Objectives

1. Master cash.
2. Master bank reconciliation .
3. Understand special topics involving cash .
4. Know revenue recognition and valuation of trade receivables .
5. Master accounts receivable .
6. Master valuation of accounts receivable for uncollectible accounts .
7. Know generating immediate cash from accounts receivable .
8. Master notes receivable .

Cash and Receivables

- Liquidity is the availability of liquid assets to pay operating costs, dividends, and interest, and to repay short-term debts.
- The most common types of liquid assets are cash, temporary investments, accounts receivable, and notes receivable.
- In this chapter we discuss the measurement and valuation procedures associated with cash, accounts receivable, and notes receivable.

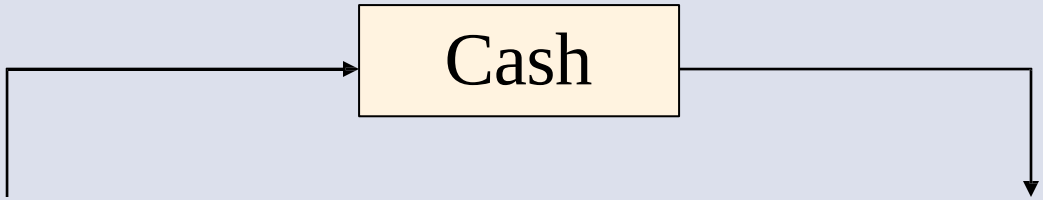
Cash



Cash is the resources on hand to meet planned expenditures and emergency situations.

The amount a company reports as cash in the current assets section on its balance sheet must be available to pay current obligations.

Cash



Included in Cash

- Coins and currency
- Checking accounts
- Savings accounts
- Negotiable checks
- Bank drafts

Excluded from Cash

- Certificates of deposit
- Bank overdrafts
- Postdated checks
- Travel advances
- Postage stamps

Cash Equivalents



Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and near their maturity.

Generally, only investments with maturity dates of three months or less from the date acquired by the holder are cash equivalents.

Cash Management

Control Over Receipts

- ✓ Immediately count the receipts.
- ✓ Record daily all cash receipts in the accounting records.
- ✓ Deposit daily all receipts in the company's bank account.

Cash Management

Control Over Payments

- ✓ Make all payments by check (except petty cash items) so that a record exists for every company expenditure.
- ✓ Authorize and sign all checks only after an expenditure is verified and approved.
- ✓ Periodically reconcile the cash balance in the bank statements with the company's accounting records.

Petty Cash

- A petty cash system involves a cash fund placed under the control of an employee to allow a company to pay for small amounts that might be impractical or impossible to pay by check.
  - Taxi fare, postage fee, purchase of small amounts of office supplies……

Petty Cash

The petty cash fund is established at an amount estimated to be enough to cover expenditures over a short period of time, and the fund is turned over to the employee.

A journal entry is made to record the establishment of the fund.

First: An employee is appointed petty cash custodian.



Petty Cash	500	
Cash		500

Petty Cash

Second: Petty cash vouchers are printed, prenumbered, and given to the custodian of the fund.



At all times the total of the cash in the fund plus the amounts of expenditure vouchers should be equal to $500 (in this case).

Petty Cash

…the vouchers are sorted into expense categories and the remaining cash is counted.



Assume that a count at the end of the month shows $67.54 remaining in the petty cash fund.

Petty Cash

The sorting of vouchers indicated the following costs were incurred during the month:

Office supplies	$ 34.16
Postage	178.00
Transportation	132.14
Miscellaneous	83.76
Total expenses	$428.06

The fund's expected balance is $71.94 ($500.00 - $428.06). There is a shortage of $4.40 ($71.94 - $67.54).

Petty Cash

The company records the ***actual*** expenses and the amount needed to replenish the fund.

Office Supplies Expense	34.16	
Postage Expense	178.00	
Transportation Expense	132.14	
Miscellaneous Expense	83.76	
Cash Short and Over	4.40	
Cash		432.46

Bank Reconciliation

- A bank reconciliation is a schedule prepared by a company to analyze the difference between the ending cash balance in the company's accounting records and the ending cash balance reported by its bank in a bank statement in order to determine the correct ending cash balance.

Bank Reconciliation

Causes of the difference between the cash balance and the company's bank statement balance.

- Outstanding checks
- Deposits in transit
- Charges made by the bank
- Deposits made directly by the bank
- Errors



Bank Reconciliation

Cash balance from bank statement $7,218

Cash balance from company records $6,925



Bank Reconciliation

Cash balance from bank statement	$7,218
Add: Receipts recorded on the company's records but not reported on the bank statement	629
	$7,847

Deposits in transit and cash received but not yet deposited totaled $629.

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