

CHAPTER 12

Cash management and control

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Problem 12.1 Bank reconciliation

The bank reconciliation statement of Elle Mack on 30 June 2003 was as shown below.

ELLE MACK			
Bank Reconciliation Statement			
as at 30 June 2003			
Balance as per bank statement		\$1344	Dr
Add: Unpresented cheques:			
No. 32826	\$204		
32829	30		
32830	<u>492</u>	726	
		<u>2070</u>	
Less: Deposit not credited by bank		2250	
Balance as per Cash at Bank account		<u>\$ 180</u>	Dr

The cash receipts and cash payments journals for the week ending 7 July were as follows:

Cash Receipts Journal

Date	Particulars	Details	Cash at bank
2003			
July 3	M. Mackay	162	
	B. Bowen	84	
	T. Towers	192	
	Sales	<u>252</u>	690
4	Sales	<u>282</u>	282
5	G. Airu	84	
	Sales	<u>270</u>	354
6	Sales	<u>306</u>	306
7	H. Homestead	132	
	Sales	<u>396</u>	528
			<u>2160</u>

Cash Payments Journal

Date	Particulars	Cheque no.	Cash at bank
2003			
July 3	R. Raven	32831	30
	Sundry expenses	2	60
4	H. Hughes	3	108
	Wages	4	240
5	Rent	5	120
	T. Tan	6	84
6	C. Choi	7	186
	Insurance	8	120
7	Purchases	9	90
	R. Russo	32840	<u>1200</u>
			<u>2238</u>

(continued)

Solution

A.

ELLE MACK

Cash Receipts Journal			Cash Payments Journal		
Date	Particulars	Cash at Bank	Date	Particulars	Cash at Bank
2003			2003		
7/7	Progress, total	2 160	7/7	Progress, total	2 238
	R. Read (dishon. cheque)	(156)		Bank payment to R. Ross	420
	Interest revenue	120		Govt Taxes	30
	- bonds			Bank Debit	18
		<u>\$2 124</u>		Bank charge (fee)	24
				Int. on o'draft	72
					<u>\$2 802</u>

B.

Cash at Bank

2003			2000		
1/7	Balance b/d	180	7/7	CPJ	2 802
7/7	CRJ	2 124			
	Balance c/d	498			
		<u>\$2 802</u>			<u>\$2 802</u>
			7/7	Balance b/d	498

C.

ELLE MACK

Bank Reconciliation Statement as at 7 July 2003

Balance as per bank statement			\$1092	Cr
Add: Outstanding deposit			<u>528</u>	
			1620	
Less: Unpresented cheques	no. 32830	\$492		
	no. 32835	120		
	no. 32837	186		
	no. 32838	120		
	no. 32840	<u>1200</u>	<u>2118</u>	
Balance as per cash at bank account			<u>\$498</u>	Cr



Problem 12.2 Bank reconciliation with errors

The March bank statement and general ledger Cash at Bank account of Harris Ltd are given below:

Bank Statement (extract)			
	Cheques	Deposits	Balance
Balance, 1 March			\$ 4 555
Deposits recorded during March			30 555
Cheques paid during March		\$26 000	6 855
Ret cheque – B. D. Foote	\$23 700		6 685
Account fees	270		6 665
Govt taxes	20		6 645
Balance, 31 March	20		6 645

Cash at Bank			
1/3 Balance	4 855	31/3 Cash payments	25 750
31/3 Cash receipts	27 500		

Petty Cash	
31/3 Balance	150

Required:

- Complete the Cash at Bank account by entering necessary adjustments, and then balance the account at 31 March.
- Prepare a bank reconciliation at 31 March. (*Hint: You might find an error made by either the bank or the company.*)
- What total amount of cash should be reported on the 31 March statement of financial position?

Solution

A. HARRIS LTD					
Cash at Bank					
1/3	Balance	\$4 855	31/3	Cheques drawn CPJ	\$25 750
31/3	Deposits CRJ	27 500		Account fees	20
	Returned Cheque	(270)		Govt Taxes	20
				Balance c/d	6 295
		<u>\$32 085</u>			<u>\$32 085</u>
1/4	Balance b/d	6 295			

B. HARRIS LTD			
Bank Reconciliation Statement			
as at 31 March			
Balance as reported per bank statement	\$6 645	Cr	
Less: Bank subtraction error	<u>100</u>		
Adjusted Bank Statement Balance	6 545		
Add: Outstanding deposit	<u>1 800*</u>		
	8 345		
Less: Unpresented cheques			
(cheques written, \$25 750			
minus cheques paid \$23 700)	<u>2 050</u>		
Balance as per Cash at Bank account	<u>\$6 295</u>	Dr	

* Cash Receipt \$27 500 – [Deposits recorded for March \$26 000 – Deposits in Transit Feb \$300 i.e. Cash at Bank \$4 855 – Bank Statement Bal. \$4 555] = \$1 800

C.	
Total cash to be reported on the statement of financial position: (Current assets)	
Cash at Bank	\$6 295
Petty Cash	<u>150</u>
Total	<u>\$6 445</u>

Problem 12.3 Bank reconciliation and internal control

The owner of Homewares Hardware has just completed a bank reconciliation and found that the bank's records do not agree with the cash records of his business. His immediate reaction is that internal control has broken down and cash handlers are pilfering cash. He asks you, as an accountant, to check his records and confirm his suspicions or show him where he has gone wrong. As requested, he supplies the reconciliation statement at the end of last month, his cash records, and the most recent bank statement. Last month's reconciliation statement is presented below.

Bank Reconciliation Statement as at 30 June 2002	
Balance per bank statement 30 June 2002	\$3402.75
Add: Outstanding deposits	219.90
	<u>3622.65</u>
Less: Unpresented cheques	991.00
Balance per Cash at Bank account at 30 June 2002	<u>\$2631.65</u>

The following information regarding the cash journals was provided – the total of the cash receipts journal was \$62 669.05 and the total of the cash payments journal was \$60 989.55. From the bank statement it was noted that cheques presented and paid amounted to \$57 952.05, and total deposits amounted to \$62 870.90. There were also additional debits on the statement for a dishonoured cheque for \$100, and account fees for \$10.

A cross-check of the records revealed that all reconciling items at 30 June 2002 appeared in the bank statement for July, unpresented cheques at 31 July totalled \$6742.15, and that the 31 July deposit of \$1840.70 had not been credited by the bank. Your check of the cash journals revealed that addition errors had been made by the clerks responsible. Receipts should have totalled \$63 769.05 and payments should have totalled \$60 980.55.

Required:

- Recalculate the general ledger Cash at Bank account balance as it should be at 31 July 2002.
- Prepare the bank reconciliation statement at 31 July 2002.
- Advise the owner of Homewares Hardware whether or not pilfering of cash is taking place, assuming that the records maintained by the bank are accurate.



Solution

A.

HOMEWARES HARDWARE

Cash at Bank

2002			2002		
30 June	Balance	\$2 631.65	30/6	CPJ	\$60 990.55
	CRJ	63 669.05		[\$60 989.55 + \$10.00 account fee – \$9.00 add.error]	
	[\$62 669.05 – \$100.00 ret.chq + \$1 100 add.error]			Balance c/d	5 310.15
					<u>\$66 300.70</u>
		<u>\$66 300.70</u>			
31/7	Balance b/d	\$5 310.15			

B.

HOMEWARES HARDWARE Bank Reconciliation Statement 30 July 2002

Balance per previous bank statement		\$3 402.75	Cr
Add: Deposits to bank in July		<u>62 870.90</u>	
		66 273.65	
Less:			
Total cheques presented and paid	\$57 952.05		
Returned cheques	100.00		
Bank fees	<u>10.00</u>	<u>58 062.05</u>	
Balance as per Bank statement		8 211.60	
Add: Outstanding deposit		<u>1 840.70</u>	
		10 052.30	
Less: Unpresented cheques		<u>6 742.15</u>	
Balance as per Cash at Bank account		<u>\$3 310.15</u>	

C.

The Cash at Bank balance as at 31 July 2002 should be \$5 310.15

The Cash at Bank balance as per the Bank reconciliation is \$3 310.15

There is a discrepancy of \$2 000. It appears that all the cash receipts reported in the cash receipts journal has not been deposited in the bank. This would suggest some breakdown in the internal control procedures over cash, i.e. A deposit has not been banked or loss through theft.

Assuming the bank records are accurate the owner will have to take action to ensure control over the asset cash, i.e. investigate the shortfall.



Problem 12.4 Petty cash transactions

The following transactions and events relate to the petty cash fund of Benito Enterprises Ltd during its first month of trading. The business uses the imprest system, and established the fund with a cheque (no. 38745) for \$300 given to the petty cashier.

1. Paid \$43 for postage (Postage Expense).
2. Paid \$34 COD charges on inventory purchased (Freight Inwards).
3. Cleaning supplies purchased, \$29.50 (Sundry Expenses).
4. Paid \$49 for replacement computer part (Repairs Expense).
5. Paid \$30.25 for newspapers and magazines (Sundry Expenses).
6. Vouchers in the petty cash box were reimbursed by a cheque (no. 38769) which was also used to increase the size of the fund from \$300 to \$350.
7. Paid Quick Express Delivery Service for the overnight delivery of important documents, \$56 (Postage Expense).
8. Paid \$62.50 for minor repairs to the business's vehicle (Repairs Expense).
9. Paid \$85.70 to have the office windows washed and carpet cleaned (Sundry Expenses).
10. Paid \$22.25 for coffee and supplies for the staffroom (Sundry Expenses).
11. Petty cash fund was reimbursed with cheque no. 38793.

Required:

- A. Prepare a petty cash book showing the above transactions and events. Use appropriate expense analysis columns and balance the book before each reimbursement of expenses.
- B. Show all relevant entries in the cash payments journal.

BENITO ENTERPRISES
Petty Cash Book

Date	Particulars	Receipts	Payments	Stationery Expense	Postage Expense	Sundry Expenses	Repairs Expense	Freight In
	Establish Petty Cash (38745)	300.00						
1	Postage		43.00		43.00			
2	COD charges		34.00					34.00
3	Cleaning Supplies		29.50			29.50		
4	Computer part		49.00				49.00	
5	Newspapers & Magazines		30.25			30.25		
6	Increase & Reimburse Fund	50.00	185.75		\$43.00	\$59.75	\$49.00	\$34.00
	Balance c/d		114.25					
		\$300.00	\$300.00					
6	Balance b/d	114.25						
6	Reimburse + Increase (38769)	235.75						
7	Delivery Service		56.00		56.00			
8	Vehicle Repairs		62.50				62.50	
9	Cleaning		85.70			85.70		
10	Coffee and tea		22.25			22.25		
			226.45	-	\$56.00	\$107.95	\$62.50	-
	Balance c/d		123.55					
		350.00	350.00					
10	Balance b/d	123.55						
	Reimbursement (38793)	226.45						

BENITO ENTERPRISES
Cash Payments Journal

Date	Account	Cheque No.	Post. Ref.	Purchases	Accounts Payable	Other	Discount Received	Cash at Bank
1.	Petty Cash	38745				\$300.00		300.00
6.	Petty Cash	38769				50.00		
	Postage Expense					43.00		
	Sundry Expenses					59.75		
	Repairs Expense					49.00		
	Freight In					34.00		235.75
11.		38793						
	Postage Expense					56.00		
	Sundry Expenses					107.95		
	Repairs Expense					62.50		226.45

Problem 12.5 Cash budget

C. Gomez wants to prepare a cash budget for the first two quarters of 2002. Experience has shown that 70% of sales will be collected during the quarter of the sale, 15% in the quarter following the sale, 10% in the second quarter following the sale and 5% in the third quarter following the sale. Gomez pays for 75% of purchases in the quarter of the purchase, and the balance is paid in the following quarter.

Selling expenses amount to \$11 000 per quarter plus 15% of quarterly sales. Administrative expenses are estimated to be \$22 000 per quarter, which includes \$8000 of depreciation expense. Financial expenses are \$2000 per quarter. All selling, administrative and financial expenses, except depreciation, are paid when incurred.

It is planned to purchase equipment during the first quarter at a cost of \$10 500. A \$15 000 loan payable will be repaid during the second quarter. The interest due at maturity will be \$2750. The company's anticipated Cash at Bank balance at 1 January 2002 is \$22 500.

Estimated sales and purchases data are as follows:

	Sales	Purchases
June quarter, 2001	\$125 000	\$65 000
September quarter, 2001	110 000	55 000
December quarter, 2001	145 000	90 000
March quarter, 2002	100 000	45 000
June quarter, 2002	115 000	60 000

Required:

Prepare a cash budget for the first two quarters in 2002, by quarter and in total.

Solution

G. GOMEZ Cash Budget for the first two quarters of 2002

	March quarter	June quarter	Total
Cash at bank begin. of month	<u>\$22 500</u>	<u>\$ 22 750</u>	<u>\$45 250</u>
Expected cash collections:			
3rd preceding quarter (5%)	6 250	5 500	11 750
2nd preceding quarter (10%)	11 000	14 500	25 500
1st preceding quarter (15%)	21 750	15 000	36 750
Current quarter (70%)	<u>70 000</u>	<u>80 500</u>	<u>150 500</u>
Total cash available	\$131 500	\$138 250	\$269 750
Expected cash payments:			
Purchases:			
Current quarter (75%)	33 750	45 000	78 750
Preceding quarter (25%)	22 500	11 250	33 750
Selling expenses	26 000 [1]	28 250 [3]	54 250
Administrative expenses	14 000 [2]	14 000 [2]	28 000
Financial expenses	2 000	2 000	4 000
Equipment purchase	10 500	-	10 500
Bill payable and interest		<u>17 750</u>	<u>17 750</u>
Total cash payments	<u>\$108 750</u>	<u>\$118 250</u>	<u>\$227 000</u>
Cash at bank, end of month	<u>\$22 750</u>	<u>\$20 000</u>	<u>\$42 750</u>

[1] $11\,000 + 0.15(100\,000) = 26\,000$

[2] $22\,000 - 8\,000 = 14\,000$

[3] $11\,000 + 0.15(115\,000) = 28\,250$

