**[Chapter 10 Notes - Cash Control and Banking](http://goldkindgrade11accounting.wikispaces.com/Chapter%2B10%2BNotes%2B-%2BCash%2BControl%2Band%2BBanking)**

**Section 10.1 - Payment Systems**
Both **cash receipts** and **cash payments** are considered **payment systems**. Cash receipts refer to incoming payments while cash payments refer to outgoing payments. **Cash,** in this broad sense of the word, includes currency, cheques, credit cards, debit cards, money orders/bank drafts and electronic transfers (telephone and Internet banking, direct deposits, pre-authorized payments, PayPal, etc.)

**Currency** refers to bills and coins. A **cheque** may either be cashed or deposited by the payee once received, unless it is determined to be an **NSF (non-sufficient funds) cheque,** in which case we say the cheque has "bounced." (Accordingly a **certified cheque,** wherein the requisite funds are set aside by the payor's bank, is the preferred method when paying by cheque.) **Credit card** transactions involve the cardholder, the vendor/retailer and card issuers such as American Express, banks, and department stores. **Debit cards** - allowing instant transfers of funds from purchaser to vendor - are made possible via **point of sale terminals** and the Interac network. A **money order** or **bank draft** is similar to a cheque except for the fact that the payment represented by the money order is immediately set aside by the payor's bank, not unlike a certified cheque. Finally, monthly mortgage installments and utility bills (via pre-authorized payments), weekly paycheques (via direct deposits) and online purchase payments and money transfers (via PayPal) may be delivered via **electronic transfers**.

**Section 10.2 - Accounting for Cash Receipts**

**Cash receipts** (cheques, money orders, credit card slips, debit card transfers, bills and coins) may be taken in via **mail receipts** from debtor customers or **over-the-counter sales** (cash register receipts). Vendors that offer customers the option of using **debit** and **credit cards** must pay a small fee (2 to 4%) to the issuers of those cards in recognition of the increased sales such options invariably promote:

**Bank dr 97**
**Debit/Credit Card Expense dr 3**
**............... Sales cr 100.**

At the start of each business day, a **cash float** or **change fund** is tallied and placed in the cash register. When the float is first created, a cheque made out to Cash Float is cashed and a journal entry is recorded (**Cash Float dr, Bank cr.**) Cash Float is an asset account and not an expense as it is only used once when the float is first created. At the end of each business day, a **cash proof** is drawn up comparing the cash register tape to the cash in the register (see p. 383). If the amount of cash in the register (minus the cash float) properly corresponds to the daily sales figures from the cash register tape, the journal entry to record cash sales for the day is simple to prepare: **Bank dr 300, Sales cr 300**. That said, it is extremely rare for the cash in the register to correspond exactly with the cash register tape at the close of each business day. Accordingly, any discrepancy between the two figures is reconciled using the **Cash Short or Over** account (shortage or overage) in the daily journal entry to record cash sales (see pp. 384-385). A debit balance (shortage) in this account is listed as an expense while a credit balance (overage) is listed as revenue:

**Bank dr 295**
**Cash Short or Over dr 5**
**............... Sales cr 300.**

Daily bank deposits of cash, cheques and credit card slips are made to special low-cost business bank accounts known as **current accounts,** which pay no interest but offer free duplicate deposit slips and the return of all paid (cancelled) cheques to the account holder along with the monthly bank statement.

**Section 10.3 - Accounting for Cash Payments**

Many businesses use a **Petty Cash fund** (usually consisting of a locked box containing approximately $100 in small bills and coins) to pay for inexpensive items such as coffee, stamps and delivery charges. Three types of journal entries are used with this system - for **establishing** (**Petty Cash dr 100, Bank cr 100**), **replenishing** (**Delivery Expense dr 30, Postage Expense dr 40, Miscellaneous Expense 26, Bank cr 96**) and occasionally even **increasing** (**Petty Cash dr 50, Bank cr 50**) the fund (**see additional handout from grade 12 textbook**). Like Cash Float, Petty Cash is an asset account and not an expense as it is only used once when the fund is first created, unless the fund is subsequently increased (see above). A voucher, usually attached to a receipt, is placed in the petty cash box each time funds are drawn to pay for small expenditures. At any given time, the total of cash and vouchers in the box should equal the predetermined balance of the fund, e.g., $100. Any discrepancy between the total of cash and vouchers in the box and the predetermined fund balance is once again reconciled using the **Cash Short or Over** account in the journal entry to replenish the petty cash fund. And just as with the cash float, a debit balance (shortage) in Cash Short or Over is listed as an expense while a credit balance (overage) is listed as revenue:

**Postage Expense dr 50**
**Delivery Expense dr 45**
**............... Bank cr 93**
**............... Cash Short or Over cr 2**

**Section 10.4 - Accounting Controls for Cash**

**Internal control** refers to those elements of an accounting system that promote honesty, accuracy and efficiency among employees and management **(see attached document below**). Proper internal control procedures protect assets from theft and waste, ensure accurate accounting data, encourage efficiency and promote adherence to company policies. Examples of such procedures include: multiple yet independent preparation of accounting records, divided control over physical assets and record keeping pertaining to such assets, daily deposits of cash receipts, deposit slips prepared in duplicate, cheques deposited featuring **restrictive endorsement** “For Deposit Only”, payment by cheque or debit/credit card or electronic transfer only, independent audits of accounting records, and clearly defined and segregated employee responsibilities.

Finally, bank accounts should be reconciled monthly via a **Bank Reconciliation Statement** (**see attached document below**). In this way, a company’s actual bank account figure (balance per monthly bank statement) is compared to the company’s Bank account figure (balance per books) so that any discrepancies may be accounted for in terms of outstanding cheques, late deposits, bank service charges and interest payments, NSF cheques, note collections, interest earned and/or bookkeeping errors.