

CHAPTER 9**Cash Control and Banking****SECTION 9.1 REVIEW QUESTIONS** (page 345)

1. *In its broad sense of the word, cash consists of cheques, bank balances, credit card vouchers, and money orders.*
2. *Cash receipts are funds taken in from business operations and activities. Common sources for cash receipts for a business are daily operations, financing activities, and investing activities.*
3. *Three types of electronic cash receipts are credit cards, debit cards, and electronic transfers.*
4. *The three parties involved in a credit card transaction are the holder of the card, the vendor (or merchant), and the issuer of the card (a bank, for example).*
5. *A business can treat a credit card transaction as a cash deposit because the issuer of the card will honour the transaction. A deposit is quickly made to the business's bank account. The customer will pay the issuer of the card the amount owed from the transaction at some later date.*
6. *Interac is the organization that manages the electronic network for debit card purchases.*
7. *For credit card purchases, banks charge businesses a percentage of the total sale. For debit card purchases, banks charge a set fee to the businesses regardless of the amount of the sale.*
8. *The LVTS stands for the Large Value Transfer System. It is an electronic payment system for very large amounts on money.*
9. *Besides online banking, a small business can receive electronic cash receipts through a number of financial service providers, such as PayPal.*
10. *The usual reason a business would receive mail receipts is because its customers pay their accounts receivable by cheques sent through the mail.*
11. *A point-of-sale terminal is an electronic cash register or card terminal connected to a central computer.*
12. *When a very small business has no cash register, it should use sale slips to control and account for its cash receipts.*
13. *The float is a small quantity of bills and coins the business puts into the cash register at the beginning of each business day to make change for cash sales.*
14. *A cash proof is an accounting procedure that compares cash receipts according to source documents against cash receipts according to a physical count.*
15. *The two fundamental procedures one must follow when preparing a cash proof are to record the total of the cash received as revealed by cash register tapes, sales slips, or other source documents and then to compare the receipts total with an actual count of cash, remembering to subtract the float.*

SECTION 9.1 REVIEW QUESTIONS (continued)

16. *There are cash overages or cash shortages because of errors by the cashier when making change or because of employee dishonesty.*
17. *A cash shortage is more common than a cash overage. Customers who have been given too little change are more likely to complain than those who have been given too much change.*
18. *Businesses use a current bank account.*
19. *When a business deposit is prepared, the coins must be sorted by denomination and rolled up in coin wrappers so that the bank teller does not need to count them individually.*
20. *A cheque is endorsed for a business deposit by signing it on the reverse side or by stamping the reverse side with an approved endorsement stamp.*
21. *A restrictive endorsement places conditions on cashing or depositing the cheque, such as stating that the cheque is for deposit only.*

SECTION 9.1 EXERCISES (page 346)**Exercise I, p. 346**

- A. The *cash receipts* of a business represent the money taken in from business operations.
- B. It is customary for a business that *sells on credit* to receive payment from its customers by way of cheques through the mail.
- C. Cheques received in the mail are *listed* by the mail clerk before being deposited in the bank.
- D. Sales slips are *pre-numbered* to ensure that all slips are accounted for.
- E. At the end of a business day, cash register receipts are *deposited* in the business's bank account.
- F. An electronic cash register that is connected to a central computer is known as a *point of sale terminal*.
- G. A small quantity of money used to start the cash register activity for the day is known as a *cash float*.
- H. An overage produces a *credit* in the Cash Short and Over account.
- I. A shortage produces a *debit* in the Cash Short and Over account.
- J. Cash *shortages* are more common than cash *overages*.
- K. Businesses are required by the banks to use a *current bank account*.
- L. Cheques received by a business are endorsed *for deposit only* before being deposited.

SECTION 9.1 EXERCISES (continued)

Exercise 2, p. 347

A.

Cash Proof		Date <u>Feb. 27, 20-</u>
Cash Register Tape Totals		
Cash Sales	\$	<u>867.39</u>
HST	\$	<u>112.76</u>
Receipts per tape	\$	<u>980.15</u>
Cash Received		
Cash Count	\$	<u>1005.15</u>
Less: Float	\$	<u>50.00</u>
Actual Cash Received	\$	<u>955.15</u>
CASH <u>SHORT</u> OR OVER	\$	<u>25.00</u>

Cash Proof		Date <u>Feb. 28, 20-</u>
Cash Register Tape Totals		
Cash Sales	\$	<u>757.83</u>
HST	\$	<u>98.52</u>
Receipts per tape	\$	<u>856.35</u>
Cash Received		
Cash Count	\$	<u>910.85</u>
Less: Float	\$	<u>50.00</u>
Actual Cash Received	\$	<u>860.85</u>
CASH SHORT OR <u>OVER</u>	\$	<u>4.50</u>

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DATE		PARTICULARS	P.R.	DEBIT				CREDIT			
²⁰⁻ <i>Feb.</i>	27	<i>Bank</i>		9	5	5	15				
		<i>Cash Short or Over</i>			2	5	-				
		<i>Sales</i>						8	6	7	39
		<i>HST Payable</i>						1	1	2	76
	28	<i>Bank</i>		8	6	0	85				
		<i>Sales</i>						7	5	7	83
		<i>HST Payable</i>						9	8		52
		<i>Cash Short or Over</i>								4	50

B.

Cash Short or Over

<i>Feb. 27</i>	<u>25.00</u>	<i>Feb. 28</i>	4.50
	<u>20.50</u>		

The balance is a debit. Yes, this is the normal type of balance for the account. Customers who have been given too little change are more likely to complain than those who have been given too much change. Consequently, there will usually be a debit balance in Cash Short or Over.

SECTION 9.1 EXERCISES (continued)**Exercise 3, p. 347**

A.

CASH PROOF AND SALES SUMMARYDATE *Apr. 16, 20-*

CHARGE SLIPS	SALES	GST	PST	ACCOUNTS RECEIVABLE	CASH
Charge Sales Slips	7 3 2 -	5 1 24	5 8 56		
Less: Credit Slips	2 7 2 -	1 9 04	2 1 76		
Net Charge Sales	4 6 0 -	3 2 20	3 6 80	5 2 9 -	
CASH SALES					
Cash Sales Slips	2 1 9 6 -	1 5 3 72	1 7 5 68		
Less: Refunds	3 1 0 -	2 1 70	2 4 80		
Net Cash Sales	1 8 8 6 -	1 3 2 02	1 5 0 88		2 1 6 8 90
CASH SHORT OR OVER					
<input checked="" type="checkbox"/> <input type="checkbox"/>					2 9 62
COLUMN TOTALS	2 3 4 6 -	1 6 4 22	1 8 7 68	5 2 9 -	2 1 3 9 28

B.

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DATE	PARTICULARS	P.R.	DEBIT	CREDIT
<i>20-</i> <i>Apr. 16</i>	<i>Bank</i>		2 1 3 9 28	
	<i>Accounts Receivable</i>		5 2 9 -	
	<i>Cash Short or Over</i>		2 9 62	
	<i>Sales</i>			2 3 4 6 -
	<i>GST Payable</i>			1 6 4 22
	<i>PST Payable</i>			1 8 7 68

Exercise 4, p. 348

- A. *There was a cash shortage on 11 days.*
- B. *There was a cash overage on 5 days.*
- C. *The net result for the month is a shortage.*
- D. *The account as it stands represents an expense.*

SECTION 9.1 EXERCISES (continued)

Exercise 5, p. 348

A., B.

Cheques		Commercial Bank	
CREDIT ACCOUNT NO. <i>756210</i>	DATE <i>June 10, 20-</i>	CREDIT ACCOUNT NO. <i>756210</i>	DATE <i>June 10, 20-</i>
NAME <i>Marks & Associates</i>		NAME <i>Marks & Associates</i>	
PARTICULARS		DEPOSITED BY <i>J.A.</i>	
AMOUNT			
<i>Thompson</i>	<i>362:73</i>	<i>42</i> × \$ 5	<i>210: -</i>
<i>Meyer</i>	<i>55:64</i>	<i>78</i> × \$ 10	<i>780: -</i>
<i>Bogard</i>	<i>911:64</i>	<i>101</i> × \$ 20	<i>2 020: -</i>
<i>Geyer</i>	<i>155:50</i>	<i>22</i> × \$ 50	<i>1 100: -</i>
<i>Metsopoulos</i>	<i>228:98</i>	<i>8</i> × \$100	<i>800: -</i>
<i>Morris</i>	<i>189:95</i>	×	
<i>Savela</i>	<i>334:91</i>	×	
<i>Webb</i>	<i>25:68</i>	COINS	<i>252:68</i>
		TELLER	
		SUB-TOTAL	<i>5 193:86</i>
		VISA	<i>1 519:40</i>
		U.S. CHEQUES	
		U.S. CASH	
		TOTAL CHEQUES (BROUGHT FORWARD)	<i>2 265:03</i>
		SUB-TOTAL	<i>8 978:29</i>
		U.S. EXCHANGE (PLUS/MINUS)	
TOTAL CHEQUES (CARRY FORWARD)	<i>2 265:03</i>	TOTAL DEPOSIT	<i>8 978:29</i>
CURRENT ACCOUNT DEPOSIT		CURRENT ACCOUNT DEPOSIT	

SECTION 9.2 REVIEW QUESTIONS (page 353)

1. The most common method of paying an accounts payable is by cheque.
2. Preparing a cheque for signature means drafting a cheque with all requirements completed except the owner's signature.
3. The purpose of a petty cash fund is for paying small expenditures in cash.
4. A petty cash voucher is used when money is paid out of the petty cash fund and no bill is available for the expense.
5. The petty cash box contains bills, petty cash vouchers, and cash equal in total to the balance of the Petty Cash account.
6. The contents of the petty cash box can be checked for correctness by ensuring the total amount in the box is equal to the balance of the Petty Cash account.
7. The petty cash fund is replenished when it reaches a predetermined lower limit, such as \$10.
8. The vouchers and bills in the petty cash box are supplied as the source documents for the replenishing cheque.

SECTION 9.2 EXERCISES (page 353)

Exercise 1, p. 353

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DATE		PARTICULARS	P.R.	DEBIT				CREDIT				
Jan.	15	Petty Cash			2	0	0	-				
		Bank							2	0	0	-
		To establish a petty cash fund										

Exercise 2, p. 353

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DATE		PARTICULARS	P.R.	DEBIT				CREDIT				
Feb.	20	Petty Cash				5	0	-				
		Bank								5	0	-
		To increase the petty cash fund										

SECTION 9.2 EXERCISES (continued)

Exercise 3, p. 354

A.

SUMMARY OF CHARGES

ACCOUNTS	ITEM AMOUNT	SUBTOTAL (no HST)	HST RECOVERABLE	TOTAL (with HST)
<i>Supplies</i>		1 0 -	1 30	1 1 30
<i>Miscellaneous Expense</i>	6 04		79	6 83
	1 25		16	1 41
	2 05		27	2 32
	4 15		54	4 69
		1 3 49	-	-
<i>Sales Promotion</i>		8 50	1 11	9 61
<i>Building Maintenance</i>	1 0 50		1 37	1 1 87
	1 2 16		1 58	1 3 74
		2 2 66	-	-
<i>C. Parkes, Drawings</i>		1 2 -	-	1 2 -
<i>Car Expense</i>		8 17	1 06	9 23
<i>Postage</i>	5 20		68	5 88
	4 20		55	4 75
		9 40	-	-
	Total	8 4 22	9 41	9 3 63
			Cash in Box	6 37
			Total	1 0 0 -
			Cash Short or Over	-

B.

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DATE	PARTICULARS	P.R.	DEBIT	CREDIT
<i>Mar.</i> ²⁰⁻ 16	<i>Supplies</i>		1 0 -	
	<i>Miscellaneous Expense</i>		1 3 49	
	<i>Sales Promotion</i>		8 50	
	<i>Building Maintenance</i>		2 2 66	
	<i>C. Parkes, Drawings</i>		1 2 -	
	<i>Car Expense</i>		8 17	
	<i>Postage</i>		9 40	
	<i>HST Recoverable</i>		9 41	
	<i>Bank</i>			9 3 63

SECTION 9.2 EXERCISES (continued)**Exercise 4, p. 354**

A.

SUMMARY OF CHARGES

ACCOUNTS	ITEM AMOUNT	SUBTOTAL (no HST)	HST RECOVERABLE	TOTAL (with HST)
<i>Delivery Expense</i>		1 5 -	1 95	1 6 95
<i>P. Martin, Drawings</i>	1 0 -		-	1 0 -
	1 2 50		-	1 2 50
		2 2 50	-	-
<i>Office Expense</i>	1 5 02		1 95	1 6 97
	1 2 14		1 58	1 3 72
	4 20		55	4 75
	2 -		26	2 26
		3 3 36	-	-
<i>Supplies</i>	1 0 75		-	1 0 75
	1 1 79		-	1 1 79
	1 1 35		4 41	1 5 76
		3 3 89	-	-
<i>Advertising Expense</i>	1 2 -		1 56	1 3 56
	1 5 -		1 95	1 6 95
		2 7 -		
	Total	1 3 1 75	1 4 21	1 4 5 96
			Cash in Box	4 04
			Total	1 5 0 -
			Cash Short or Over	-

B.

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DATE	PARTICULARS	P.R.	DEBIT	CREDIT
<i>Jun.</i> ²⁰⁻ 10	<i>Delivery Expense</i>		1 5 -	
	<i>P. Martin, Drawings</i>		2 2 50	
	<i>Office Expense</i>		3 3 36	
	<i>Supplies</i>		3 3 89	
	<i>Advertising Expense</i>		2 7 -	
	<i>HST Recoverable</i>		1 4 21	
	<i>Bank</i>			1 4 5 96

SECTION 9.2 EXERCISES (continued)**Exercise 5, p. 355**

Indicate whether each of the following statements is true or false by entering a T or an F in the space provided. Explain the reason for each F response in the space provided.

- | | |
|---|----------|
| A. The amount in the Petty Cash account in the general ledger must never change. | <u>F</u> |
| B. A petty cash voucher must be prepared for every payment out of the fund. | <u>F</u> |
| C. The petty cash fund is used for the purpose of cutting down on the number of cheques issued. | <u>F</u> |
| D. The accounting entry to replenish the petty cash fund is made by the keeper of the fund. | <u>F</u> |
| E. The petty cash box is locked and put away in a safe place outside business hours. | <u>T</u> |
| F. The keeper of the petty cash fund must never borrow from it. | <u>T</u> |
| G. The petty cash summary is organized by general ledger accounts. | <u>T</u> |
| H. A payment out of petty cash can only be charged to an expense account or an asset account. | <u>F</u> |
| I. If an auditor were to check the petty cash fund, the procedure would be to total all of the cash and vouchers in the box and check this total against the balance in the Petty Cash account. | <u>T</u> |

Explanations for F Responses

A. The amount may vary according to need.

B. Petty cash vouchers are only necessary if there is no bill available.

C. The petty cash fund is used for convenience in paying for small expenditures.

D. The accounting entry to replenish the petty cash is made by the person in the accounting department who records cheques issued.

H. Other accounts are possible, for example, Drawings.

SECTION 9.3 REVIEW QUESTIONS (page 362)

- Internal control is the set of accounting procedures established to protect company assets from theft and waste, ensure accurate accounting data, encourage efficiency, and ensure that staff adhere to company policies.*
- Internal controls are unnecessary in a one-person business because there is no one to cheat but yourself.*
- Internal control becomes necessary when the business grows beyond one person and outside employees are hired.*
- Separation of duties refers to the situations where the work of one person is seen to agree with the work of another who operates quite independently.*

SECTION 9.3 REVIEW QUESTIONS (continued)

5. *An independent audit helps to establish good internal control. The independent auditor ensures that the system of internal control works properly.*
6. *Responsibilities for cash control should be firmly established so that someone can be found responsible for any error, omission, or theft.*
7. *Cash control is extremely important because cash is the easiest asset in a company to steal.*
8. *“Depositing funds intact” means to deposit all of the funds received during the day so that none of these funds can be spent, borrowed, or used in any other way.*
9. *A bank reconciliation is a routine procedure to determine why the balance on deposit in the bank does not agree with the balance on deposit as shown by the books of the company.*
10. *A bank reconciliation is necessary because a business cannot be sure either of the company records or the bank records until the two can be compared and reconciled.*
11. *A discrepancy item is an item recorded in either the bank records or the company records but not in both, causing the bank and company records to differ.*
12. *An outstanding cheque is cheque that has been issued and recorded by the company but not cashed by the bank during the period covered by the bank statement.*
13. *A late deposit is a deposit made and recorded in the books of the business on the last few days of the period covered by the bank statement but which does not appear on the bank statement because of a delay in processing funds.*
14. *Bringing the accounts up to date means to record in the accounts any items that originate from the bank but which the company has not yet recorded.*
15. *Cheque 602 seems to be an outstanding cheque that appeared on a previous reconciliation statement because the next cheque listed as outstanding is numbered 705. The recipient of Cheque 602 must have held on to it for quite some time before depositing or cashing it.*

SECTION 9.3 EXERCISES (page 362)**Exercise I, p. 362**

- A. *Since there is no paperwork, there is no real attempt to account for the earnings of the business. The owner probably does not report these earnings on her income tax statement. The government and consequently all taxpayers are being cheated. The owner should issue receipts for money taken in and use them to determine the net income from the business.*
- B. *The revenue from this job will never be reported by the contractor. She is therefore guilty of tax evasion, both income tax evasion and sales tax evasion (HST or GST). The government and other taxpayers suffer as a result.*

SECTION 9.3 EXERCISES (continued)**Exercise I, p. 362** (continued)

- C. *The company's policy of allowing Kladis to take the van home at night is a poor one. The company is placing too much temptation in front of its employees. Also, the company does not seem to be aware of Kladis's dishonesty. The company needs to exercise better supervision over its materials by having another person take responsibility for loading trucks and for tracking the inventory of the contents in each truck.*
- D. *Obviously, Sasha is cheating the company that she works for. It should not be possible for Sasha to order work done and also to approve payment for the work. A better division of duties is needed.*
- E. *The problem here is the same as in Part D. One person is in the position of ordering goods and approving their payment. These two duties must be separated and performed independently by two different people.*
- F. *In this case, Crown Road Builders is paying for the stone for Jim Cox's friend's driveway. Crown Road Builders is cheated, and Jim and his friend benefit. Another layer must be added to the delivery system before invoices are prepared. Perhaps an extra signature could be required, or there could be someone assigned to count the empty trucks leaving the site and another person to verify the incoming and outgoing truck records.*
- G. *Valley Ridge is losing revenue from people who are skiing without paying. It seems clear that no one patrols the trails to prevent this. Valley Ridge must use ski patrollers to ensure that every skier shows a day ticket or a season pass. However, they should consider whether the cost of the patrollers will be greater than the extra revenue.*
- H. *A restaurant with a good accounting system makes it difficult to cheat. There will be a host or hostess who acts as an overseer. There might be a cashier who works independently and has the responsibility of ensuring that all meals are paid for. In addition, many restaurants have systems in which every item ordered is entered through a computer that processes the customer's bills.*
- I. *The receipts for the day should be received by an independent person who prepares a record of them. Since it is a large company, someone else will compare the receipts list to the count of cash. Then the entire amount must be deposited intact. Geoff will get a copy of the receipts list and deposit slip in order to make the accounting entries but he will not have access to the cash.*

SECTION 9.3 EXERCISES (continued)

Exercise 1, p. 362 (continued)

- J. *Stephanie obviously has a good system and knows her business. For each individual job, Stephanie calculates and orders the necessary materials. She has these delivered directly to the job site. The workers have only enough materials to do the one job. If there is a shortage of materials, Stephanie knows that either she made an error or that some materials have been stolen or spoiled. She can then investigate immediately.*
-
- K. *Essentially, Armin and Ashley are charging the cost of their food to the business. This reduces the net income of the business and, in turn, the income tax to be paid. In addition, the business pays HST or GST on its food supplies. The business will likely claim HST or GST Recoverable on the food that Armin and Ashley take home, even though it is not entitled to such a benefit. Taxpayers lose in both instances.*
-
- L. *Both men are practising income tax evasion by not billing each other. The value of the work should be added to the revenues of their respective businesses. This type of tax evasion is very difficult to prevent because no one is likely to discover or report it.*
-

Exercise 2, p. 364

A. *PAUL SWARTZ*
BANK RECONCILIATION
JUNE 30, 20–

<i>Personal Record</i>											<i>Bank Statement</i>										
<i>Latest balance</i>											<i>Latest balance</i>										
<i>Deduct:</i>											<i>Deduct:</i>										
<i>Service Charge</i>											<i>Outstanding cheques</i>										
											<i>No. 51</i>										
											<i>No. 52</i>										
<i>Adjusted Balance</i>											<i>Adjusted Balance</i>										

- B. *Only one entry is necessary to bring the personal record to the true bank balance. Deduct the service charge of \$1.75 on June 30.*
-

SECTION 9.3 EXERCISES (continued)

Exercise 3, p. 365

- A. *The \$2046.75 represents the bank balance at the end of month.*
- B. *The March 31 deposit was not included in the bank balance because it did not get recorded until April 1 or the next business day.*
- C. *Waters knows there are three cheques outstanding because his records show that he wrote the cheques, but they do not yet appear on the bank statement. The obvious conclusion is that the three cheques have not yet been cashed. They are subtracted because after the cheques are presented to the bank for payment, the bank statement balance of cash will decrease.*
- D. *The \$2186.85 is the cash balance at the end of month.*
- E. *A NSF cheque is a cheque that cannot be honoured because there is not enough money in the account to pay it. It is subtracted from the Balance per Cash account because when Waters originally received the cheque from a customer, he debited the Bank account in the ledger and deposited the cheque.*
- F. *The certified cheque is not part of the outstanding cheques on the bank reconciliation statement because funds for the cheque have already been taken out of the Bank account. This means that both Waters and the bank have deducted the \$200 from their respective records.*

Exercise 4, p. 366

WAGNER & WAGNER
BANK RECONCILIATION
APRIL 30, 20–

<u>Bank's Record</u>										<u>Company's Record</u>												
Balance on statement							5	5	3	41	Balance in ledger							3	5	7	89	
Deduct:											Deduct Debt memos:											
Outstanding cheques											Loan Interest			3	6	–						
#1435			5	6	53						Service Charge				5	60						
#1442			6	1	21						NSF Cheque		2	5	0	–		2	9	1	60	
#1445		3	8	0	53																	
#1446			8	2	85		5	8	1	12												
							(2	7	71)												
Add: Late Deposit								9	4	–												
Adjusted Balance								6	6	29	Adjusted Balance									6	6	29

SECTION 9.3 EXERCISES (continued)**Exercise 4, p. 366** (continued)

DATE		PARTICULARS	P.R.	DEBIT			CREDIT				
<i>20-</i> <i>Apr.</i>	<i>30</i>	<i>Bank Loan Interest</i>			<i>3</i>	<i>6</i>	<i>-</i>				
		<i>Service Charge</i>				<i>5</i>	<i>60</i>				
		<i>Account Receivable</i>		<i>2</i>	<i>5</i>	<i>0</i>	<i>-</i>				
		<i>Bank</i>						<i>2</i>	<i>9</i>	<i>1</i>	<i>60</i>
		<i>To record bank charges for April</i>									

SECTION 9.4 REVIEW QUESTIONS (page 372)

- The three statements that must be prepared by a business reporting under IFRS are the statement of financial position (balance sheet), the income statement, and the cash flow statement.*
- A cash flow statement is a financial statement that reveals the inflows and outflows in the cash account during a fiscal period.*
- You should study the cash flow statement in an introductory accounting course because you will encounter these statements every time you look at the annual report of a Canadian public company.*
- A simplified definition of a cash flow statement is a report about the cash coming in and going out of a company during a fiscal period.*
- The three main sections of a cash flow statement are operating activities, investing activities, and financing activities.*
- Operating activities show the cash that came in and out during the normal course of business. The sale of services or goods to customers is the main source of cash flowing in. The expenses of the business are the main source of cash flowing out. Investing activities mainly involve purchasing long-term assets such as buildings or equipment for company use. They serve as an indicator of how long a business will continue to operate effectively. Financing activities involve borrowing funds and repaying loans. In large companies, this would include issuing stocks and bonds to raise the cash needed for business activities.*
- The financing section of a large company's cash flow statement would likely show the funds raised by issuing stocks and bonds.*
- A business's cash flow from operations would be greater than its net income because the cash flow statement excludes the depreciation and other non-cash expenses that are included on the income statement.*

SECTION 9.4 REVIEW QUESTIONS (continued)

9. *It would be considered good to have a negative amount in the investing section of a cash flow statement because this means that the business is purchasing property, plant, and equipment. These are assets that will play a role in producing future revenue for the company.*
10. *A negative amount in the investing section means that cash has been spent on property, plant, and equipment. Together, the cash flow from operations and the financing section will reveal how the money spent on PPE was raised.*
11. *The direct method of cash flow statement preparation involves taking cash flow data directly from the ledger accounts.*
12. *The direct method takes more work because it is time consuming to group and total the amounts shown in the ledger accounts.*
13. *The IFRS recommends the direct method of cash flow statement preparation.*

SECTION 9.4 REVIEW EXERCISES (page 372)**Exercise 1, p. 372**

- | | |
|------------------------------|------------------------------|
| A. <i>investing activity</i> | E. <i>operating activity</i> |
| B. <i>financing activity</i> | F. <i>operating activity</i> |
| C. <i>operating activity</i> | G. <i>operating activity</i> |
| D. <i>investing activity</i> | H. <i>operating activity</i> |

Exercise 2, p. 372

In 20–2, the value of equipment was \$9200. The cash flow statement for 20–3 shows \$4500 of equipment was bought so the value of the equipment appears that it should be \$13 700. However, the 20–3 income statement shows \$2000 in depreciation. Therefore, the value of the equipment on December 31, 20–3 is correct at \$11 700, as shown by the following calculations:

20–2 Value of Equipment + Purchases of Equipment in 20–3 = 20–3 Value of Equipment

\$9200 + \$4500 = \$13 700

20–3 Value of Equipment – Depreciation Expense = Net Value

\$13 700 – \$2000 = \$11 700

SECTION 9.4 REVIEW EXERCISES (continued)**Exercise 3, p. 373**

A.

*PIXEL DESIGNS**STATEMENT OF CASH FLOW**YEAR ENDED DECEMBER 31, 20–5*

<i>Cash Flow from Operating Activities</i>										
<i>Cash receipts from customers</i>	\$100	0	0	0	–					
<i>Cash payments to suppliers</i>	(12)	0	0	0	–)					
<i>Cash payments for salaries</i>	(42)	4	0	0	–)					
<i>Cash payment for rent</i>	(22)	0	0	0	–)					
<i>Cash payment for other operating expenses</i>	(23)	5	0	0	–)					
						\$	1	0	0	–
<i>Cash Flow from Investing Activities</i>										
<i>Cash payments for equipment</i>	(\$40)	0	0	0	–)					
<i>Cash receipts from selling equipment</i>	8	0	0	0	–)					
						(32)	0	0	0	–)
<i>Cash Flow from Financing Activities</i>										
<i>Increase in Bank Loan</i>	\$ 35	0	0	0	–					
<i>Decrease in Loan Payable</i>	(2)	0	0	0	–)					
						33	0	0	0	–
<i>Increase in Cash</i>						\$ 1	1	0	0	–
<i>Summary</i>										
<i>Beginning Balance of Cash</i>						\$12	0	0	0	–
<i>Increase in Cash</i>						1	1	0	0	–
<i>Ending Balance of Cash</i>						\$13	1	0	0	–

SECTION 9.4 REVIEW EXERCISES (continued)**Exercise 3, p. 373** (continued)

- B. *Mr. Choi needs to consider more than the change in the balance of cash before judging his business's financial performance. Looking at the causes of the cash balance increase is much more revealing. His Statement of Cash Flow first reveals that the business is barely holding its own on a day-to-day basis. The cash flow from normal operations is only \$100. No extra cash is being generated to expand and improve the business. What comes in goes out quickly.*
- In the hope of some long-term improvement, Pixel Designs has invested in new equipment. A net outflow of \$32 000 is a good sign. On the down side is the fact that this net \$32 000 of equipment has been entirely financed by an increase in the bank loan. The increase in the bank loan will mean more interest costs next year. If the new equipment does not generate enough new revenue to cover additional interest costs, the cash flow from operating activities will be a negative amount. Any business that a negative cash flow just from opening its doors each day will not survive long.*
- _____
- _____
- _____

SECTION 9.5 REVIEW QUESTIONS (page 383)

- The negative \$750 in the Accounts Receivable Difference column of a comparative balance sheet is a credit.*
 - The most common non-cash expense item on an income statement is amortization. Another name for amortization is depreciation.*
 - False. The Cash Flow T is a worksheet used to calculate cash flows. It does not appear in any ledger.*
 - The first amount you see on the Cash Flow T worksheet is accrued net income.*
 - If the company had an accrued net loss, the amount would appear on the credit side of the Cash Flow T. A net loss would appear as a credit on the Cash Flow T because cash outflows (credits) are greater than cash inflows (debits).*
 - The two main areas for adjustments described in the Cash Flow from Operations section are the current accounts and non-cash items.*
- _____
- _____

SECTION 9.5 REVIEW QUESTIONS (continued)

7. *If paying a prepaid expense like insurance was the first transaction of the year, the actual journal entry would show a debit to Prepaid Insurance. Accrual Net Income is not yet affected, but the cash net income will go down with a credit on the Cash Flow T because money has left the business. If Accounts Payable was used for an expense like advertising in the first transaction, the actual journal entry would show a credit to Accounts Payable. The transaction will bring down the accrual net income. In comparison, the cash net income gets a boost with a debit because no cash has yet left the business to pay for the expense.*
8. *Again on sale of equipment boosts accrual net income. Remember that accrual net income is shown on the debit side of the Cash Flow T. However, since a gain on sale is a non-cash revenue item, it must be adjusted on the Cash Flow T with a credit entry.*
9. *The statement is not true. Cash flow from investing primarily deals with purchasing or selling property, plant, and equipment.*
10. *The first step to take when trying to make sense of changes to property, plant, and equipment is to reconstruct the journal entries for the purchase and sale of PPE throughout the year.*
11. *A sale of equipment usually involves a loss or gain because the book value is rarely exactly the same as selling price.*
12. *Accumulated Depreciation receives a debit when equipment is sold because you are removing the depreciation on the sold asset.*

SECTION 9.5 EXERCISES (page 383)**Exercise I, p. 383**

	A	B	C	D
1		BrainWaves Educational Consultants		
2		Statement of Cash Flow		
3		Year Ended May 31, 20-3		
4				
5		<i>Cash Flow from Operating Activities</i>		
6		Net income	1,780	
7		Increase in accounts receivable	(\$ 250)	
8		Increase in supplies	(560)	
9		Increase in prepaid expenses	(200)	
10		Decrease in accounts payable	805	
11		Depreciation	2 000	
12			\$	3 575
13		<i>Cash Flow from Investing Activities</i>		
14		Cash payments for property, plant, and equipment		(4 500)
15				
16		<i>Cash Flow from Financing Activities</i>		
17		Increase in bank loan	\$ 125	
18		Decrease in loan payable	(200)	
19				(75)
20		Decrease in Cash		(\$1 000)
21				
22		<i>Summary</i>		
23		Beginning Balance of Cash	\$	4 000
24		Decrease in Cash		(1 000)
25		Ending Balance of Cash	\$	3 000

SECTION 9.5 EXERCISES (continued)**Exercise I, p. 383** (continued)

Statement of cash flow showing formulas. Spreadsheet formats and cell references may vary.

	A	B	C	D
1		BrainWaves Educational Consultants		
2		Statement of Cash Flow		
3		Year Ended May 31, 20-3		
4				
5		<i>Cash Flow from Operating Activities</i>		
6		Net income	= 'Cash Flow T'!D5	
7		Increase in accounts receivable	= 'Cash Flow T'!E7*-1	
8		Increase in supplies	= 'Cash Flow T'!E8*-1	
9		Increase in prepaid expenses	= 'Cash Flow T'!E9*-1	
10		Decrease in accounts payable	= 'Cash Flow T'!D11	
11		Depreciation	2000	
12				=SUM(C6:C11)
13		<i>Cash Flow from Investing Activities</i>		
14		Cash payments for property, plant, and equipment		= 'Cash Flow T'!E22*-1
15				
16		<i>Cash Flow from Financing Activities</i>		
17		Increase in bank loan	= 'Cash Flow T'!D28	
18		Decrease in loan payable	= 'Cash Flow T'!E30*-1	
19				=C17+C18
20		Decrease in Cash		=D12+D14+D19
21				
22		<i>Summary</i>		
23		Beginning Balance of Cash		= 'Balance Sheet'!F9
24		Decrease in Cash		=D20
25		Ending Balance of Cash		=D23+D24
26				
27				

SECTION 9.5 EXERCISES (continued)**Exercise 2, p. 383****Workbook Exercise**

Heavenly Eyes is an aerial photography company based in Charlottetown, PEI. Its comparative statement of financial position appears in the spreadsheet below.

Heavenly Eyes Ltd. Statement of Financial Position (\$ in thousands)					
		May 31 2006	May 31 2005	Difference	Dr/Cr
	Assets				
	<i>Current Assets:</i>				
	Cash	\$ 3 560	\$ 4 160	(600)	Cr
Cash	Account Receivable	84 028	66 640		
Flow	Prepaid Expenses	13 050	13 597		
Operations	Other Current Assets	-	-		
	Total Current Assets	\$ 100 638	\$ 84 397		
Cash Flow	Property, Plant, and Equipment	310 110	226 210		
Investing	Accumulated Depreciation	(95 360)	(70 660)		
	Total Assets	\$ 315 388	\$ 239 947		
	Liabilities and Shareholders' Equity				
	<i>Current Liabilities:</i>				
Cash	Accounts Payable	\$ 61 721	\$ 59 555		
Flow	Other Current Liabilities	10 367	14 709		
Operations	Income Taxes Payable	2 600	2 330		
Cash Flow	Bank Loan Payable	29 500	19 500		
	Total Current Liabilities	\$ 104 188	\$ 96 094		
Financing	Long-Term Debt	50 270	20 853		
	Total Liabilities	\$ 154 458	\$ 116 947		
	Shareholders' Equity				
Cash Flow	Common Shares	\$ 41 000	\$ 14 000		
Financing	Retained Earnings	119 930	109 000		
	Total Shareholders' Equity	\$ 160 930	\$ 123 000		
	Total Liabilities and Equity	\$ 315 388	\$ 239 947		

SECTION 9.5 EXERCISES (continued)**Exercise 2, p. 383** (continued)

The spreadsheet model for Heavenly Eyes Ltd. is similar to the one you used for BrainWaves Consultants in Section 9.5, Exercise 1. Make sure you complete Exercise 1 before attempting this exercise.

You will notice a slight difference in how the two businesses are organized. BrainWaves Consultants is a sole proprietorship, while Heavenly Eyes Ltd. is a corporation. Most of the cash flow work you will do in future accounting courses will involve corporations.

For this exercise, you do not need to know much about the accounting for corporations beyond the differences shown in the equity section of the statement of financial position. For instance, a corporation is a separate legal entity owned by shareholders. Therefore, the name Shareholders' Equity is used instead of Owner's Equity. The Shareholders' Equity section has two primary accounts: Common Shares and Retained Earnings.

The Common Shares account usually indicates how much money people have paid to the company in order to become shareholders. Selling common shares to people is one way a corporation can raise funds. The Retained Earnings account is similar to the Capital account that you have used to this point in your accounting studies. Like the Capital account, Retained Earnings is increased by net income and reduced by net loss. Also, in the same manner that Capital is reduced by discretionary payments to the owner (Drawings), Retained Earnings is reduced by discretionary payments to the shareholders (Dividends).

- A. Load the spreadsheet model named *HeavenlyEyes.xls*. Complete the shaded areas of columns G and H shown in the statement of financial position on the previous page. The first answer has been done for you, showing a decrease in cash of \$600 and the overall effect of a credit in the Cash account. Make sure you use the same formulas and IF functions that are described on pages 374 to 375 of your textbook.
- B. Select the Income Statement tab. There is nothing for you to enter on this sheet, but be aware of three important numbers you must deal with later. The first two, Depreciation Expense and Loss on Sale of Equipment, are non-cash expenses. No cheques had to be written for the \$30 700 and \$10 000 amounts shown. The other important number is Net Income. You will have to turn the accrual net income of \$10 930 into a "cash net income" in Part C on the next page.

SECTION 9.5 EXERCISES (continued)**Exercise 2, p. 383** (continued)

C. Select the Cash Flow T tab. Your monitor should look like the spreadsheet below.

		Cash Flow "T"	
		Dr	Cr
4	Cash Flow from Operations		
5	Net Income (Accrual)	10 930	-
6	Current Accounts:		
7	Account Receivable		
8	Prepaid Expenses		
9	Other Current Assets		
10	Accounts Payable		
11	Other Current Liabilities		
12	Income Taxes Payable		
14	Non-Cash Items		
15	Depreciation Expense		
16	Loss on Sale of Equipment		
17	Gain on Sale of Equipment		
19	Cash Flow from Operations	10 930	-
21	Cash Flow from Investing		
22	Purchase of PPE		
23	Sale of PPE		
25	Cash Flow from Investing	-	-
27	Cash Flow from Financing		
28	Bank Loan Payable		
29	Long-Term Debt Acquired		
31	Common Shares Issued		
33	Cash Flow from Financing	-	-
35	Sub-totals	10 930	-
37	Net Cash Flow	10 930	-
39	Statement of Financial Position: Verification		
40	Cash Account Balance, May 31, 2005		4 160
41	Cash Account Balance, May 31, 2006		3 560
42	Decrease in Cash		<u>(600)</u>
44	Difference		11 530

As you can see at the bottom right of the Cash Flow T, the difference between the accrual net income of \$10 930 and the cash net income of -\$600 is \$11 530. Your task is to pare down the accrual net income so that it appears as a \$600 credit on row 37.

To start, focus your attention solely on cash flow from operations. Create IF functions like the ones described on pages 378 to 380 of your textbook to determine the cash flow from operations on row 19. If your work is accurate to this point, cash flow from operations should be a \$32 833 debit.

SECTION 9.5 EXERCISES (continued)

Exercise 2, p. 383 (continued)

D. Determining cash flow from investing can be challenging, even though this section primarily involves just two activities: the purchase and sale of property, plant, and equipment. In this year, Heavenly Eyes Ltd sold some old equipment at a loss. The original cost value of the equipment was \$20 000, the same value listed in the Property, Plant, and Equipment account in the company’s ledger.

Select the PPE Reconciliation tab. It should look like the spreadsheet below.

The screenshot shows a spreadsheet with the following content:

Journal Entry: Reconstruction of PPE Sale

Accounts	Dr	Cr
Cash		
Accumulated Depreciation		
Loss on Sale		
Property, Plant, and Equipment		

Property, Plant, and Equipment

Beginning Balance	226 210		
			Sale of Equipment
	226 210		
Purchase of Equipment			
Ending Balance	310 110		

Accumulated Depreciation

		70 660	Beginning Balance
			Depreciation for the year
		70 660	
Accumulated Depreciation from Sale			
		95 360	Ending Balance

The beginning and ending balances in the two T-accounts above are generated by cell references to the Statement of Financial Position. Do your best to fill in the shaded cells in the T-accounts. Then, use your T-account data to reconstruct the journal entry for the sale of the \$20 000 piece of equipment. By reconstructing the sale entry, you will determine how much cash was received when the equipment was sold.

After finishing this spreadsheet, go back to the Cash Flow from the Investing section in the Cash Flow T sheet, and enter the amounts you have determined from your PPE work.

SECTION 9.5 EXERCISES (continued)**Exercise 2, p. 383** (continued)

E. The financing section of the Cash Flow T should be relatively straightforward. Click the Special Reconciliations tab to help you determine the cash flow changes that have been caused by the Bank Loan, Long-Term Debt, and Common Shares accounts. Enter the amounts you determine into the Cash Flow T worksheet.

When you have finished the Cash Flow T worksheet, the net cash flow on row 37 should be a \$600 credit, which is the same amount revealed by the comparative statements of financial position.

F. The statement of financial position and the income statement for Heavenly Eyes Ltd. show some discouraging signs. For claims on the assets, there is close to a 50/50 split between shareholders and creditors. Also, the Net Income of \$10 930 is less than 2% of the Sales figure. From the perspective of a an outside accountant, write a business letter to the shareholders of Heavenly Eyes Ltd. Make sure your letter includes some facts revealed by the cash flow results you produced.

SECTION 9.5 EXERCISES (continued)**Exercise 2, p. 383** (continued)

A., B.

Heavenly Eyes Ltd.					
Statement of Financial Position					
(\$ in thousands)					
		May 31 2006	May 31 2005	Difference	Dr/Cr
Assets					
<i>Current Assets:</i>					
	Cash	\$ 3 560	\$ 4 160	(600)	Cr
Cash	Account Receivable	84 028	66 640	17 388	Dr
Flow	Prepaid Expenses	13 050	13 597	(547)	Cr
Operations	Other Current Assets	-	-	-	Dr
	Total Current Assets	\$ 100 638	\$ 84 397		
Cash Flow	Property, Plant, and Equipment	310 110	226 210	83 900	Dr
Investing	Accumulated Depreciation	(95 360)	(70 660)	(24 700)	Cr
	Total Assets	\$ 315 388	\$ 239 947		
Liabilities and Shareholders' Equity					
<i>Current Liabilities:</i>					
Cash	Accounts Payable	\$ 61 721	\$ 59 555	2 166	Cr
Flow	Other Current Liabilities	10 367	14 709	(4 342)	Dr
Operations	Income Taxes Payable	2 600	2 330	270	Cr
Cash Flow	Bank Loan Payable	29 500	19 500	10 000	Cr
	Total Current Liabilities	\$ 104 188	\$ 96 094		
Financing	Long-Term Debt	50 270	20 853	29 417	Cr
	Total Liabilities	\$ 154 458	\$ 116 947		
Shareholders' Equity					
Cash Flow	Common Shares	\$ 41 000	\$ 14 000	27 000	Cr
Financing	Retained Earnings	119 930	109 000	10 930	Cr
	Total Shareholders' Equity	\$ 160 930	\$ 123 000		
	Total Liabilities and Equity	\$ 315 388	\$ 239 947		

SECTION 9.5 EXERCISES (continued)**Exercise 2, p. 383** (continued)

C.

HeavenlyEyes.xls						
Search in Sheet						
Home Layout Tables Charts SmartArt Formulas Data Review						
N52						
	A	B	C	D	E	F
1						
2				Cash Flow "T"		
3				Dr	Cr	
4		Cash Flow from Operations				
5		Net Income (Accrual)		10 930	-	
6		Current Accounts:				
7		Account Receivable		-	17 388	
8		Prepaid Expenses		547	-	
9		Other Current Assets		-	-	
10		Accounts Payable		2 166	-	
11		Other Current Liabilities		-	4 342	
12		Income Taxes Payable		270	-	
13						
14		Non-Cash Items				
15		Depreciation Expense		30 700		
16		Loss on Sale of Equipment		10 000		
17		Gain on Sale of Equipment			-	
19		Cash Flow from Operations		32 883	-	
20						
21		Cash Flow from Investing				
22		Purchase of PPE			103 900	
23		Sale of PPE		4 000		
25		Cash Flow from Investing		-	99 900	
26						
27		Cash Flow from Financing				
28		Bank Loan Payable		10 000	-	
29		Long-Term Debt Acquired		29 417		
31		Common Shares Issued		27 000		
33		Cash Flow from Financing		66 417	-	
34						
35			Sub-totals	99 300	99 900	
36						
37		Net Cash Flow		-	600	
38						
39		Statement of Financial Position: Verification				
40		Cash Account Balance, May 31, 2005			4 160	
41		Cash Account Balance, May 31, 2006			3 560	
42		Decrease in Cash			<u>(600)</u>	
43						

SECTION 9.5 EXERCISES (continued)

Exercise 2, p. 383 (continued)

D.

The screenshot shows an Excel spreadsheet with the following content:

Journal Entry: Reconstruction of PPE Sale

Accounts	Dr	Cr
Cash	4 000	
Accumulated Depreciation	6 000	
Loss on Sale	10 000	
Property, Plant, and Equipment		20 000

Property, Plant, and Equipment

Beginning Balance	226 210	
		20 000 Sale of Equipment
	206 210	
Purchase of Equipment	103 900	
	310 110	

Accumulated Depreciation

		70 660 Beginning Balance
		30 700 Depreciation for the year
		101 360
Accumulated Depreciation from Sale	6 000	
		95 360 Ending Balance

E.

The screenshot shows an Excel spreadsheet with the following content:

Long-Term Debt

	20 853	
		Debt Acquired
	20 853	
Debt Retired	-	29 417
		50 270
		Net Change in Debt

Retained Earnings

	109 000	
Net Loss	-	10 930
		119 930
Dividends Declared	-	
		119 930

Common Shares

	14 000	
	27 000	New Shares
	41 000	

SECTION 9.5 EXERCISES (continued)**Exercise 2, p. 383** (continued)

F. *While the Net Income is low at \$10 930, the cash flow from operations is over triple that amount at \$32 883. This means that the company is generating a surplus of cash from its daily operations. Importantly, the company has used this cash to help pay for a major purchase of property, plant, and equipment (\$103 900). Purchasing new, long-term assets is a solid indication that the company believes it can make a financial return on such an investment for years to come.*

Additional debt was used to help finance the purchase of long-term assets, but this amount totalled less than \$40 000. Therefore, the associated interest costs will be kept relatively low. The rest of the purchase was financed by selling more common shares. The additional common shares will add no extra interest costs, but they do mean that future potential dividends must be shared with more people.

CHAPTER 9**REVIEW EXERCISES** (page 385)**Using Your Knowledge****Exercise 1, p. 385****PETTY CASH SUMMARY**

<i>Supplies</i>			3	2	87
<i>Building Maintenance</i>			5	6	75
<i>Car Expense</i>			6	3	50
<i>Miscellaneous Expense</i>			7	9	85
<i>HST Recoverable</i>			2	5	59
<i>Total</i>			2	5	8

CHAPTER 9 REVIEW EXERCISES (continued)

Exercise 2, p. 386

PROCTOR & KEMP

BANK RECONCILIATION STATEMENT

JULY 31, 20-

<i>Balance per bank</i>										<i>Balance per general</i>									
<i>statement</i>									1 8 0 8 64	<i>ledger</i>									4 4 9 64
<i>Add late deposit</i>									3 1 6 40										
									2 1 2 5 04	<i>Deduct:</i>									
<i>Deduct outstanding</i>										<i>Visa Discount Fee</i>						1 6 5 -			
<i>cheques</i>										<i>Interest</i>						2 9 -			
#852			1 2 3 50							<i>Service Charge</i>						1 2 60			
#881			3 3 60							<i>NSF Cheque—Jones</i>						3 3 60			
#889			6 0 -							<i>Unrecorded</i>									
#903			1 6 41							<i>Cheque #913</i>					5 0 -			2 9 0 20	
#910			6 5 20																
#912			2 1 6 75																
#914			8 21																
#918			5 0 -																
#920			2 9 33																
#921			6 5 -																
#923			2 5 -																
#925			3 7 3 60																
#926			9 0 0 -						1 9 6 5 60										
<i>Adjusted Balance</i>									1 5 9 44	<i>Adjusted Balance</i>									1 5 9 44

CHAPTER 9 REVIEW EXERCISES (continued)

Exercise 2, p. 386 (continued)

GENERAL JOURNAL

PAGE

DATE		PARTICULARS	P.R.	DEBIT			CREDIT		
<i>20-</i> <i>July</i>	31	<i>A/R—R.C. Jones</i>			3	3	60		
		<i>Bank</i>						3	3
		<i>NSF cheque</i>							60
	31	<i>Supplies</i>			5	0	–		
		<i>Bank</i>						5	0
		<i>Cheque #913 not recorded</i>							–
	31	<i>Bank Charges</i>			1	6	5	–	
		<i>Bank</i>						1	6
		<i>Visa Charges for month</i>						5	–
	31	<i>Bank Charges</i>			4	1	60		
		<i>Bank</i>						4	1
		<i>Interest \$29; service Charge \$12.60</i>							60

Exercise 3, p. 388

Workbook Exercise

From the following records, prepare the bank reconciliation statement for Madison Company as of October 31, 20–. Record the necessary accounting entries in the books of the business.

Previous bank reconciliation statement:

MADISON COMPANY

BANK RECONCILIATION STATEMENT

SEPTEMBER 30, 20–

Balance per bank statement					2	1	0	2	69	Balance per general ledger					1	6	5	2	95
Deduct outstanding cheques										Deduct Service Charge			1	2	50				
#519			2	0	00					Loan Interest			3	6	25			4	8
#526			3	7	50														
#528			1	0	50														
#529				2	70														
#531				5	19														
#532				7	4	10													
#533			1	1	2	02													
#534				5	6	94													
#535				8	5	04		4	9	8	49								
Adjusted Balance						1	6	0	4	20	Adjusted Balance					1	6	0	4

CHAPTER 9 REVIEW EXERCISES (continued)

Exercise 3, p. 386 (continued)

Note: the Cash Payments and Cash Receipts journals are company records. They are simply modified forms of the journal you normally use. The major differences are that these journals separate cash payments from cash receipts and the journal entries appear on one line.

Partial cash payments journal

Partial cash receipts journal

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DATE		CH. NO.	BANK CR			
²⁰⁻ Oct.	1	536		1	9	05
	1	537		1	6	02
	2	538		7	3	74
	3	539		2	7	60
	3	540			1	95
	4	541	3	6	5	12
	5	542		9	2	06
	8	543		7	4	09
	8	544		1	9	65
	10	545		7	4	02
	11	546		7	6	75
	12	547		5	6	21
	12	548		4	2	96
	15	549		3	3	21
	17	550		2	4	02
	19	551		8	8	61
	22	552		5	8	36
	22	553		1	9	05
	23	554		9	1	50
	24	555		1	3	30
	24	556		1	7	50
	26	557			8	61
	29	558	1	0	4	75
	29	559	3	1	9	02
	30	560			1	75
	31	561			2	50
	31	562		1	9	41
			2	8	3	71

DATE		BANK DR				AMOUNT OF DEPOSIT			
²⁰⁻ Oct.	3		1	6	50				
	3		2	5	02				
	3	5	1	6	95	5	5	8	47
	8		1	0	420				
	8		7	5	612				
	8		5	6	12				
	8		9	6	02	1	0	1	46
	11		3	3	40		3	3	40
	15		1	7	50				
	15		1	2	09		2	9	59
	22		1	9	06				
	22	5	0	2	00	5	2	1	06
	24		1	2	06				
	24		1	3	50				
	24		9	1	02				
	24		1	6	51	1	3	3	09
	29		5	6	93				
	29		8	3	16				
	29		1	0	252				
	29		1	2	706				
	29		3	1	50	4	0	1	17
	31		1	6	775				
	31		1	3	844		3	0	619
			2	9	9543	2	9	9	543

CHAPTER 9 REVIEW EXERCISES (continued)**Exercise 3, p. 386** (continued)

October general journal entry affecting Bank

GENERAL JOURNAL

PAGE 64

DATE		PARTICULARS	P.R.	DEBIT			CREDIT		
²⁰⁻ Oct.	4	Bank Charges	540		1	2	50		
		Bank Interest	565		3	6	25		
		Bank	101					4	8 75
		To record charges picked up from September bank statement							

Bank statement for October

Cheques		Deposits		Date	Balance
				Sep. 30	2 102.69
37.50	(526)			Oct. 2	2 065.19
			558.47	3	2 623.66
2.70	(529)	85.04	(535)	4	2 535.92
19.05	(536)			5	2 516.87
74.10	(532)	105.00	(528)	8	2 337.77
73.74	(538)		1 012.46	9	3 276.49
5.19	(531)	27.60	(539)	10	3 243.70
56.94	(534)			11	3 186.76
74.09	(543)	112.02	(533)	15	3 034.05
96.02	(NSF cheque of J. Marble)			15	2 938.03
164.02	(537)			16	2 774.01
33.21	(549)	19.65	(544)	17	2 750.74
365.12	(541)			18	2 385.62
76.75	(546)		521.06	22	2 829.93
1.95	(540)	58.36	(552)	23	2 769.62
42.96	(548)			24	2 726.66
			133.09	25	2 859.75
88.61	(551)			26	2 771.14
91.50	(554)			29	2 679.64
13.30	(555)		401.17	30	3 067.51
8.61	(557)	1 047.65	(558)	31	2 011.25
15.20	(Interest)	30.20	(Service Charges)	31	1 965.85
43.50	(Discount Fee)			31	1 922.35

CHAPTER 9 REVIEW EXERCISES (continued)

Exercise 3, p. 386 (continued)

General ledger account showing October figures

ACCOUNT Bank

No. 101

DATE	PARTICULARS	P.R.	DEBIT					CREDIT					Dr/Cr	BALANCE					
²⁰⁻ Sep. 30		–											Dr	1	6	5	2	95	
Oct. 4		J64							4	8	75								
	31	CPI74							2	8	3	1	71						
	31	CRI47	2	9	9	5	43							Dr	1	7	6	7	92

MADISON COMPANY

BANK RECONCILIATION STATEMENT

OCTOBER 31, 20–

<i>Balance per bank statement</i>					<i>Balance per general ledger</i>																								
					1	9	2	2	35											1	7	6	7	92					
					3	0	6	19																					
					2	2	2	8	54	<i>Deduct:</i>																			
										<i>NSF cheque—J. Marble</i>					9	6	02												
										<i>Interest</i>					1	5	20												
					2	0	–				<i>Service Charges</i>					3	0	20											
					9	2	06				<i>Discount Fee</i>					4	3	50	1	8	4	92							
					7	4	02																						
					5	6	21																						
					2	6	02																						
					1	9	05																						
					1	7	50																						
					3	1	9	02																					
					1	75																							
					2	50																							
					1	9	41	6	4	5	54																		
										<i>Adjusted Balance</i>					1	5	8	3	–	<i>Adjusted Balance</i>					1	5	8	3	–

CHAPTER 9 REVIEW EXERCISES (continued)**Exercise 3, p. 386** (continued)**GENERAL JOURNAL**

PAGE

DATE		PARTICULARS	P.R.	DEBIT			CREDIT		
²⁰⁻ Oct.	31	A/R—J.Marble			9	6	02		
		Bank						9	6
		NSF cheque							02
	31	Bank Charges			8	8	90		
		Bank						8	8
		Service Chg. \$30.20; Interest \$15.20;							90
		Discount Fee \$43.50							

Questions for Further Thought p. 389

- This situation is annoying but it is for your own safety. Anyone with your personal identification number has access to your bank account so it is important to keep your PIN secret. You will have to borrow money or use credit cards on your vacation and get a new PIN once you get home.*
- This is undesirable because it will be difficult to know who is responsible if the petty cash fund is short money.*
- The auditor should report to a person in authority that petty cash money is being loaned out to employees. The fund should only be used to reimburse employees for small expenses.*
- You will ask the employee to wait until the fund is replenished. Then you will immediately begin the replenishing process.*
- Between the time your friend wrote the cheque and you tried to cash it, there were debits to your friend's bank account that reduced the balance to below the amount of your cheque. Maybe your friend withdrew more money than expected in that time or thought the pay cheque would be credited to the account before you presented your cheque.*
- Assuming that the cheque is believed to be good, the merchant would probably accept your offer. After all, if the cheque is good, the merchant will receive the same amount either way.*
- The teller will need to organize the bills and sort and count all the coins to check that the deposit is accurate. This is time-consuming and a nuisance to other customers waiting to be served. Most banks refuse to accept deposits of unrolled coins.*

CASE STUDIES (page 390)**Case I** Cola Profits Go Flat (p. 390)

1. *The following cash controls could be used to prevent this type of theft in the future. Advise the manager to observe the staff more closely. Use colour-coded cups to prevent cups used during the early show from being re-used during the late show. Determine the amount of revenue that can be earned from each tank of cola syrup and each box of popping kernels. These expected figures could then be used to verify future sales figures. Purchase cups that include a “roll up the rim to win” feature. This will encourage patrons to damage their containers, making them impossible to re-use.*

2. *Most employees would face dismissal or criminal charges for such serious incidents of theft.*

3. *Effective cash control systems that are a part of routine business procedures discourage dishonesty. When controls are used inconsistently, management may be perceived as having little concern for security, thereby inviting acts of employee theft and dishonesty.*

4. *Answers will vary. Students should weigh the value of their job and reputation against their friendship with a person who is asking them to steal. The right thing to do is to inform management of the scheme. A real friend would listen to an argument about why the scheme is wrong and would give it up instead of asking the student to join in.*

CASE STUDIES (continued)**Case 2** Service Charges: Are They Always Fair? (p. 391)

1. *The Leungs were angry because no attempt was made by the bank to tell them about the shortage in the chequing account and as a result they were charged \$350.*
2. *Yes. The Leungs were only overdrawn in a technical sense. When both accounts are considered, they were never short of funds. If the bank had contacted them as soon as the account was first overdrawn, they could have rectified the situation and reduced the charge to only \$25.*
3. *The bank employees are simply following procedural rules designed to handle such cases simply and quickly*
4. *The Leungs will have to be more conscientious in keeping their account records up-to-date. This involves noting every expenditure and withdrawal by both people and updating the account balance at regular intervals.*
5. *They could pay by cash or with a credit card. This would help them keep track of their expenses better since there are not so many withdrawals on the account.*

Case 3: Challenge Trials of a Young Entrepreneur (p. 391)

1. *Garn had \$9500 in the bank after purchasing the major assets.*
2. *Garn's present equity figure is negative \$4300.*
3. *If adequate records of all receipts and expenditures were kept, an accountant could work out the net income or net loss. It is not likely that a very exact figure could be worked out in this case.*
4. *The amount Garn withdrew for personal use could be determined by analyzing the accounting records if they are adequate. Or you could calculate the figure using the following equation: $\text{Drawings} = \text{Opening equity} + \text{Net income} - \text{Ending equity}$. The figure will be approximately correct.*
5. *Inexperienced business people often make the mistake of thinking that all is well if there is money in the bank. There can be money in the bank even though the business is not doing well.*
6. *Garn must have withdrawn a lot of money for personal use, far more than he was earning. But he did not know this because he did not take the trouble to obtain financial reports.*
7. *Garn withdrew not just the company's profits (if there were any) but the company's capital, which was intended to cover the expenses of running the business. This is what is meant by spending capital.*
8. *Garn needs a lot of advice on how to run a business if he wants to be successful. He should sell the truck and get a job working for someone else to pay off his remaining debts. Maybe working for a large contractor would give him the business experience necessary to try again with his own company. Or he might realise he prefers to do the construction work and leave running the business to someone else.*

CASE STUDIES (continued)**Case 4: Group Discussion** *The Good Life on Plastic Money* (p. 393)

1. *Pol and Andrea embraced the credit card lifestyle. Because they both had good jobs, they become addicted to spending freely. Obviously, the lifestyle they were living required more money than they earned, particularly when a family and home came into the picture. However, Pol and Andrea were unable to curtail their spending and a crisis situation developed.*

2. *This is a fairly common situation. It is easy to get approved for a credit card and get a high credit limit. If you do not pay the bill off every month, you can quickly run up a very large debt.*

3. *This situation can develop if you have multiple credit cards or get credit limit increases.*

4. *The credit counselling service will probably advise Pol and Andrea to consolidate their debts under supervision. This means giving up their credit cards temporarily, getting a single, large loan to pay off all of their debts, and paying off the loan over an agreed period of time.*

5. *Pol and Andrea will have to change their lifestyle until their circumstances have improved.*

CAREER**Selvan Mogan, CGA/Senior Financial Analyst for
City of Toronto** (page 394)**Discussion (p. 394)**

1. *A factor in Selvan Mogan's decision to move to Canada to become a CGA was his uncertain residency status in the UK. Selvan and his wife decided to apply for permanent residency status in Canada.*

2. *The CICA did not recognize Selvan's UK designation but did grant him an equivalent Bachelor of Commerce standing. In order to continue his practice, Selvan went back to school, and after taking two additional courses and writing two examinations, he became a Certified General Accountant (CGA).*

3. *Selvan says accounting skills are very transferrable between countries because the rules are very similar all over the world. It is just how they are applied that is different.*

4. *Selvan's advice for the young person who would like to become a CGA is that, despite the struggles you may go through, make the effort to get a good education, which will help you build your skills and aim towards a successful future.*
