



Cash and Bank Reconciliation

Chapter Two

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Session 1



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Cash and Bank Reconciliation





Cash

- **Cash** is the one asset that is readily convertible into any other type of asset.
- It also is easily concealed and transported and is highly desired.
- Because of these characteristics, **cash is the asset most susceptible to fraudulent activities.**

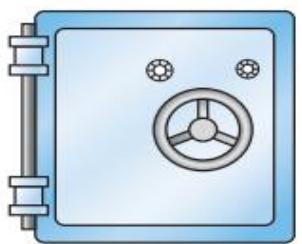
Cash

- In addition, because of the large volume of cash transactions, numerous errors may occur in executing and recording them.
- To safeguard cash and to ensure the accuracy of the accounting records for cash, effective internal control over cash is critical.



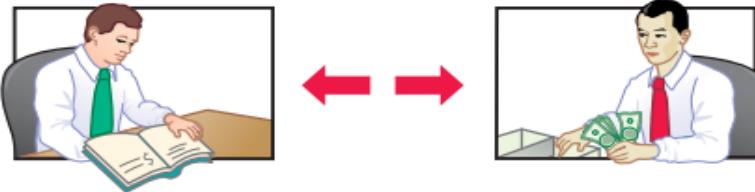
Establishment of Responsibility

Only designated personnel are authorized to sign checks (treasurer) and approve vendors



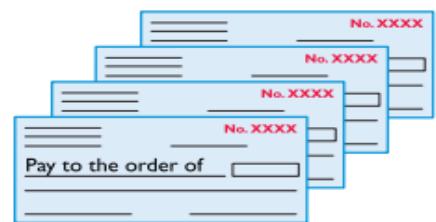
Physical Controls

Store blank checks in safes, with limited access; print check amounts by machine in indelible ink



Segregation of Duties

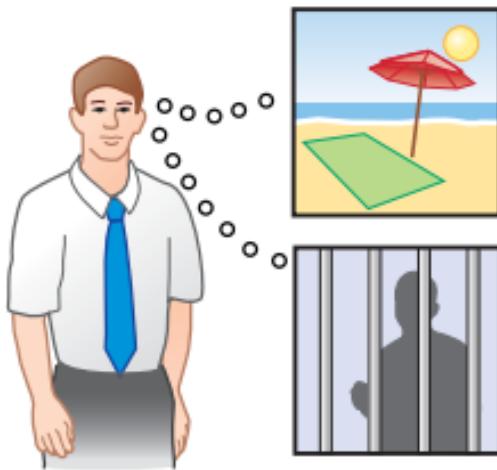
Different individuals approve and make payments; check-signers do not record disbursements



Documentation Procedures

Use prenumbered checks and account for them in sequence; each check must have an approved invoice; require employees to use corporate credit cards for reimbursable expenses; stamp invoices "paid"

Cash



Human Resource Controls

Bond personnel who handle cash; require employees to take vacations; conduct background checks

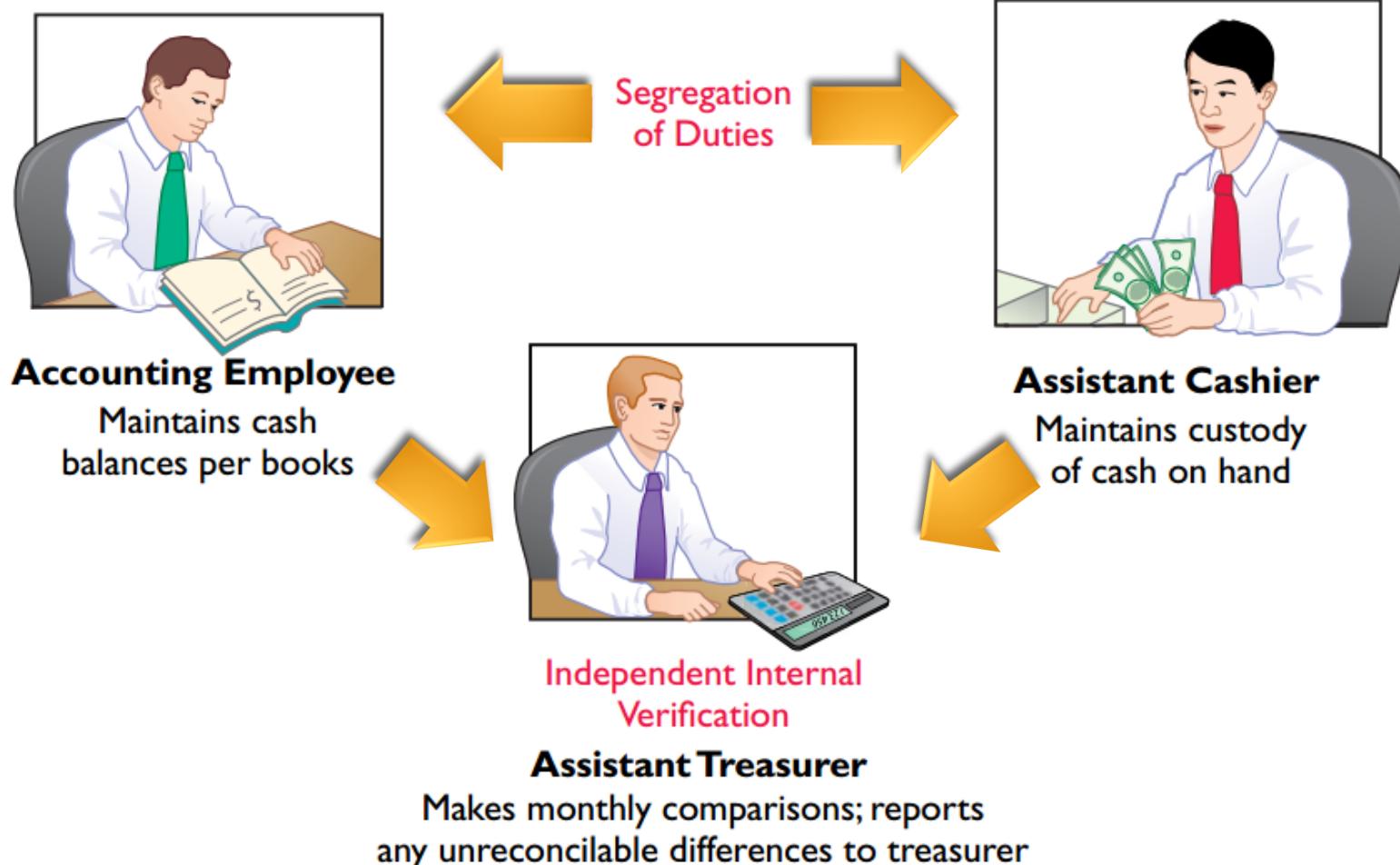


Independent Internal Verification

Compare checks to invoices;
reconcile bank statement
monthly

Chapter 2. Cash and Bank Reconciliation

Cash



Petty Cash

Petty Cash

Petty Cash Fund

Better internal control over cash disbursements is possible when companies make payments by check.

However, using checks to pay small amounts is both impractical and a nuisance.

A common way of handling such payments, while maintaining satisfactory control, is to use a **petty cash fund** to pay relatively small amounts.

Petty Cash

- The operation of a petty cash fund, often called an **imprest system**,
- Involves
 - (1) establishing the fund,
 - (2) making payments from the fund, and
 - (3) replenishing the fund.

Petty Cash

1. Establishing the Petty Cash Fund

Two essential steps

(1) **appointing a petty cash custodian** who will be responsible for the fund, and

(2) **determining the size of the fund.**

To establish the fund, a company issues a check payable to the petty cash custodian for the stipulated amount.

Petty Cash

For example, if Laird Company decides to establish a \$100 fund on March 1, the general journal entry is:

Petty cash.....	100
Cash.....	100

Most petty cash funds are established on a fixed-amount basis.

Petty Cash

- Most petty cash funds are established on a fixed-amount basis.
- The company will make no additional entries to the Petty Cash account unless management changes the stipulated amount of the fund.
- For example, if Laird Company decides on July 1 to increase the size of the fund to \$250, it would debit Petty Cash \$150 and credit Cash \$150

Petty Cash

Making payments from the petty cash fund

- The petty cash custodian has the authority to make payments from the fund
- Usually, management limits the size of expenditures that come from petty cash.

Petty Cash

- Each payment from the fund must be documented on a prenumbered petty cash receipt (or petty cash voucher),
- The **signatures** of both the fund **custodian** and the **person receiving payment** are required on the receipt.

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Petty Cash

Sample Petty Cash Receipt

No. 7	LAIRD COMPANY Petty Cash Receipt	Date <u>3/6/17</u>
Paid to <u>Acme Express Agency</u>	Amount <u>\$18.00</u>	
For <u>Collect Express Charges</u>		
CHARGE TO <u>Freight-in</u>		
Approved	Received Payment	
<u>L. A. Bird</u>	<u>R. E. Meins</u>	Custodian

Petty Cash

- The petty cash custodian keeps the receipts in the petty cash box until the fund is replenished.
- The company does not make an accounting entry to record a payment when it is made from petty cash.

Petty Cash

Replenishing the Petty Cash Fund

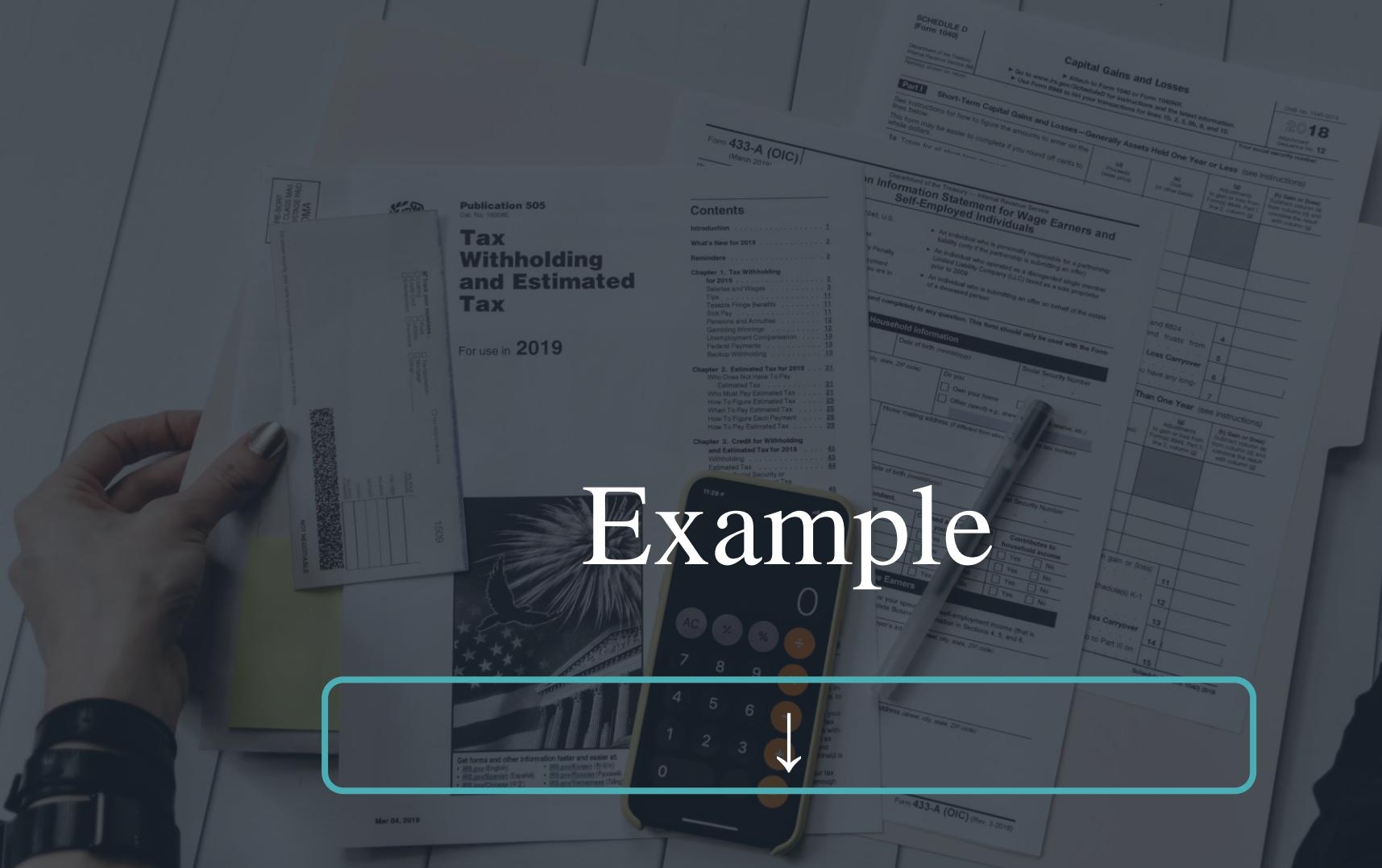
- When the money in the petty cash fund reaches a minimum level, the company replenishes the fund.
- The petty cash custodian initiates a request for reimbursement.
- The individual prepares a schedule (or summary) of the payments that have been made and sends the schedule, supported by petty cash receipts and other documentation, to the treasurer's office.

Petty Cash

- To illustrate, assume that on March 15 Laird's petty cash custodian requests a check for \$87.
- The fund contains \$13 cash and petty cash receipts for postage \$44, freight-out \$38, and miscellaneous expenses \$5.
- The general journal entry to record the check is as follows.

Mar. 15	Postage Expense	44	
	Freight-Out	38	
	Miscellaneous Expense	5	
	Cash		87

Example



Example



Smith keeps a petty cash book. On 1 May 2019, his petty cash book was given as Ugx 2,400 and he made the following payments in the course of the month:

May		Ugx
1 st	Postage stamps	220
5 th	String and paper	88
7 th	Milk tea leaves	48
11 th	Bus fare for messenger	56
13 th	Khisa K. a creditor	480
14 th	Cleaning material	100
16 th	Stationery	52
18 th	Postage stamps	200
23 rd	Glue and seal tape	40
27 th	Cleaning material	60
28 th	Bus fare for messenger	54
30 th	Duplicating ink	96

Example



Required:

- (i) Enter the above transactions in a suitably ruled petty cashbook (analytical petty cashbook) for the month of May and show the balance of petty cash in hand on 31st May 2019. Use the appropriate analysis columns

Chapter 2. Cash and Bank Reconciliation

Cont...

(ii) Post Total columns to their relevant ledger accounts

Date	Folio	Details	Amounts	Date	Particulars	Folio	Totals	Postage	Cleaning	Stationary	Sundry Exp	Ledger A/C
2019			Ugx.				Ugx.	Ugx.	Ugx.	Ugx.	Ugx.	Ugx.
May-01		Bal.	2,400	May								
					1 Postage stamp	V1	220	220				
					5 Strings and paper	V2	88				88	
					7 Milk and tea leaves	V2	48				48	
					11 Bus fare for messenger	V3	56				56	
					13 Khisa K.	V4	480					480
					14 Cleaning material	V5	100		100			
					16 Stationery	V6	52			52		
					18 Postage stamps	V7	200	200				
					23 Glue and Seal tape	V8	40			40		
					27 Cleaning material	V9	60		60			
					30 Bus fare for messenger	V1	64				64	
					30 Duplicating ink	V10	96			96		
					Total disbursement		1504	420	160	188	256	480
		Totals	2,400		disbursement		896	1.1	1.2	1.3	1.4	1.5
Jun-01		Bal. b/f	896		bal c/f		2400					

Advantages of Using Imprest System



Advantages of Using Imprest System

- a) The amount of money in the hands of the petty cashier is limited to the imprest amount.
- b) Extravagance will be revealed by keeping watch on the amount refunded to the petty cashier period by period.
- c) At any time the amount of cash in hand plus expenses not reimbursed must equal the imprest amount.

Advantages of Using Imprest System

- c) To the petty cashier the system has the advantage that his liability to account for moneys expended can never exceed the imprest amount.
- d) His account is normally agreed weekly or monthly and there is no possibility of him being required to account for transactions which occurred in the far distant past, as might otherwise be the case.

