

LESSON

5-1 Checking Accounts



Learning Objectives

- LO1** Record a deposit on a check stub.
- LO2** Endorse checks using blank, special, and restrictive endorsements.
- LO3** Prepare a check stub and a check.

How Businesses Use Cash

LO1

- Small cash payments
- Issues related to cash
 - Chance of recording errors
 - Ease of transfer without any question about ownership
 - Loss as cash is moved from one place to another
- Safety measures

Checking Account

LO1

- A business form ordering a bank to pay cash from a bank account is known as a **check**.
- A bank account from which payments can be ordered by a depositor is called a **checking account**.
- Opening a checking account
 - Signature card
 - Deposit slip

Depositing Cash

LO1

- A bank form which lists the checks, currency, and coins an account holder is adding to the bank account is called a **deposit slip**.

JAN 2 20-- D2000.00 HJS

Billings National Bank
Billings, MT

For deposit to the account of
DELGADO WEB SERVICES
25402 Rimrock Road
Billings, MT 59102-1820

Date	<i>January 2,</i> 20 --	
Currency		
Coin		
Checks		
	<i>22-1508</i>	<i>2,000 00</i>
TOTAL		<i>2,000 00</i>

⑆092921508⑆ 706466631835⑈

CUSTOMER RECEIPT

Deposit Recorded on a Check Stub

LO1

1. Write balance brought forward on the check stub.

2. Write the date of the deposit on the stub.

3. Write the amount of the deposit on the stub.

4. Calculate the subtotal.

The diagram illustrates the process of recording a deposit on a check stub. It shows two forms: a check stub on the left and a customer receipt on the right. Red circles with numbers 1 through 4 are placed around the forms, with blue arrows pointing to the corresponding fields. Callout 1 points to the 'BALANCE BROUGHT FORWARD' field on the check stub. Callout 2 points to the 'Date' field on the check stub. Callout 3 points to the 'AMOUNT DEPOSITED' field on the check stub. Callout 4 points to the 'SUBTOTAL' field on the check stub.

Check Stub:

NO. 1 \$ _____
 Date: _____ 20__
 To: _____
 For: _____

BALANCE BROUGHT FORWARD	0	00
AMOUNT DEPOSITED	1 2 --	2,000 00
SUBTOTAL		2,000 00
OTHER:		
SUBTOTAL		
AMOUNT THIS CHECK		
BALANCE CARRIED FORWARD		

Customer Receipt:

Date *January 2,* 20__

Currency		
Coin		
Checks		
	<i>22-1508</i>	<i>2,000 00</i>
TOTAL		<i>2,000 00</i>

CUSTOMER RECEIPT

For deposit to the account of
 DELGADO WEB SERVICES
 25402 Rimrock Road
 Billings, MT 59102-1820

⑆092921508⑆ 706466631835⑈

Endorsement

LO2

- A signature or stamp on the back of a check transferring ownership is called an **endorsement**.
- Three types of commonly used endorsements
 - Blank endorsement
 - Special endorsement
 - Restrictive endorsement

Blank Endorsement

LO2

- An endorsement consisting only of the endorser's signature is called a **blank endorsement**.

Blank Endorsement

ENDORSE HERE	
X	<i>Michael Delgado</i>
DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE RESERVED FOR FINANCIAL INSTITUTION USE	

Special Endorsement

LO2

- An endorsement indicating a new owner of a check is called a **special endorsement**.
 - Special endorsements are sometimes known as *endorsements in full*.

Special Endorsement

ENDORSE HERE	
X	<i>Pay to the order of</i>
	<i>Helen Goldsmith</i>
	<i>Michael Delgado</i>
DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE RESERVED FOR FINANCIAL INSTITUTION USE	

Restrictive Endorsement

LO2

- An endorsement restricting further transfer of a check's ownership is called a **restrictive endorsement**.

Restrictive Endorsement

ENDORSE HERE	
X	For deposit only to
	the account of
	DELGADO WEB SERVICES
	<i>Michael Delgado</i>
DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE RESERVED FOR FINANCIAL INSTITUTION USE	

Completed Check Stub and Check

LO3

NO. 1		\$ 165.00	1
Date: <i>January 2,</i>		20 --	2
To: <i>Eastside Supplies</i>			3
For: <i>Supplies</i>			4
BALANCE BROUGHT FORWARD		0 00	
AMOUNT DEPOSITED	<i>1 2</i> --	2,000 00	
SUBTOTAL		2,000 00	
OTHER:			
SUBTOTAL		2,000 00	
AMOUNT THIS CHECK		165 00	5
BALANCE CARRIED FORWARD		1,835 00	6

DELGADO WEB SERVICES		NO. 1	93-2150 929
25402 Rimrock Road		<i>January 2,</i> 20 --	
Billings, MT 59102-1820			
PAY TO THE ORDER OF <i>Eastside Supplies</i>		\$ 165.00	
<i>One hundred sixty-five and ⁰⁰/₁₀₀</i>		DOLLARS	
Billings National Bank			
Billings, MT			
FOR <i>Supplies</i>		<i>Michael Delgado</i>	
⑆092921508⑆ 706466631835⑆ 001			

1. Write the amount of the check on the stub.
2. Write the date of the check on the stub.
3. Write to whom the check is to be paid on the stub.
4. Record the purpose of the check on the stub.
5. Write the amount of the check on the stub.
6. Calculate the new checking account balance and record the new balance.

Completed Check Stub and Check

LO3

NO. 1 \$ 165.00			
Date: <u>January 2,</u> 20--			
To: <u>Eastside Supplies</u>			
For: <u>Supplies</u>			
BALANCE BROUGHT FORWARD	0 00		
AMOUNT DEPOSITED	1 2 -- 2,000 00		
SUBTOTAL	2,000 00		
OTHER:			
SUBTOTAL	2,000 00		
AMOUNT THIS CHECK	165 00		
BALANCE CARRIED FORWARD	1,835 00		

DELGADO WEB SERVICES 25402 Rimrock Road Billings, MT 59102-1820		NO. 1 93-2150 929
PAY TO THE ORDER OF <u>Eastside Supplies</u>		<u>January 2,</u> 20 --
		\$ 165.00
<u>One hundred sixty-five and ⁰⁰/₁₀₀</u> DOLLARS		
Billings National Bank		
FOR <u>Supplies</u> <u>Michael Delgado</u>		
⑆092921508⑆ 706466631835⑆ 001		

7. Write the date the check is issued.
8. Write to whom the check is to be paid.
9. Write the amount in figures.
10. Write the amount in words.
11. Write the purpose of the check.
12. Sign the check.

Recording a Voided Check

LO3

JOURNAL										PAGE 3		
					1		2		3	4		5
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH					
				DEBIT	CREDIT		DEBIT	CREDIT				
20	15 VOID	C24	✓								20	
21											21	

1. Record the date in the Date column.
2. Write the word **VOID** in the Account Title column.
3. Write the check number in the Doc. No. column.
4. Place a check mark in the Post. Ref. column.
5. Place a dash in the Cash Credit column.

Lesson 5-1 Audit Your Understanding

1. List the three types of endorsements.

ANSWER

Blank endorsement

Special endorsement

Restrictive endorsement

Lesson 5-1 Audit Your Understanding

2. List the steps for preparing a check stub.

ANSWER

1. Write the amount of the check after the dollar sign at the top of the stub.
2. Write the date of the check on the *Date* line.
3. Write to whom the check is to be paid on the *To* line.
4. Record the purpose of the check on the *For* line.
5. Write the amount of the check after the words *Amt. This Check*.
6. Calculate the new checking account balance and record it in the amount column on the last line of the stub.

Lesson 5-1 Audit Your Understanding

3. List the steps for preparing a check.

ANSWER

1. Write the date.
2. Write to whom the check is to be paid following the words *Pay to the order of*.
3. Write the amount in figures following the dollar sign.
4. Write the amount in words and draw a line through the unused space up to the word *Dollars*.
5. Write the purpose of the check on the line labeled *For*.
6. Sign the check.

LESSON

5-2 Bank Reconciliation



Learning Objectives

- LO4** Complete a bank statement reconciliation.
- LO5** Record and journalize a bank service charge.

Bank Statement

LO4

Billings National Bank Billings, MT						
STATEMENT OF ACCOUNT FOR				ACCOUNT NUMBER		
DELGADO WEB SERVICES 25402 Rimrock Road Billings, MT 59102-1820				706466631835		
				STATEMENT DATE		
				January 30, 20--		
BALANCE FROM PREVIOUS STATEMENT	NO. OF CHECKS	AMOUNT OF CHECKS	NO. OF DEPOSITS	AMOUNT OF DEPOSITS	SERVICE CHARGES	STATEMENT BALANCE
0.00	10	3,118.00	15	6,435.00	25.00	3,292.00
DATE	CHECK	AMOUNT	CHECK	AMOUNT	DEPOSIT	BALANCE
01/01/--						0.00
01/02/--					2,000.00	2,000.00
01/05/--	1	165.00				1,835.00
01/08/--	2	900.00				935.00
01/10/--					1,100.00	2,035.00
01/16/--					200.00	2,235.00
01/17/--					340.00	2,575.00
01/18/--	4	80.00	6	350.00	195.00	2,340.00
01/19/--	3	100.00			285.00	2,525.00
01/22/--	5	400.00	7	383.00	310.00	2,052.00
01/22/--					270.00	2,322.00
01/23/--	8	100.00			240.00	2,462.00
01/24/--					215.00	2,677.00
01/25/--					280.00	2,957.00
01/26/--					190.00	3,147.00
01/29/--	9	510.00			145.00	2,782.00
01/29/--					315.00	3,097.00
01/29/--					350.00	3,447.00
01/30/--	10	150.00				3,317.00
	SC	25.00				3,292.00
						3,292.00

PLEASE EXAMINE AT ONCE - IF NO ERRORS ARE REPORTED WITHIN 10 DAYS, THE ACCOUNT WILL BE CONSIDERED CORRECT. REFER ANY DISCREPANCY TO OUR ACCOUNTING DEPARTMENT IMMEDIATELY.

- A report of deposits, withdrawals, and bank balances sent to a depositor by a bank is called a **bank statement**.
- A check which has been paid by the bank is called a **canceled check**.

Bank Statement Reconciliation

LO4

1 Date

2 Check Stub Balance

3 Service Charge

4 Adjusted Check Stub Balance

5 Bank Statement Balance

6 Outstanding Deposits

7 Subtotal

8 Outstanding Checks

9 Adjusted Bank Balance

10 Compare Adjusted Balances

RECONCILIATION OF BANK STATEMENT

January 31, 20--
(Date)

Balance on Check Stub No. 14 \$ 2,622 00

DEDUCT BANK CHARGES:

Description	Amount
Service Charge	\$ 25 00
Total bank charges ▶	25 00

Adjusted Check Stub Balance \$ 2,597 00

Balance on Bank Statement \$ 3,292 00

ADD OUTSTANDING DEPOSITS:

Date	Amount
1/31/--	\$ 685 00
Total outstanding deposits ▶	685 00

SUBTOTAL \$ 3,977 00

Ck. No.	Amount	Ck. No.	Amount
11	35 00		
12	800 00		
13	545 00		
Total outstanding checks ▶			1,380 00

Adjusted Bank Balance \$ 2,597 00

Recording a Bank Service Charge on a Check Stub

LO5

NO. 14	\$ _____
Date: _____	Jan. 31 20--
To: _____	
For: _____	
BALANCE BROUGHT FORWARD	2,622 00
AMOUNT DEPOSITED	
SUBTOTAL	2,622 00
OTHER:	
<i>Service Charge 25.00</i>	
	25 00
SUBTOTAL	2,597 00
AMOUNT THIS CHECK	
BALANCE CARRIED FORWARD	

Diagram annotations: A red circle with the number 1 has an arrow pointing to the 'OTHER:' heading. A red circle with the number 2 has an arrow pointing to the '25 00' amount. A red circle with the number 3 has an arrow pointing to the '2,597 00' subtotal.

1. Write **Service Charge** on the check stub under the heading *Other*.
2. Write the amount of the service charge in the amount column.
3. Calculate and record the new subtotal on the *Subtotal* line.

Journalizing a Bank Service Charge

LO5

January 31. Received bank statement showing January bank service charge, \$25.00. Memorandum No. 3.

Miscellaneous Expense	
↑ 25.00	
Cash	
	↓ 25.00

JOURNAL										PAGE 2
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
31	Miscellaneous Expense	M3		25.00				25.00		

1. Write the date in the Date column.
2. Write the title of the account to be debited in the Account Title column and record the amount debited in the General Debit column.
3. Record the amount credited in the Cash Credit column.
4. Write the source document number in the Doc. No. column.

Lesson 5-2 Audit Your Understanding

1. List four reasons why a depositor's records and a bank's records may differ.

ANSWER

1. A service charge may not have been recorded in the depositor's business records.
2. Outstanding deposits may be recorded in the depositor's records but not on a bank statement.
3. Outstanding checks may be recorded in the depositor's records but not on a bank statement.
4. A depositor may have made a math or recording error.

Lesson 5-2 Audit Your Understanding

2. If a check mark is placed on the check stub of each canceled check, what does a check stub with no check mark indicate?

ANSWER

An outstanding check

LESSON

5-3 Dishonored Checks and Electronic Banking



Learning Objectives

- LO6** Complete recordkeeping for a dishonored check.
- LO7** Journalize an electronic funds transfer.
- LO8** Journalize a debit card transaction.

Recording a Dishonored Check on a Check Stub

LO6

- A check that a bank refuses to pay is called a **dishonored check**.
- A check dishonored by the bank because of insufficient funds in the account of the maker of the check is called a **non-sufficient funds check**.
- A non-sufficient funds check is also known as an *NSF check*.

Recording a Dishonored Check on a Check Stub

LO6

NO. 52	\$ _____
Date: _____	20__
To: _____	
For: _____	
BALANCE BROUGHT FORWARD	2,112 00
AMOUNT DEPOSITED	<input type="text"/> <input type="text"/> <input type="text"/>
SUBTOTAL	2,112 00
OTHER:	
<i>Dishonored Check</i>	
	225 00
SUBTOTAL	1,887 00
AMOUNT THIS CHECK	
BALANCE CARRIED FORWARD	

1. Write **Dishonored Check** under the heading *Other*.

2. Write the total of the dishonored check in the amount column. This is the amount of the dishonored check plus the service fee.



3. Calculate and record the new subtotal.

1. Write **Dishonored Check** under the heading *Other*.
2. Write the total of the dishonored check in the amount column. This is the amount of the dishonored check plus the service fee.
3. Calculate and record the new subtotal.

Journalizing a Dishonored Check

LO6

August 29. Received notice from the bank of a dishonored check from Valley Landscaping, \$185.00, plus \$40.00 fee; total, \$225.00. Memorandum No. 52.

Accounts Receivable—Valley Landscaping	
	225.00
Cash	
	 225.00

JOURNAL										PAGE 16
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
29	Accts. Rec.—Valley Landscaping	M52		225	00				225	00

1. Write the date in the Date column.
2. Write the title of the account to be debited in the Account Title column and record the amount debited in the General Debit column.
3. Record the amount credited in the Cash Credit column.
4. Write the source document number in the Doc. No. column.

Journalizing an Electronic Funds Transfer

LO7

- A computerized cash payments system that transfers funds without the use of checks, currency, or other paper documents is called **electronic funds transfer** (EFT).

Journalizing an Electronic Funds Transfer

LO7

June 5. Paid cash on account to Murniak Enterprises, \$380.00, using EFT.
Memorandum No. 18.

Accounts Payable—Murniak Enterprises	380.00	Cash	380.00
↓		↓	

JOURNAL										PAGE 16
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH		12	
				DEBIT	CREDIT		DEBIT	CREDIT		
5	Accts. Pay.—Murniak Enterprises	M18		380				380	12	

1. Write the date in the Date column.
2. Write the title of the account to be debited in the Account Title column and record the amount debited in the General Debit column.
3. Record the amount credited in the Cash Credit column.
4. Write the source document number in the Doc. No. column.

Journalizing a Debit Card Transaction

LO8

- A bank card that automatically deducts the amount of a purchase from the checking account of the cardholder is called a **debit card**.

Journalizing a Debit Card Transaction

LO8

June 8. Purchased supplies, \$75.00, using debit card. Memorandum No. 21.

Supplies	
↑	75.00
Cash	
↓	75.00

JOURNAL										PAGE 14
DATE		ACCOUNT TITLE		DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH	
						DEBIT	CREDIT		DEBIT	CREDIT
21	8	Supplies		M21		75 00				75 00 ²¹

1. Write the date in the Date column.
2. Write the title of the account to be debited in the Account Title column and record the amount debited in the General Debit column.
3. Record the amount credited in the Cash Credit column.
4. Write the source document number in the Doc. No. column.

Lesson 5-3 Audit Your Understanding

1. List six reasons why a bank may dishonor a check.

ANSWER

1. The check appears to be altered.
2. The signature on the check does not match the signature on the signature card.
3. The amounts written in figures and in words do not agree.
4. The check is postdated.
5. The person who wrote the check has stopped payment on it.
6. The account of the person who wrote the check has insufficient funds to pay the check.

Lesson 5-3 Audit Your Understanding

2. What account is credited when electronic funds transfer is used to pay cash on account?

ANSWER

Cash

Lesson 5-3 Audit Your Understanding

3. What account is credited when a debit card is used to purchase supplies?

ANSWER

Cash

LESSON

5-4 Petty Cash



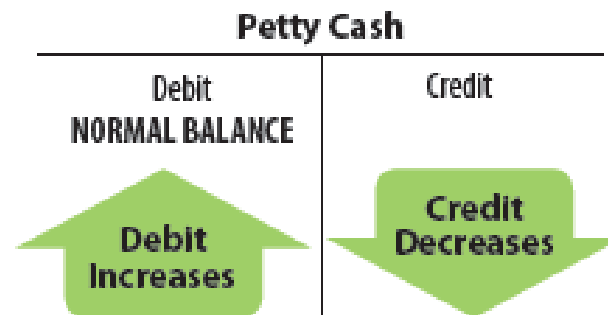
Learning Objectives

- LO9** Establish a petty cash fund.
- LO10** Prepare a petty cash report.
- LO11** Replenish a petty cash fund.

Establishing a Petty Cash Fund

LO9

- An amount of cash kept on hand and used for making small payments is called **petty cash**.



Establishing a Petty Cash Fund

LO9

June 8. January 19. Paid cash to establish a petty cash fund, \$100.00. Check No. 8.

Petty Cash	
↑	100.00
Cash	
	↓
	100.00

JOURNAL										PAGE 1
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
19	Petty Cash	C8		100	00				100	00

- Write the date in the Date column.
- Write the title of the account to be debited in the Account Title column and record the amount debited in the General Debit column.
- Record the amount credited in the Cash Credit column.
- Write the source document number in the Doc. No. column.

Making Payments from a Petty Cash Fund with a Petty Cash Slip

LO9

- A form showing proof of a petty cash payment is called a **petty cash slip**.

PETTY CASH SLIP		No. 1
Date:	<u>January 19, 20--</u>	
Paid to:	<u>Dispatch</u>	
For:	<u>Newspaper ad</u>	\$ <u>14.00</u>
Account:	<u>Advertising Expense</u>	
Approved: <u>Michael Delgado</u>		

Petty Cash Report

LO10

- A petty cash on hand amount that is less than a recorded amount is called **cash short**.
- A petty cash on hand amount that is more than a recorded amount is called **cash over**.
- The custodian prepares a petty cash report when the petty cash fund is to be replenished.

Petty Cash Report

LO10

1 Date and Custodian Name

PETTY CASH REPORT				
Date: <u>January 31, 20--</u>		Custodian: <u>Michael Delgado</u>		
Explanation		Reconciliation		Replenish Amount
Fund Total		100.00		
Payments:				
	<i>Miscellaneous Expense</i>	20.00		
	<i>Advertising Expense</i>	14.00		
Less:	Total payments	34.00	→	34.00
Equals:	Recorded amount on hand	66.00		
Less:	Actual amount on hand	65.00		
Equals:	Cash short (over)	1.00	→	1.00
Amount to Replenish				35.00

- 2** Fund Total
- 3** Payments by General Ledger Account
- 4** Total Payments
- 8** Amount to Replenish

Recorded Amount on Hand

5

6 Actual Cash on Hand

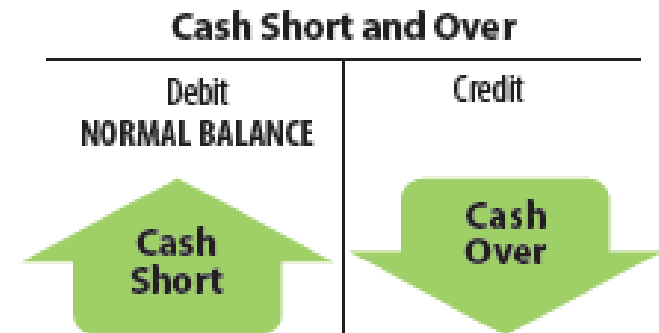
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Subtract the actual cash on hand from the recorded amount on hand.

Replenishing Petty Cash

LO11

- Account title—Cash Short and Over
 - Debited when cash is short
 - Credited when cash is over
- Account balance
 - Either a debit or credit
 - Usually a debit
 - Petty cash fund more likely to be short than over



Replenishing Petty Cash

LO11

January 31. Paid cash to replenish the petty cash fund, \$35.00: Miscellaneous Expense, \$20.00; Advertising, \$14.00, Cash Short and Over, \$1.00. Check No. 11.

PETTY CASH REPORT				
Date: <u>January 31, 20--</u>		Custodian: <u>Michael Delgado</u>		
Explanation		Reconciliation		Replenish Amount
Fund Total		100.00		
Payments:				
<i>Miscellaneous Expense</i>	20.00			
<i>Advertising Expense</i>	14.00			
Less: Total payments		34.00	→	34.00
Equals: Recorded amount on hand		66.00		
Less: Actual amount on hand		65.00		
Equals: Cash short (over)		1.00	→	1.00
Amount to Replenish				35.00

Miscellaneous Expense	↑ 20.00
Advertising Expense	↑ 14.00
Cash Short and Over	↑ 1.00
Cash	↓ 35.00

Account Titles Expense Amounts Cash Short Total Cash Payment

JOURNAL										
PAGE 2										
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL		SALES CREDIT	CASH			
				DEBIT	CREDIT		DEBIT	CREDIT		
10 31	Miscellaneous Expense	C11		20 00					35 00	10
11	Advertising Expense			14 00						11
12	Cash Short and Over			1 00						12

1 Date

2

3

4

5

6

Source Document

Lesson 5-4 Audit Your Understanding

1. Why do businesses use petty cash funds?

ANSWER

For making small cash payments for which writing a check is not time- or cost-effective

Lesson 5-4 Audit Your Understanding

2. Why is Cash rather than Petty Cash credited when a petty cash fund is replenished?

ANSWER

The check issued to replenish petty cash is a credit to *Cash* and does not affect *Petty Cash*.