of all checks paid by the bank
4. a list of any other deductions from the depositor's account
5. the checking account balance at the end of the period


Find each of these items on the bank statement for Roadrunner Delivery Service in **Figure 11–10**.

With the bank statement, a bank may include the **canceled checks** that it paid and deducted from the depositor's account. Instead of the actual checks, banks are increasingly sending images of the checks or simply a list of them. These **imaged checks** or *substitute checks* (copies of originals) or the list are used to verify the information on the bank statement. These checks and the bank statement should be kept in a file or storage box in case they are needed later as proof of payment or for other reasons.

Upon receipt, the bank statement is compared to the checkbook. The process of determining any differences between the bank statement and the checkbook is called **reconciling the bank statement**. It is also known as a *bank reconciliation*. The ending balance on the bank statement seldom agrees

\$ _____		No. 31
Date _____		20 --
To _____		
For _____		
	Dollars	Cents
Balance brought forward	4,750	00
Add deposits		
Less: Error corr. Ck. 22	36	00
Total	4,714	00
Less this check		
Balance carried forward		

Figure 11–9 Entering an Error Correction on the Check Stub

 American National Bank SACRAMENTO, CALIFORNIA					
Roadrunner Delivery Service 155 Gateway Boulevard Sacramento, CA 94230			Account Number: 303443 Statement Date: 10/31/20--		
FDIC					
Balance Last Statement	Deposits & Other Credits		Checks & Other Debits		Balance This Statement
	No.	Amount	No.	Amount	
1 00.00	3	26,400.00	5	4,183.00	5 22,217.00
Description	Checks & Other Debits	Deposits & Other Credits	Date	Balance	
Balance Forward					00.00
Deposit		25,000.00	10/01		25,000.00
Check 101	3,000.00	200.00	10/04		22,000.00
Deposit			10/14		22,200.00
Check 102	350.00	1,200.00	10/15		21,850.00
Deposit			10/16		23,050.00
Check 103	700.00		10/20		22,350.00
Check 104	125.00		10/31		22,225.00
Service Charge	4 8.00		10/31		22,217.00
<small>PLEASE EXAMINE YOUR STATEMENT AT ONCE. IF NO ERROR IS REPORTED IN 10 DAYS THE ACCOUNT WILL BE CONSIDERED CORRECT AND VOUCHERS GENUINE. ALL ITEMS ARE CREDITED SUBJECT TO FINAL PAYMENT.</small>					
<i>The Bank for All Your Business Needs</i>					

As You READ

Compare and Contrast

Cash Records What are the similarities and differences between check stubs and the **Cash in Bank** general ledger account?

Figure 11–10 Bank Statement





with the balance in the checkbook. There are three common reasons that the bank statement balance and the checkbook balance disagree:

- outstanding checks
- outstanding deposits
- bank charges

Outstanding Checks and Deposits

In banking terms the word *outstanding* simply means “not yet received.” **Outstanding checks**, therefore, are checks that have been written but have not yet been presented to the bank for payment. It is not unusual for checks written in one statement period to reach the bank in a later period. **Outstanding deposits** are deposits that have been made and recorded in the checkbook but do not appear on the bank statement. A deposit made the same day the bank statement is prepared may not appear on the statement.

Bank Service Charges

The bank statement balance also reflects any service charges made by the bank during the statement period. Banks impose a **bank service charge**, which is a fee for maintaining bank records and processing bank statement items for the depositor. This charge varies from bank to bank. It is frequently based on either the number of checks and deposits handled during the statement period or the balance in the depositor’s account. The bank subtracts the service charge from the depositor’s account. The depositor usually does not know about the service charge, or other bank charges handled in the same manner, until the statement is received.

Before the bank statement is reconciled, the checkbook balance is adjusted by the amount of the bank service charge. As shown in **Figure 11–11**, the words *Less: Service Charge* are written on the next unused check stub on the line above the Total line. The amount of the service charge is entered in the amount column, preceded by a minus sign. The balance is recalculated and entered on the Total line.

\$ _____	No. 107	
Date _____	20__	
To _____		
For _____		
	Dollars	Cents
Balance brought forward	21,125	00
Add deposits		
<i>Less: Svc. Charge</i>	–8	00
Total	21,117	00
Less this check		
Balance carried forward		

Figure 11–11 Entering a Bank Service Charge on the Check Stub

Connect to... **ECONOMICS**

In the early Middle Ages, Europe’s economy used the barter system. Goods and services were paid for with other goods and services. As trade spread throughout Europe, the long distances made barter unwieldy. The use of currency, banks, and credit was far more convenient.

Interest Paid

Some banks pay interest on funds in a checking account. This is not a common practice, and the account must maintain a minimum balance to qualify. The interest appears on the bank statement. The amount of interest must be recorded in the checkbook, journalized, and posted. The journal entry for interest paid follows:

Debit **Cash in Bank**
Credit **Interest Income**

The Bank Reconciliation

Promptly reconciling the bank statement is a good way to ensure orderly cash records and guard against cash losses. The bank expects to be notified immediately of any errors on the statement. Failure to do so may release the bank from responsibility for the errors.



On the back of the bank statement is a form for reconciling the bank statement. This form documents the differences between the bank balance and the checkbook balance. Refer to Figure 11–12 and follow these steps to reconcile a bank statement:

1. Arrange the canceled checks in numerical order. Compare the canceled checks with those listed on the statement and with the stubs.

When you match

a check and a stub, place a check mark beside the check amount on the bank statement and on the check stub. The stubs without check marks represent outstanding checks. List the outstanding check numbers and amounts on the bank reconciliation form.

2. Enter the ending balance shown on the bank statement.
3. Compare deposits listed on the bank statement to deposits listed in the checkbook. Enter the total of any outstanding deposits on the reconciliation form. Add this total to the bank statement balance and enter the result on the form.
4. Subtract the total of the outstanding checks from the amount calculated in Step 3. The result is the *adjusted bank balance*.
5. Compare the adjusted bank balance to the checkbook balance. When the balances match, the bank statement is reconciled.

Figure 11–13 illustrates a two-column account form.

If the adjusted bank balance does not match the checkbook balance, find and correct the error. Notify the bank immediately if it is a bank error. It is more likely, however, that the error is in the checkbook. Check the addition and subtraction on the check stubs and on the bank reconciliation form. Also look for any outstanding checks or deposits that have not been included in your calculations.

BANK RECONCILIATION FORM

PLEASE EXAMINE YOUR STATEMENT AT ONCE.
ANY DISCREPANCY SHOULD BE REPORTED TO
THE BANK IMMEDIATELY.

1. Record any transactions appearing on this statement but not listed in your checkbook.
2. List any checks still outstanding in the space provided to the right.
3. Enter the balance shown on this statement here.
4. Enter deposits recorded in your checkbook but not shown on this statement.
5. Total lines 3 and 4 and enter here.
6. Enter total checks outstanding here.
7. Subtract line 6 from line 5. This adjusted bank balance should agree with your checkbook balance.

CHECKS OUTSTANDING		
Number	Amount	
105	600	00
106	500	00
TOTAL	1,100	00

2	22,217	00
3	—	—
5	22,217	00
4	1,100	00
5	21,117	00

Figure 11–12 Bank Reconciliation Using a Bank Statement Form

Roadrunner Delivery Service				
Bank Reconciliation Statement				
October 31, 20--				
Balance on bank statement				22 217 00
Additions:				
Deposits in transit				22 217 00
Deductions for outstanding checks:				
Check 105	600 00			
Check 106	500 00			
Total outstanding checks				1 100 00
Adjusted bank balance				21 117 00

Figure 11–13 Bank Account Reconciliation Using a Two-Column Account Form



Journalizing Bank Service Charges

Like any other business, banks charge fees for their services. A bank service charge is an expense that is recorded in the accounting records.

The bank deducted the service charge from Roadrunner's account, so it is not necessary to write a check for this expense. The bank statement is the source document for recording the bank service charge.

Business Transaction

On November 1 Roadrunner received the bank statement. A bank service charge of \$8 appeared on the statement.

ANALYSIS *Identify*

Classify

+/-

1. Bank service charges are often recorded in the **Miscellaneous Expense** account. Therefore, **Miscellaneous Expense** and **Cash in Bank** are affected.
2. **Miscellaneous Expense** is an expense account. **Cash in Bank** is an asset account.
3. **Miscellaneous Expense** is increased by \$8. **Cash in Bank** is decreased by \$8.

DEBIT-CREDIT RULE

4. Increases in expense accounts are recorded as debits. Debit **Miscellaneous Expense** for \$8.
5. Decreases in asset accounts are recorded as credits. Credit **Cash in Bank** for \$8.

T ACCOUNTS

6. Miscellaneous Expense		Cash in Bank	
Debit	Credit	Debit	Credit
+	-	+	-
8			8

JOURNAL ENTRY



7. GENERAL JOURNAL					PAGE	42
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	Nov. 1	Miscellaneous Expense		8.00		2
3		Cash in Bank			8.00	3
4						4

Special Banking Procedures

Checks are usually written or received and deposited without any problems. However, three problems may occur:

- A business does not want the bank to pay a check that was issued.
- A business receives and deposits a check from a customer whose account does not have enough money to cover the check.
- A customer presents a check that has a date in the future.

Stopping Payment on a Check. Occasionally, a drawer (Roadrunner) orders the drawee (bank) not to honor, or pay, a check. A **stop payment order** is a demand by the drawer, usually in writing, that the bank not honor a specific check. A stop payment order is often used when a check is lost. The bank must receive the stop payment order *before* the check is presented for payment. Otherwise, it is too late.

To record a stop payment order, the accountant writes the words *Stopped Payment* on the check stub for the stopped check. The accountant then adds the amount of the stopped check on the next unused check stub, illustrated in **Figure 11–14**. If appropriate, the accountant then issues a replacement check.

Most banks charge a fee for a stop payment order. The fee appears on the bank statement. A journal entry, similar to that made for the bank service charge, is prepared. Most businesses record the fee in **Miscellaneous Expense**. The source document for this entry is the bank statement.

Recording NSF Checks. An **NSF check** is a check returned to the depositor by the bank because the drawer’s checking account does not have enough funds to cover the amount. *NSF* stands for *Not Sufficient Funds*. An NSF check is also known as a *dishonored check* or a *bounced check*.

Suppose that Burton Company (the drawer) wrote a check to Roadrunner (the payee) to pay for delivery services. What if Burton’s account does not have sufficient funds to cover the amount of the check? American National Bank (the drawee) has already shown this check as being deposited to Roadrunner’s account. When American National Bank finds out that Burton does not have enough funds to cover this check, it deducts the amount from Roadrunner’s account. The bank also sends the check back to Roadrunner (not to Burton Company).

When the bank returns an NSF check, Roadrunner subtracts the amount of the dishonored check from the checkbook balance. Roadrunner also makes a journal entry to record the returned check. At this point Roadrunner has not yet been paid for the delivery services and must go back to Burton Company to collect payment. Burton can then deposit enough money in its own bank to cover the check or find another way to pay.

The *Check Clearing for the 21st Century Act*, known as **Check 21**, went into effect in 2004. It allows the conversion of a paper check to an electronic image that can be processed quickly. A bank can now pay a check on the day it is written, instead of several days later. However, Check 21 does not require banks to process deposits more quickly. As a result, the speed of check processing could cause an increase in the number of NSF checks.

Postdated Checks. A business might accept a check that has a future date instead of the actual date. This check is called a **postdated check**. It should not be deposited until the date on the check. Businesses sometimes accept postdated checks as a convenience to customers.

Check Stub for Stopped Check

\$	500.00	No. 633
Date	January 12	20 --
To	Smith Engineering	
For	Electrical Work	
	Dollars	Cents
Balance brought forward	12,723	00
Add deposits		
Total		
Less this check	500	00
Balance carried forward	12,223	00

Next Unused Check Stub

\$		No. 652
Date		20 --
To		
For		
	Dollars	Cents
Balance brought forward	10,452	00
Add deposits	Stopped	
Payment on Ck 633	500	00
Total	10,952	00
Less this check		
Balance carried forward		

Figure 11–14 Recording a Stopped Check on the Check Stub

As You **READ**

Key Point

NSF Check A dishonored check “bounces” back to the depositor, not to the person who signed the check.



Business Transaction

On November 15 a check for \$450, written by Burton Company for payment on account and deposited by Roadrunner, was returned by the bank because of insufficient funds in Burton's account.

ANALYSIS *Identify*
Classify
+/-

- Accounts Receivable—Burton Company** and **Cash in Bank** are affected.
- Accounts Receivable—Burton Company** and **Cash in Bank** are both asset accounts.
- Accounts Receivable—Burton Company** is increased by the amount of the check returned by the bank, \$450. **Cash in Bank** is decreased by \$450.

DEBIT-CREDIT RULE

- Increases in asset accounts are recorded as debits. Debit **Accounts Receivable—Burton Company** for \$450.
- Decreases in asset accounts are recorded as credits. Credit **Cash in Bank** for \$450.

T ACCOUNTS

6.

Accounts Receivable— Burton Company		Cash in Bank	
Debit	Credit	Debit	Credit
+	-	+	-
450			450

JOURNAL ENTRY



7.

GENERAL JOURNAL						PAGE 43
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	Nov. 15	Accts. Rec.—Burton Company		450 00		2
3		Cash in Bank			450 00	3
4						4

Electronic Funds Transfer System

What Is EFTS?

Look at **Figure 11–15**. It illustrates the route a check follows from the time it is written until the time it is returned with the bank statement.

Since millions of checks are written each day, the transfer of checks and funds is routine. This transfer of funds among banks is a huge job, however. Banks use the **electronic funds transfer system (EFTS)** to handle such a large volume of transfers. The EFTS allows banks to transfer funds among accounts quickly and accurately without the exchange of checks.

The EFTS has a tremendous impact on banking activities:

- **Direct payroll deposit.** Employers can electronically transfer employees' pay to each employee's bank account.

- **Automated bill paying.** A depositor can authorize the bank to transfer funds from his or her checking account to the creditor's bank account.
- **Bankcards.** A **bankcard**, also known as an *ATM card*, is a bank-issued card that can be used at an **automated teller machine (ATM)** to conduct banking activities. An ATM is a computer terminal outside a bank or at a different location entirely. When a bankcard can be used for transactions at other businesses besides the bank, it is called a *debit card*.
- **Bank-by-phone service.** Account holders can complete transactions with their banks' computer systems by telephone.
- **Online banking.** Using the Internet, an account holder can access the bank's Web site to conduct banking transactions.

When using any electronic banking procedure, be sure to record all transactions to avoid errors in the checking account.

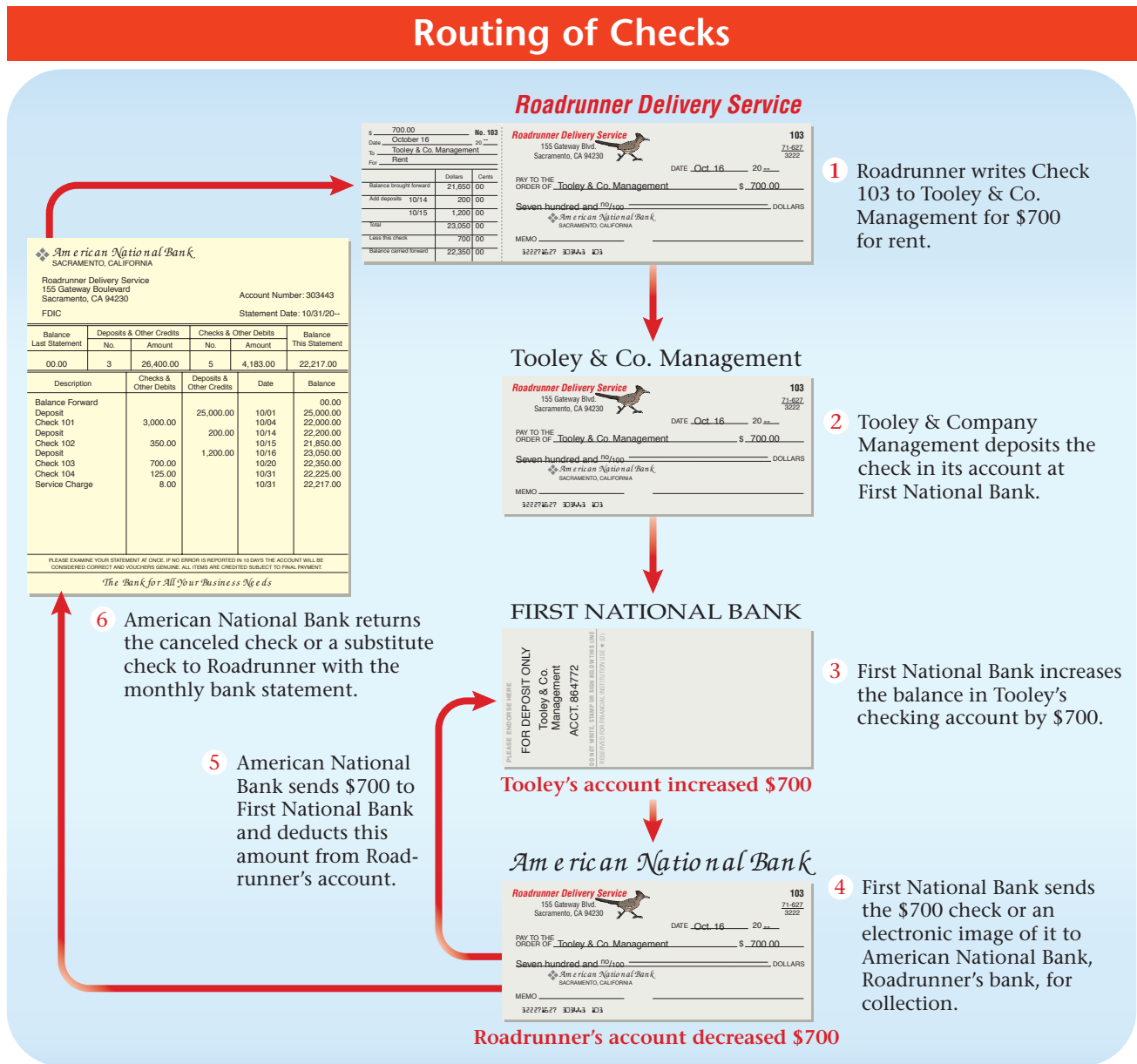


Figure 11–15 Routing of Checks

AFTER
You READ

Reinforce the Main Idea

Create a chart like this one to list the adjustments that might be needed to reconcile the bank statement. Add answer rows as needed.

Reconciling the Bank Statement

Checkbook Balance Adjustments	Bank Statement Balance Adjustments

+/- Do the Math

The balance in the checkbook of Valleyview Tennis Center on April 30 is \$2,944.20. The balance shown on the April bank statement is \$3,085.95. A deposit of \$345.00 was made on April 29, and another deposit of \$290.00 was made on April 30. Neither of these deposits appears on the bank statement. The service charge for the month was \$5.25. Valleyview has four outstanding checks:

Check 344	\$202.00	Check 350	\$ 25.00
Check 346	55.00	Check 351	500.00

Instructions

- Record the bank service charge in the checkbook.
- Reconcile the bank statement.

✓ Problem 11-2 Analyzing a Source Document

Instructions Review the Global Travel Agency bank statement and answer the following questions in your working papers.

- What is the amount of the returned check?
- How much did the bank charge Global Travel Agency for the returned check?
- What account will be debited for the \$12 bank service charge?

Security National Bank 155 Fisher Street, Cambridge, MA 02138					
STATEMENT					
Global Travel Agency 200 Brattle Street Cambridge, MA 02138			Account Number: 2549-84 Statement Date: 2/28/20--		
FDIC					
Balance Last Statement	Deposits & Other Credits		Checks & Other Debits		Balance This Statement
	No.	Amount	No.	Amount	
2,714.00	3	2,355.00	7	4,006.00	1,073.00
	Checks & Other Debits		Deposits & Other Credits		
				Date	Balance
			1,250.00	2/05	3,064.00
700.00				2/10	3,264.00
900.00				2/10	2,364.00
		845.00		2/15	3,209.00
600.00				2/15	2,609.00
(R) 100.00				2/20	2,509.00
(S) 25.00				2/20	2,484.00
725.00				2/25	1,759.00
600.00				2/25	1,159.00
(S) 12.00				2/26	1,147.00
214.00				2/26	933.00
		300.00		2/27	1,233.00
160.00				2/27	1,073.00
PLEASE EXAMINE YOUR STATEMENT AT ONCE. IF NO ERROR IS REPORTED IN 10 DAYS THE ACCOUNT WILL BE CONSIDERED CORRECT AND YOURSERS GENUINE. ALL ITEMS ARE CREDITED SUBJECT TO FINAL PAYMENT.					
C-CERTIFIED CHECK T-DEBIT CR-CREDIT S-SERVICE CHARGE L-LIST CR-OVERSPART R-RETURNED CHECK					

Accounting Careers in Focus

RECRUITING MANAGER

*Robert Half Finance & Accounting
Washington, D.C.
Raj Khanna*

Q: What does Robert Half Finance & Accounting do?

A: We help companies locate highly skilled financial professionals for full-time positions.

Q: How did you become a recruiter?

A: I was a CPA for eight years, working in both public and private accounting environments, when my sister introduced me to a friend who owned a small recruiting firm. I had been there just a few months when the firm was acquired by Robert Half International. That's when things really started to happen for me. I had the opportunity to travel and attend key training workshops, which really gave my career momentum.

Q: What are some factors that have been key to your success?

A: Intense daily activity is critical. When it comes to providing customer service, thinking outside the box is important. These factors have helped me to establish longstanding relationships with my clients and candidates.

Q: Why do you think an accounting degree is valuable?

A: Accounting is one of the most solid business foundations out there. It is a discipline that transcends any industry and is relevant at any level throughout one's career.

Tips from . . .



Robert Half International Inc.

Being able to communicate your ideas is necessary for success in any work environment. Know the audience you are addressing, think before voicing your opinion, and keep your communication simple and brief to ensure your messages come through loud and clear.

CAREER FACTS

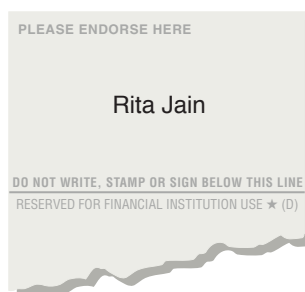
- ▶ **Nature of the Work:** Identify skilled candidates for available employment opportunities with client companies.
- ▶ **Training or Education Needed:** A bachelor's degree in accounting or related experience.
- ▶ **Aptitude, Abilities, and Skills:** Interpersonal and communication skills, aptitude for sales, familiarity with jobs in different industries.
- ▶ **Salary Range:** \$50,000 and up depending on personal performance, company performance, and company size.
- ▶ **Career Path:** Work in a public accounting firm or corporate accounting department to gain experience and knowledge, and then transfer to a recruiting position with a firm that specializes in accounting and finance.

Thinking Critically

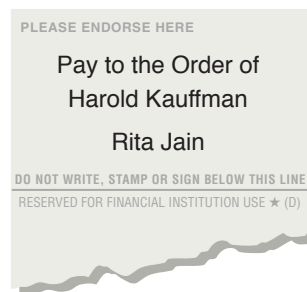
What do you think is meant by the term *company culture*? What might you look for in deciding whether or not a company's culture is right for you?

Key Concepts

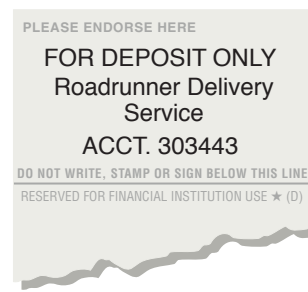
- The term *internal controls* refers to steps that a business takes to protect its cash and other assets, and to keep reliable records:
 - Limit the number of persons who handle cash.
 - Separate accounting tasks that involve cash.
 - Bond (insure) employees who handle cash or cash records.
 - Use a cash register and a safe.
 - Make daily deposits in the bank of cash received.
 - Make all cash payments by check.
 - Reconcile the bank statement promptly.
- To open a checking account, a business owner fills out a signature card and deposits cash in the bank.
The following forms are used to maintain a checking account:
 - deposit slip
 - check
 - checkbook in which deposits and checks are recorded on check stubs
- All checks written and deposits made are recorded on the check stub, which serves as a permanent record of the check. The stub should be completed *before* writing a check.
- Checks should be written in ink, or by typewriter, computer, or check-writing machine. Follow these steps: (a) Write the issue date; (b) write the payee's name on the Pay To The Order Of line starting as far left as possible; (c) write the amount of the check in numbers clearly, and begin the first number as close to the printed dollar sign as possible; (d) on the next line, write the dollar amount of the check in words starting at the left edge of the line, and write any cents as a fraction; (e) sign the check.
- Checks are endorsed before they are deposited. Most businesses stamp a restrictive endorsement on a check as soon as it is received. A restrictive endorsement limits how checks are handled.



Blank Endorsement



Special Endorsement



Restrictive Endorsement

- One way to *prove cash* is to reconcile the bank statement. Follow these steps to do a bank reconciliation: (a) Identify outstanding checks and list them on the bank reconciliation form, (b) enter the ending balance from the bank statement on the reconciliation form, (c) identify outstanding deposits and add them to the bank statement balance, (d) subtract outstanding checks from the bank statement balance, and (e) compare the adjusted bank statement balance with the checkbook balance. The bank statement is reconciled when the checkbook balance and the adjusted bank balance are equal.

7. A bank statement balance generally reflects any fees that a bank charged during the statement period. These service charges are for maintaining bank records and processing bank statement items. The depositor usually is not notified about the service charge or other bank fees until the statement arrives.

The bank statement is the source document for service charges. Write the bank service charge on the check stub. Also journalize and post the service charge:

GENERAL JOURNAL					PAGE <u>1</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1 20--					1
2 Date	Miscellaneous Expense		XXX X		2
3	Cash in Bank			XXX X	3
4	10/31/20—Bank Statement				4
5					5

8. The electronic funds transfer system (EFTS) allows banks to transfer funds without the exchange of checks. EFTS makes the following services available to individuals:
- direct payroll deposit
 - automated bill paying
 - bankcards
 - bank-by-phone service
 - online banking

Key Terms

automated teller machine (ATM)	(p. 291)	endorsement	(p. 280)
bank service charge	(p. 286)	external controls	(p. 278)
bank statement	(p. 284)	imaged check	(p. 285)
bankcard	(p. 291)	internal controls	(p. 278)
blank endorsement	(p. 281)	NSF check	(p. 289)
canceled check	(p. 285)	outstanding checks	(p. 286)
check	(p. 278)	outstanding deposits	(p. 286)
Check 21	(p. 289)	payee	(p. 281)
checking account	(p. 278)	postdated check	(p. 289)
deposit slip	(p. 279)	reconciling the bank statement	(p. 285)
depositor	(p. 278)	restrictive endorsement	(p. 281)
drawee	(p. 282)	signature card	(p. 279)
drawer	(p. 282)	special endorsement	(p. 281)
electronic funds transfer system (EFTS)	(p. 290)	stop payment order	(p. 289)
		voiding a check	(p. 282)

AFTER
YOU READ

Check Your Understanding

1. **Internal Controls**
 - a. Why do businesses need internal controls?
 - b. What internal controls can a business use to protect cash?
2. **Checking Account Forms**
 - a. What is the purpose of a signature card?
 - b. In addition to a signature card, what other forms are involved in using a checking account?
3. **Check Stubs**
 - a. What is the purpose of a check stub?
 - b. Why should you complete the check stub *before* writing the check?
4. **Writing a Check**
 - a. How should the amount be written on the check?
 - b. Why should checks be written in ink or by typewriter, computer, or check-writing machine?
5. **Bank Deposit**
 - a. How often should a business deposit cash as part of its internal controls?
 - b. What information should you include on a deposit slip?
6. **Bank Reconciliation**
 - a. What information does a bank statement contain?
 - b. List the steps to reconcile a bank statement.
7. **Bank Service Charges**
 - a. What is a bank service charge?
 - b. How does a business record bank service charges in its checkbook and in its accounting records?
8. **Electronic Funds Transfer System**
 - a. How do banks use the electronic funds transfer system (EFTS)?
 - b. What are some of the ways customers make electronic purchases?

Apply Key Terms

The manager of Valley View Bowling Center is concerned about cash control and banking procedures for the business. On a separate sheet of paper, write a memo explaining how the terms here relate to protecting cash.



automated teller machine (ATM)
bank service charge
bank statement
bankcard
blank endorsement
canceled check
check
Check 21
checking account
deposit slip
depositor

drawee
drawer
electronic funds transfer system (EFTS)
endorsement
external controls
imaged check
internal controls
NSF check
outstanding checks
outstanding deposits

payee
postdated check
reconciling the bank statement
restrictive endorsement
signature card
special endorsement
stop payment order
voiding a check

Reconciling the Bank Statement

Making the Transition from a Manual to a Computerized System

Task	Manual Methods	Computerized Methods
Reconciling the bank statement	<ul style="list-style-type: none"> Using the form on the back of the bank statement or accounting stationery, follow the steps on page 287 to reconcile the bank statement. 	<ul style="list-style-type: none"> Before attempting to reconcile the bank statement, make sure all transactions for the month have been posted. A computerized system will list all cash transactions and allow you to check off the appropriate cleared items. You may enter adjustments such as bank fees. These will be posted to the general ledger.



Peachtree® Q & A

Peachtree Question	Answer
How do I reconcile the cash account in Peachtree?	<ol style="list-style-type: none"> Select Account Reconciliation from the <i>Tasks</i> menu. Select the cash account to be reconciled. Type the bank statement date. Type the ending bank statement balance. Click the Clear box for all items that appear on the bank statement. When the unreconciled difference is \$0.00, the account has been reconciled. Click OK to save the reconciliation.



QuickBooks Q & A

QuickBooks Question	Answer
How do I reconcile the cash account in QuickBooks?	<ol style="list-style-type: none"> Choose Reconcile from the <i>Banking</i> menu. Select the bank account in the <i>Account</i> field. Type the bank statement date. Type the ending balance and click Continue. Click each line for each item that appears on the bank statement to mark it as cleared. When the <i>Difference</i> field shows 0.00, the account has been reconciled. Click Reconcile Now to save the reconciliation.

For detailed instructions, see your Glencoe Accounting Chapter Study Guides and Working Papers.

Complete problems using:

Manual Glencoe Working Papers

OR

Peachtree Complete Accounting Software

OR

QuickBooks Templates

OR

Spreadsheet Templates

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problems 11-4

1. Select the problem set for Hot Suds Car Wash (Prob. 11-4).
2. Rename the company and set the system date.
3. Use the **Payments** option in the **Tasks** menu to record the checks issued.
4. Record the deposits using the **General Journal Entry** option.
5. Print an Account Register report using the **Account Reconciliation** option from the **Reports** menu.
6. Complete the Analyze activity.
7. End the session.

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 11-5

1. Select the problem set for Kits & Pups Grooming (Prob. 11-5).
2. Rename the company and set the system date.
3. Reconcile the bank statement.
4. Print the Account Reconciliation reports: Account Register, Account Reconciliation, Deposits in Transit, and Outstanding Checks.
5. Complete the Analyze activity.
6. End the session.

Problem 11-3 Handling Deposits

On October 4 the owner of Wilderness Rentals deposited the following in the business checking account at First National Bank. The beginning balance in the account is \$3,306.54 before these transactions.

Cash: Currency, \$374.00; Coins, \$7.42

Checks: Bob Warner, drawn on Consumers Bank, ABA No. 63-706; \$64.98

Joan Walkman, drawn on Mountain Bank, ABA No. 63-699; \$349.81

Ernesto Garcia, drawn on Progressive

Savings and Loan, ABA No. 63-710; \$29.44

Instructions In your working papers:

1. Place a restrictive endorsement on each check. Use "Wilderness Rentals."
2. Fill out a deposit slip. Use the ABA number to identify each check.
3. Record the deposit in the checkbook on Check Stub 651.

Analyze Calculate the checkbook balance after the deposit is recorded on the check stub.

Problem 11-4 Maintaining the Checkbook

As the accounting clerk for Hot Suds Car Wash, you write checks and make deposits. The current checkbook balance is \$3,486.29.

Instructions For each transaction:

1. Record the necessary information on the check stub. Determine the new balance and carry the balance forward.
2. Prepare the necessary checks and sign your name as drawer.

Date	Transactions
Oct. 3	Issued Check 504 for \$868.45 to Custom Construction for construction supplies.
3	Deposited \$601.35 in the checking account.
6	Issued Check 505 for \$299.60 to CP Lumber for paint.
7	Issued Check 506 to Laverne Brothers for \$1,000.00 for completing a painting job.
10	Deposited \$342.80 in the checking account.
10	Issued Check 507 to Union Utilities for the September electricity bill of \$175.50.

Analyze Calculate the balance brought forward amount on Check Stub 508.

Problem 11–5 Reconciling the Bank Statement

On October 31 George Flaum, the accountant for Kits & Pups Grooming, received the bank statement dated October 30. After comparing the company's checkbook with the bank statement, George found the following:

1. The checkbook balance on October 31 is \$960.
2. The ending bank statement balance is \$1,380.
3. The bank statement shows a service charge of \$10.
4. A deposit of \$405 was made on October 30, but does not appear on the bank statement.
5. Check 768 for \$529 and Check 772 for \$306 are outstanding.

Instructions In your working papers:

1. Record the bank service charge in the checkbook.
2. Reconcile the bank statement.
3. Journalize the bank service charge in the general journal, page 4.
4. Post the bank service charge journal entry to the appropriate general ledger accounts.

Analyze How many checks are outstanding? Identify the total amount that is outstanding.

Problem 11–6 Reconciling the Bank Statement

On October 31 Juanita Ortega, owner of Outback Guide Service, received a bank statement dated October 30. Juanita found the following:

1. The checkbook has a balance of \$2,551.34.
2. The bank statement shows a balance of \$2,272.36.
3. The statement shows a bank service charge of \$20.00.
4. A check from Podaski Systems for \$62.44, deposited on October 18, was returned by the bank. There is no fee for handling the NSF check.
5. A deposit of \$672.48 made on October 30 does not appear on the bank statement.
6. These checks are outstanding:

Check 872 for	\$126.84	Check 883 for	\$192.80
Check 881 for	87.66	Check 887 for	68.64

Instructions Using the preceding information:

1. Record the service charge and the NSF check in the checkbook.
2. Reconcile the bank statement.
3. Record the service charge and NSF check on page 7 of the general journal.
4. Post the journal entries to the appropriate general ledger accounts.

Analyze Review the **Miscellaneous Expense** account found in your working papers. Identify the **Miscellaneous Expense** account balance after posting the October 31 entry.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 11–5

1. Restore the Problem 11-5.QBB file.
2. Reconcile the bank statement using the **Reconcile** option in the **Banking** menu.
3. Print a Detail reconciliation report and the Cash in Bank register.
4. Complete the Analyze activity.
5. Back up your work.

SPREADSHEET SMART GUIDE

Step-by-Step Instructions: Problem 11–6

1. Select the spreadsheet template for Problem 11–6.
2. Complete the spreadsheet using the instructions in your working papers.
3. Print the spreadsheet and proof your work.
4. Save your work and exit the spreadsheet program.

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 11–7

1. Select the problem set for Showbiz Video (Prob. 11–7).
2. Rename the company and set the system date.
3. Reconcile the bank statement using the **Account Reconciliation** option in the **Tasks** menu.
4. Print the Account Reconciliation reports.
5. Complete the Analyze activity.
6. End the session.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 11-7

1. Restore the Problem 11-7.QBB file.
2. Reconcile the bank statement.
3. Print a Detail reconciliation report and the Cash in Bank register.
4. Complete the Analyze activity.
5. Back up your work.

Problem 11-7 Reconciling the Bank Statement

On October 31 Showbiz Video received the bank statement dated October 30. The accountant reviewed it and found the following:

1. The checkbook balance on October 31 is \$13,462.96.
2. The ending bank statement balance is \$13,883.80.
3. The bank statement shows a service charge of \$17.50.
4. Deposits of \$675.00 on October 28 and \$925.00 on October 29 do not appear on the bank statement.
5. The following checks are outstanding:

Check 1766	\$125.00	Check 1770	\$1,462.19
Check 1768	69.42	Check 1771	381.73

Instructions In your working papers:

1. Record the bank service charge in the checkbook in your working papers.
2. Reconcile the bank statement.
3. Record the entry for the bank service charge on general journal page 13.
4. Post the bank service charge journal entry to the proper ledger accounts.

Analyze

Calculate the Cash in Bank balance after the October 31 posting. Does it agree with the adjusted checkbook balance?

SOURCE DOCUMENT PROBLEM

Problem 11-8

Use the source document in your working papers to complete this problem.

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 11-8

1. Select the problem set for Job Connect (Prob. 11-8).
2. Rename the company and set the system date.
3. Reconcile the bank statement.
4. Print the Account Reconciliation reports.
5. Complete the Analyze activity.
6. End the session.



Problem 11-8 Reconciling the Bank Statement Using the Account Form

On October 20 Job Connect received its bank statement dated October 18.

1. The checkbook balance on October 20 is \$880.84.
2. The ending bank statement balance is \$344.58.
3. A \$14.00 service charge appears on the bank statement.
4. The following checks are outstanding:

Check 864	\$ 88.41	Check 871	\$129.88
Check 869	69.34	Check 873	14.25
5. A \$68.42 check from Tom McCrary deposited on October 13 was returned by the bank for insufficient funds. The bank charged Job Connect's account \$7.00 for the NSF check. No journal entry was made for the NSF check.
6. A \$938.72 deposit on October 19 is not on the bank statement.
7. A check for \$200.00 to Fontenot Inc. was lost in the mail and has not been deposited. A stop payment order, which cost \$10.00, was issued on October 15. No new check was issued.

Instructions Reconcile the bank statement using the account form in your working papers.

Analyze

Identify the account that will be debited for both the NSF check and the bank handling charge on the check.

Practice your test-taking skills! The questions on this page are reprinted with permission from national organizations:

- Future Business Leaders of America
- Business Professionals of America

Use a separate sheet of paper to record your answers.



Future Business Leaders of America

MULTIPLE CHOICE

Use the following choices for questions 1–3.

Indicate whether the following items in a bank reconciliation should be

- added to the checkbook balance.
 - deducted from the checkbook balance.
 - added to the bank statement balance.
 - deducted from the bank statement balance.
1. Outstanding deposit of \$1,200
 2. An NSF check from customer Anne Campbell for \$52
 3. An outstanding check for \$185 written to Cole Realty
 4. The bank statement shows a checking account balance of \$5,500. There are outstanding checks totaling \$600, an outstanding deposit of \$400, and a bank service charge of \$15. The cash account balance should be
 - a. \$5,300.
 - b. \$5,700.
 - c. \$5,285.
 - d. none of the above.



Business Professionals of America

MULTIPLE CHOICE

5. The first step in balancing a checkbook is
 - a. subtracting fees on the bank statement from the checkbook balance.
 - b. comparing checks in the check record with those on the statement.
 - c. adding interest earned to the checkbook balance.
 - d. adding recent deposits to the bank statement balance.

Need More Help?

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Winning Competitive Events** and select **Chapter 11**.

- Practice Questions and Test-Taking Tips
- Concept Capsules and Terminology

CRITICAL Thinking

Cash Control

1. Define *internal controls*.
2. Explain why the balance in the checkbook can differ from the balance on the bank statement.
3. Your bank sent you a dishonored check. What should you do?
4. Contrast check processing before Check 21 to check processing after Check 21. What are the differences?
5. Suppose you carry out all your transactions electronically. How do you reconcile your bank statement?
6. Assess the value of the electronic funds transfer system.

CASE STUDY

Service Business: Entertainment

Dexter Shuman owns a bowling alley called Ten Pin Alley. Each night, Dexter counts the cash in the two cash registers and makes a night deposit at the local bank. For the month of May, Dexter made deposits totaling \$6,400. During May, Dexter wrote checks totaling \$2,900. The last three checks he wrote were Check 1408 for \$180; Check 1409 for \$560; and Check 1410 for \$212. The beginning cash balance for the month was \$13,840, which is the amount shown as the beginning balance on the May bank statement. That statement also includes a \$12 service charge and an \$18 charge for printing new checks.

INSTRUCTIONS

1. Determine the ending bank statement balance if all checks written have cleared.
2. Determine the ending bank statement balance if Checks 1408, 1409, and 1410 are outstanding.
3. Calculate the balance of the **Cash in Bank** account.

a matter of ETHICS

Pocketing Differences

Imagine that you are a cashier at a grocery store like Ralphs. In a four-hour shift, you handle thousands of dollars. At the end of your shift, you total receipts and cash to see if they match. One day cash comes up short, and you report the discrepancy to the manager. A few weeks later, cash is over by \$2. You know a couple of cashiers who pocket extra cash. You wonder who would miss \$2.

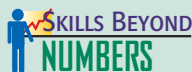
ETHICAL DECISION MAKING

1. What are the ethical issues?
2. What are the alternatives?
3. Who are the affected parties?
4. How do the alternatives affect the parties?
5. What would you do?

COMMUNICATING ACCOUNTING

Making the Case for Daily Deposits

Assume that you work for a sporting goods store that is open six days a week, 12 hours a day. A major promotion is resulting in record sales, and the manager has been too busy to make daily cash deposits. Discuss with your classmates and teacher the importance of taking time to make cash deposits every day.



Customer Service

As a personal banker for Citizen's First National Bank, your duties include opening personal bank accounts, taking loan applications, and serving bank customers. Today Ms. Kelley wants to open a checking account. What items would you put in an information packet about opening her account? Pair up with another student and role-play teaching the new client to write a check and fill out a deposit slip. Model the customer service principles of thoroughness, courtesy, and respect.



Cash Management

Imagine how difficult it would be to control cash for hundreds of locations in the United States, Europe, and Asia. Many international companies select one large bank that can handle transactions in multiple currencies and countries.

INSTRUCTIONS Identify reasons why you would prefer to work with one bank if you were in charge of cash control for an international business.



Your Bank Statement

If you have a checking account, you know that the balances on the bank statement and in the checkbook seldom agree. You recognize the importance of reconciling the two balances so that you will know exactly how much money you have in the account.

PERSONAL FINANCE ACTIVITY Imagine that you just received your monthly bank statement. When comparing it to the checkbook, you found a \$200.00 deposit that was not on the bank statement and two checks totaling \$145.00 that were outstanding. The bank statement balance was \$1,370.00 and the checkbook balance is \$1,425.00. What is the reconciled balance?

PERSONAL FINANCE ONLINE Log on to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Making It Personal** and select **Chapter 11**.



Evaluating Working Capital

One measure of a company's ability to pay debts is its working capital.

Working Capital = Current Assets – Current Liabilities

Current assets are cash and assets that will be converted to cash within the next accounting period. *Current liabilities* are debts that must be paid within the next accounting period.

INSTRUCTIONS Refer to Roadrunner's balance sheet on page 233. If Maria Sanchez had made a \$1,000 withdrawal, how would each of the following change?

1. Current assets
2. Current liabilities
3. Working capital



Bank Reconciliations

A big-name sports team must reconcile its bank statements just like your local batting cage business. Visit glencoeaccounting.glencoe.com and click on **Student Center**. Click on **WebQuest** and select **Unit 2** to continue your Internet project.

