



BU227: Financial Accounting Midterm

Provided By: Laurier SOS

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Things To Cover

The Accounting Environment

IFRS and GAAPs

Accounting's Conceptual Framework

Financial Statements Overview

Recording Transactions

Accrual Accounting

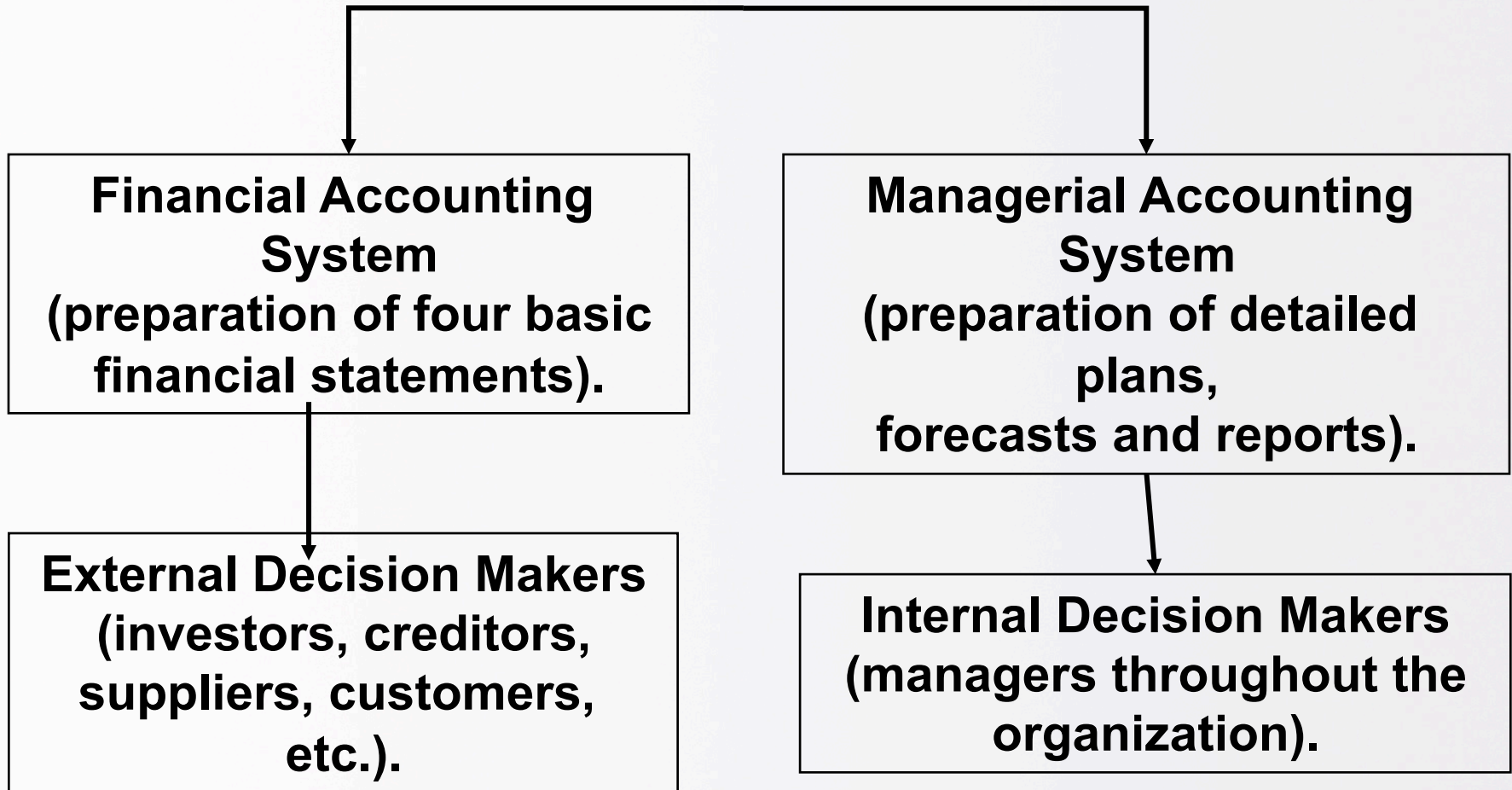
Adjustments

Indirect Cash Flow Method

Account's Receivable

Bank Reconciliation

The Accounting System



- A common Global set of Accounting Standards
- IFRS applies to:
 - Publicly accountable enterprises
 - Public sector
 - Private enterprise and others can choose to adopt or not



The Financial Statements

IFRS	GAAP
Statement of Financial Position	Balance Sheet
Statement of Comprehensive Income	Income Statement
Statement of Changes in Equity	Statement of Shareholders' Equity
Statement of Cash Flow	Statement of Cash Flow



Auditor's Responsibilities

- Auditor's have a responsibility to general public to assess the *fairness* of financial statements
 - Ensure compliance with IFRS/GAAP
 - Examining financial statements and transactions
 - Expressing an opinion as to the fairness



Accounting Conceptual Framework

- **Objective of Financial Statements:**
 - to provide useful economic information to external users for decision making.
- **Decision Makers:**
 - Investors
 - Creditors
 - Experts providing financial advice



Accounting Assumptions

- **Separate entity:** Transactions of the business entity are separate from transactions of owners.
- **Continuity (Going Concern):** The entity is expected to continue its operations into the near future.
- **Unit-of-measure:** Accounting figures are reported in the national monetary unit (\$).
- **Periodicity:** The long life of a company can be reported over a series of short time periods.



Generally Accepted Accounting Principals

- **The historical-cost principle** requires an asset to be recorded at the historical cash-equivalent cost
- **The full-disclosure principle** requires:
 - a complete set of financial statements and
 - notes to the financial statements that disclose other information of consequence to the users (ex. Pending Lawsuits)
- **Matching**
 - Expenses should be recorded in the period they were used to help earn the related revenues, regardless of when cash is paid
- **Revenue Recognition**
 - Revenues are recognized when the transaction that causes them occurs



Qualitative Characteristics

Primary Characteristics

- **Understandability:** easy to read
- **Relevance:** predictive value, feedback value, and timeliness.
- **Reliability:** *verifiability, representational faithfulness, and neutrality.*

Secondary Characteristics

- **Comparability:** across companies.
- **Consistency:** over time.

Constraints

Materiality - An amount large enough to affect a financial statement user's judgment

Cost-Benefit - The cost of disclosing a piece of financial information should not exceed the benefits of the disclosure

Conservatism - do not overstate assets or revenues, or understate liabilities and expenses

Industry standards - if industry standards dictate a certain accounting treatment for something, follow that standard

Financial Statement Relationships

ASSETS = LIABILITIES + SHAREHOLDERS' EQUITY

SHARE CAPITAL + RETAINED EARNINGS

NET INCOME = REVENUES - EXPENSES

Increases

Increases

Decrease

DIVIDENDS

- Listed in order of *liquidity*
- **Current Assets**
 - Cash & Cash Equivalents
 - Short term investments
 - Trade & other receivables
 - Inventories
 - Prepayments
 - Other assets
- **Non-Current Assets**
 - Property, plant & equipment
 - Long term investments
 - Intangible assets (ex. Goodwill, patents, etc)
 - Other assets



Liabilities & Shareholders' Equity

- Liabilities listed in order of the *time to maturity*
- **Current Liabilities**
 - Trade payable
 - Short-term borrowing
 - Income tax payable
 - Accrued liabilities (ex. Salaries payable)
- **Non-Current Liabilities**
 - Long-term borrowings
 - Deferred income tax
- **Shareholders Equity**
 - Share capital
 - Retained earnings
 - Other components

UNIBROUE INC.
Statement of Financial Position
At December 31, 2010
(In thousand of dollars)

Assets		
Cash		\$ 1,120
Short term investments		401
Accounts receivable		4,219
Inventories		3,800
Prepaid expenses		1,348
Plant and equipment		2,717
Land		550
Total assets		4,155
Liabilities		
Accounts payable		
Income taxes payable	310	
Notes payable	7,327	
Future income taxes	2,818	
Total liabilities		\$ 11,767

1. Name of entity
2. Title of statement
3. Specific date
(financial snapshot as at a specific point in time)
4. Unit of measure
(thousands of dollars)



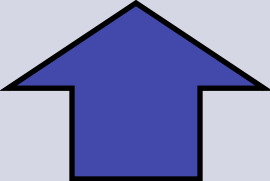
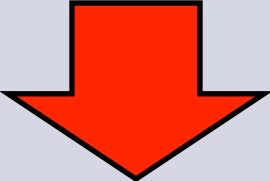
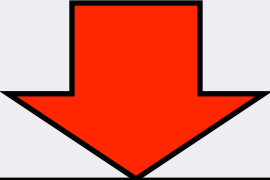
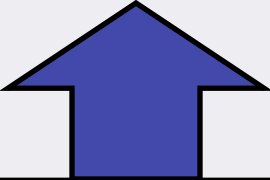
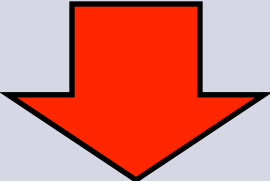
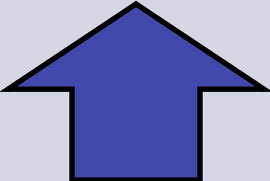
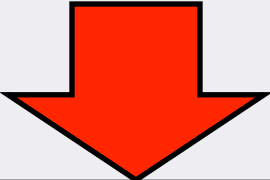
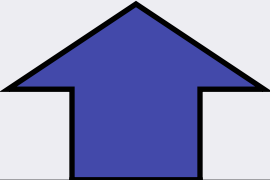
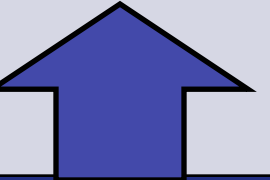

- Only transactions are reflected on the financial statements
 1. **External Event:** Involves an exchange of assets, goods or services by one party for assets, services or promises to pay by another party
 2. **Internal Event:** A measurable internal event, such as adjustments for the use of assets in operations.



Transactions

- Is signing a contract for future work considered a transaction?
- NO. Because it only involves an *exchange of promises, not of assets.*

Transactions

	Debits	=	Credits
Assets			
Liabilities			
Shareholders Equity			
Revenues			
Expenses			



Steps to Transactions

- 1) Identify the accounts affected
- 2) Determine if the account affected is debited or credited
- 3) Enter the transaction
- 4) Verify accounting equation remains in balance

Example 1:

- Owner invested \$10,000 in the company. What is the correct journal entry?

Cash (A+) 10,000

 Owner's Equity (OE+) 10,000

- The company borrowed \$20,000 from the bank. What is the correct journal entry?

Cash (A+) 20,000

 Notes Payable (L+) 20,000

Example 2:

- The company purchased \$12,000 equipment and paid \$2,000 in cash, while the rest on credit. What is the correct journal entry?

Equipment (A+)	12,000	
Cash (A -)		2,000
Accounts Payable (L+)		10,000



Example 3:

- The company purchased \$6,000 supplies on credit. What is the correct journal entry?

Supplies (A+) 6,000

 Accounts Payable (L+) 6,000



Statement of Comprehensive Income

- Reports changes in Shareholders Equity during a period from business activities other than investments by shareholders
- 2 parts:
 1. “normal” \rightarrow revenues - expenses = profit
 2. Comprehensive income
- For a period of time



Statement of Comprehensive Income

XYZ Group – Statement of comprehensive income for the year ended 31 December 20X7

(illustrating the presentation of comprehensive income in one statement and the classification of expenses within profit by function)

(in thousands of currency units)

	20X7	20X6
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	<u>145,000</u>	<u>125,000</u>
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates ^(a)	<u>35,100</u>	<u>30,100</u>
Profit before tax	<u>161,667</u>	<u>128,000</u>
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	<u>121,250</u>	<u>96,000</u>
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	<u>121,250</u>	<u>65,500</u>
Other comprehensive income:		
Exchange differences on translating foreign operations ^(b)	5,334	10,667
Available-for-sale financial assets ^(b)	(24,000)	26,667
Cash flow hedges ^(b)	667	4,000
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates ^(c)	400	(700)
Income tax relating to components of other comprehensive income ^(d)	<u>4,667</u>	<u>(9,334)</u>
Other comprehensive income for the year, net of tax	<u>(14,000)</u>	<u>28,000</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>107,250</u></u>	<u><u>93,500</u></u>

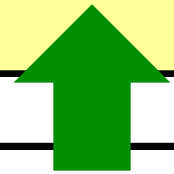


Structure

UNIBROUE INC.
Statement of Comprehensive Income
For the Year Ended December 31, 2010
(In thousands of dollars)

Revenues		
Sales revenue	\$ 25,598	
Total revenues		\$ 25,598
Expenses		
Cost of goods sold		
Selling, distribution, and administrative expenses		
Administrative expense	1,345	
Interest expense	736	
Total expenses		23,858
Income before income taxes		\$ 1,740

1. Name of entity
2. Title of statement
3. Specific date (Unlike the balance sheet, this statement covers a specified period of time.)
4. Unit of measure (in thousands of dollars)





- Broken down further into 3 parts
 1. Continuing Operations
 2. Discontinued Operations
 3. Earnings per Share (EPS)



Income from continuing operations	\$xx,xxx
Loss from discontinued operations (net of tax)**	xx,xxx
Income before income taxes	\$xx,xxx
Income taxes	<u>xx,xxx</u>
Net Income	<u>\$xx,xxx</u>
Earnings per share from continuing operations	\$ x
Earnings per share from discontinued operations	<u>x</u>
Earnings per share on net income	<u>\$ x</u>



Earnings Per Share

- **EPS** = profit available to common shareholders
weighted avg. # of common shares
outstanding during the period
- Denominator =
(beginning retained earnings + ending retained earnings)/2
- Higher = better



Continuing Operations

- **Operating Revenue**

- Increases in assets or settlement of liabilities from *ongoing* operations of the business

- **Operating Expenses**

- An amount incurred to generate revenues during a period
- Ex. Cost of Goods Sold
- Expenditures \neq Expenses
 - Expenditures are simply outflows of cash - not necessarily matched to revenue

Non-Operating Items

- Shown separately from operating items
- Examples
 - Interest or dividend earned on investments (investment income)
 - Cost of using money borrowed in financing activities (interest expense)
- **Discontinued Operations**
 - Profit/loss from the disposal of major components of the business



Statement of Changes in Equity

UNIBROUÉ INC.

Statement of Changes in Equity

For the Year Ended December 31, 2010

(In thousands of dollars)

Retained earnings, January 1, 2009	\$ 12,506
Add: Net income for 2010	1,144
Deduct: Dividends for 2010	(500)
Retained earnings, December 31, 2010	\$ 13,150

Cash vs. Accrual Accounting

- **Cash-Basis Accounting** - Revenues are recorded in period cash is received. Expenses are recorded in period cash is paid.
- **Accrual Accounting** - Assets, liabilities, revenues, and expenses should be recognized when the transaction that causes them occurs, *not necessarily when cash is paid or received*

**IFRS requires
Accrual Based Accounting**



Principals

- **Revenue Recognition**

- Recognize revenue only when all of following criteria have been met:
 1. *The earnings process is complete or nearly complete* - company has provided (substantially) all of the promised goods/services
 2. *An exchange transaction takes place* - customer pays/ promises to pay a measurable amount
 3. *Collection is reasonably assured* - acceptably low risk of customer not paying amount owing

- **Matching**

- Expenses should be recorded in the period they were used to help earn the related revenues, regardless of when cash is paid



Examples

- For the month ended Dec 31, 2010
 - Carol Inc. received \$483 from customers, including \$35 for sales made in November and the rest from December sales.

Cash (+A)	483	
Trade Receivables (-A)		35
Sales Revenue (+R)		448



Examples

- Lululemon paid in advance for the following on December 31, 2011: 200 for advertising for February, 680 for rent of the warehouse facility for 2 months

Prepaid Rent	680	
Prepaid Advertising	200	
Cash		880



- When will you expense both Lululemons prepaid assets?

- February

- What is the adjusting journal entry?

Rent Expense	340	
Prepaid Rent		340
Advertising Expense	200	
Prepaid Advertising		200



Example

- The Toronto Star received cash of \$4,150 on Dec 1, 2011 for paper delivery services for the upcoming year.

Cash (A+)	4,150
Unearned Revenue (L+)	4,150



- **Income statement related information**

Sales revenue 195,600

Cost of goods sold 106,500

Depreciation expense 9,500

Amortization expense 4,500

Selling expenses 17,700

Administrative expenses 27,200

Loss on sale of investments 1,500

Interest revenue 5,200

Dividend revenue 2,500

Interest expense 5,900

Income tax expense Taxed at 30%

- In a good form please prepare the statement of Comprehensive Income for the year ended December 31, 2012 for Waterloo Manufacturing Co.



Revenue Adjustments

- **Deferred Revenue** is previously recorded liabilities that must be adjusted to reflect revenue once it is earned
 - A.k.a. Unearned revenue
 - i.e. Concert Tickets, Plane Tickets (paid in advance)
- **Accrued Revenue** is revenue that has been earned (by providing a good or service) but not yet received
 - Performed Cleaning Service, paid at end of month. (A/R, N/R included)



Expense Adjustments

- **Deferred Expenses** are previously acquired assets that need to be adjusted to reflect the amount of expense incurred
 - A.k.a. Prepaid expenses
 - i.e. Pay for prepaid rent
- **Accrued Expenses** are expenses that have been incurred but not yet paid for
 - Ex. Salaries expense

- Which of the following is considered to be an accrued expense?
 - 1) A computer technician has installed software updates on your computer. You agree to pay him at the end of the week, once you have confirmed that they work.
 - 2) A computer technician has been paid in advance to install software updates as they become available
 - 3) A computer technician has installed the latest software and was paid on the same day



Correct answer...

number 1!



Trial Balance

- A list of individual accounts in one column with their ending dr. And cr. Amounts
- Objective is to show that the $LS = RS$
- Trial balances are taken before and after adjusting entries



Materiality

- Material if the omission or misstatement of the item would influence or change a decision
- scope for being cost-effective
- **Auditing rule of thumb:**
 - If exceeds 1-1.5% of total assets or sales
 - If exceeds 5-10% of profits



Closing the Books

- Most balances or accounts are carried forward into the next period
- Accounts that must be closed include (Temporary Accounts):
 - Revenues
 - Gains
 - Expenses
 - Losses



Closing the Books

Sales Revenue	\$150,000
COGS	\$90,000
Selling & Admin Exp.	\$14,000
Gain On Sale Of Asset	\$10,000
Depreciation Expense	\$12,000
Dividends Declared	\$2,000



Closing the Books

Sales Revenue	\$150,000	
Gain On Sale Of Asset	\$10,000	
Income Summary		\$160,000
Income Summary	\$116,000	
COGS		\$90,000
Selling & Admin Exp.		\$14,000
Depreciation Expense		\$12,000



Closing the Books

Close Income Summary to Retained Earnings:

Income Summary (160k-116k) \$44,000

Retained Earnings	\$44,000
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Close Dividends Declared To Retained Earnings:

Retained Earnings	\$2,000
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Dividends Declared	\$2,000
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Break Time

5 Minute Break!



Statement of Cash Flows

- To assess the firm's ability to **generate cash and cash equivalents** and
- To assess the firm's **cash requirements**
- Statement of Cash Flows shows:
 - **Where the cash came from**
 - **What the cash was used for**
 - **What was the change in the cash balance**



Statement of Cash Flows

- Cash activities divided into 3 main categories:
 1. **Operating Activities**
 - Main revenue-producing activities (Change in CA & CL)
 2. **Investing Activities**
 - Changes in long-term assets PPE and investments (Purchase Building, Sell Land, Sale of Securities in other firms)
 3. **Financing Activities**
 - Changes in equity and non-operating liabilities (*Pay* Dividends, Issuance of Stock, Issuance of Debt/Bond)



UNIBROUE INC.
Cash Flow Statement
For the Year Ended December 31, 2010
(In thousands of dollars)

Cash flows from operating activities:		
Cash collected from customers		
Cash paid to suppliers and employees		
Cash paid for interest		
Cash paid for taxes		
Net cash flow from operating activities		
Cash flow from investing activities:		
Cash paid to purchase short-term investment	\$ (401)	
Cash paid to purchase manufact. Equipment	(1,694)	
Net cash flow from investing activities		(2,095)
Cash flow from financing activities:		
Repayment of Notes Payable	\$ 1,063	
Cash paid for dividends	(500)	
Net cash flow from financing activities		563
Net decrease in cash during the year		\$ (1,180)
Cash at beginning of the year		2,300
Cash at end of the year		\$ 1,120

1. Name of entity
2. Title of statement
3. Specific date (like the income statement and statement of retained earnings, this statement covers a specified period of time.)
4. Unit of measure (in thousands of dollars)

- 2 methods to recording cash flows
 1. Direct Method
 2. ***Indirect Method***

- The direct method is preferred yet rarely used because it is more costly and time consuming



Indirect Method

- Process to reconcile net income back to cash value

Net Income

+/- adjustments for non-cash items

net cash inflow (outflow) from operating activities



Non Cash Adjustments

- Add Losses
- Subtract Gains
- Add Depreciation & Amortization
- ^{^^^^} Under Operating Activities ^{^^^^}

Net Income

+/- adjustments for non-cash items

net cash inflow (outflow) from operating activities

Relationships

- Current assets and cash flow have an inverse relationship

current assets  ,  cash flow

current assets  ,  cash flow

Why?

Assets are resources that are eventually turned into cash (A/R collection results in Increase in Cash)

- Current liabilities and cash flow have a parallel relationship

current liabilities  ,  cash flow

current liabilities  ,  cash flow

Why?

Liabilities → If liabilities decrease, you are converting your obligation and collecting cash (ie. A/P)



Operating Activities

Who Statement Of Cash Flows When

Cash Flows From Operating Activities

Net Income (Found on most recent year Income Statement)

Add: Losses, Depreciation, Amortization

Less: Gains



Cash Flow - Investing

Cash flows from investing activities:

- purchases of long-term assets (PPE)
- + collections of long-term receivables (N/R)
- long-term loans to others (N/P)
- + Receive Dividend From Investment in Another Firm



Cash Flow - Financing

Cash flows from financing activities:

- repurchase of shares
- + borrowing (issuance of notes or bonds payable)
- payment of notes or bonds
- payment of dividends



Cash Flow - Financing

1. Total Cash Flow from Operating, Investing, and Financing Activities → Net Increase/Decrease in Cash For the Year
2. Add to Cash Balance Beginning (End of prior year)
3. Should equal Cash Balance, End (as listed on your Balance Sheet for the current year)

EVERYTHING IN BALANCE, YOU'VE DONE IT RIGHT!!!



Cash Flow - Example

Example - Problem 5-1 On Board



Accounting For Sales Revenue

- (1) Allowing all customers to use credit cards to pay for services
- (2) Providing business customers direct credit and discounts for early payment
- (3) allowing returns from all customers under specific circumstances



Sales to Customers

- The credit card company charges a fee for the service it provides



Example

- Assume credit card company is charging a 4% fee for all the sales on credit. If daily credit sales are 3,000

Sales Revenue	3,000
Less: Credit card discounts	<u>120</u>
(0.04 x 3,000)	
Net Sales	2880



Sales Discounts

- Sales discount is granted to the purchaser to encourage early payments.



Example

- Assume the company has a discount rate of 2% for all payments 10 days after purchasing products

Sales Revenue	3,000
Less: Sales Discounts	<u>60</u>
	(0.02 x 3,000)
Net Sales	2940

Note: the sales are the same from the last example



Sales Returns and Allowances

- Most companies allows its customers to return their products (damaged).
- Maintain customer relationships



Example

- Assume 2.5% of the products are defected and the customers want to return them

Sales	3,000
Less: Sales Returns (0.025 x 3,000)	<u>75</u>
Net Sales	2925



Reporting Net Sales

Sales Revenue	3,000
Less: Credit card discounts	120
Sales discounts	60
Sales returns and allowances	75
Net Sales	<u>2745</u>



Measuring and Reporting Receivables

(1) Non Trade Receivable

- Arises transactions other than normal sale activities

(2) Account/Trades Receivable

- Arises transactions from normal sale activities



Estimating Bad Debts

- There are two methods of estimating bad debts

(1) Aging of trade receivables method

(2) Percentage of credit sales method



Accounting for Bad Debts

- **Bad debt expense** is the expense associated with estimated uncollectible trade receivables
- Recorded in the journal at the end of the accounting period



Example

- Sofa Inc. had sales of \$1,500,000 in 2009.
 - Of these sales, 75% were made on account.
- Based on past collection history, Sofa Inc estimates that 1.5% of credit sales will not be collected from customers.
- Using the *percentage of credit sales method*, determine the bad debt expense for 2009.



- Total sales = 1,500,000
- Total credit sales = 1500000×0.75
= 1,125,000
- Bad debt expense = 1125000×0.015
= 16,875

Bad Debt Expense (A+) 16,875

 Allowance 4 Doubtful Accounts (XA+) 16,875



Statement Of Financial Position Presentation

Accounts receivable

Less: Allowance for doubtful accounts

Net realizable value of accounts receivable



Write Offs

- When the company realizes that a customer will not pay its debt, the company considers to write off the receivable
- Also known as impaired Receivables – writing off specific Uncollectible Accounts

Allow. For Doubtful Accounts (XA-)

Trade/Accounts Receivable (A-)



Aged Accounts Receivable Method

- Focus is on determining the *desired balance* in the Allowance for Doubtful Accounts on the balance sheet.
- To determine the desired balance in Allowance for Doubtful Accounts, need to look at an aging schedule, which breaks down A/R amounts currently due and those overdue by various number of days
- Uncollectibility also based on historic collectibility; the accounts over 90 days overdue normally having a higher percentage of uncollectibility



Customer	Not Yet Due	Days Past Due				Total A/R Balance
		1-30	31-60	61-90	Over 90	
Acton, R.		\$ 235				\$ 235
Baxter, T.	\$1,200	300				1,500
Chung, J.			\$ 50	\$ 200	\$ 500	750
Zahra, R.			325			325
Total	\$1,200	\$ 535	\$ 375	\$ 200	\$ 500	\$ 2,810
% Uncollectable		0.02	0.05	0.10	0.35	
Uncollectable Accounts		11	19	20	175	225



Percentage of Credit Sales Method

Year	Bad Debts	Credit Sales
2009	900	190,000
2010	1200	220,000
2011	1,400	290,000
Total	3,500	700,000

The average percentage of credit sales that results in bad debts can be computed by dividing total bad debts by total credit sales

$$0.005 = (3,500 / 700,000) \text{ or } 0.5\% \text{ for } 3 \text{ years}$$



Internal Controls

- Process by which a company provides reasonable assurance that the accounting system minimizes the risk of making material mistakes on the financial statements
- Done through the separation of duties



Bank Reconciliations

- The point of reconciling a bank statement is to compare it to the companies own cash accounts.
- This process can be an important internal control procedure for cash.



Reconciliation of Bank Statements

• Bank Balance

- Deposits in Transit
- Outstanding Cheques
- Bank Errors

• Company Balance

- Bank Collections
- Electronic Funds Transfers
- Service Charges
- Interest Revenue earned on Account
- NSF cheques
- Errors

Deposits In Transit

- The cheques have been *sent* to the bank and therefore the *company has added* them to the cash balance
- However, the bank has *not received* the cheque yet
- As a result the bank balance is less than the book balance
- To adjust
 - **Add** the deposits in transit to the bank amount



Outstanding Cheques

- Opposite of Deposits in transit
- You have written a cheque and therefore the money has been subtracted from the book balance
- However, the cheque has not been cashed. Therefore the bank balance is higher than it should be
- To adjust:
 - **Decrease** the bank balance by the outstanding cheques



Service Charges

- The bank has charged you for their services and has therefore taken it out of the bank balance
- However this amount has not been deducted from your company books
- To adjust:

	Dr	Cr
- Bank Service Expense	\$100	
- Cash		\$100



NSF Cheque

- A bad cheque has bounced and therefore your bank account is less than your company account
- The company account needs to be decreased to account for the cheque that was assumed to be collected and was therefore taken out of accounts receivable but is now still owed

- To Adjust:

- Accounts Receivable	\$100	
- Cash		\$100



Bank Reconciliation Example

- At the end of the month, Brandon the Bookkeeper for “The Lakehouse” has received a bank statement and has identified the following possible adjustments:
 - A. Cheques that have been issued but are not reflected on the bank statement amount to \$22,400.
 - B. A deposit was recorded at \$6,290 on company books. However, the correct deposit amount is \$9,260.
 - C. A \$4,440 Cheque received from a customer and deposited at the bank bounced.
 - D. Deposits amounting to \$6,800 recorded by the company have not been recorded by the bank.
 - E. The bank charged service charges of \$90 that have not been recorded by the company.

The General Ledger Cash balance is \$22,800 and the balance on the bank Statement is \$36,840. What is the correct reconciled balance?



Bank Reconciliation Example

Company Books		Bank Statement	
Ending Cash balance	\$22,800	Ending Cash Balance	\$36,840

Start with the ending cash balances



Bank Reconciliation Example

Company Books		Bank Statement	
Ending Cash balance	\$22,800	Ending Cash Balance	\$36,840
		Outstanding Cheques	(\$22,400)

A) Cheques that have been issued but are not reflected on the bank statement amount to \$22,400.



Bank Reconciliation Example

Company Books		Bank Statement	
Ending Cash balance	\$22,800	Ending Cash Balance	\$36,840
Error in Recording	\$2,970	Outstanding Cheques	(\$22,400)

B) A deposit was recorded at \$6,290 on company books. However, the correct deposit amount is \$9,260.



Bank Reconciliation Example

Company Books		Bank Statement	
Ending Cash balance	\$22,800	Ending Cash Balance	\$36,840
Error in Recording	\$2,970	Outstanding Cheques	(\$22,400)
NSF Cheque	(\$4,440)		

C) A \$4,440 Cheque received from a customer and deposited at the bank bounced.



Bank Reconciliation Example

Company Books		Bank Statement	
Ending Cash balance	\$22,800	Ending Cash Balance	\$36,840
Error in Recording	\$2,970	Outstanding Cheques	(\$22,400)
NSF Cheque	(\$4,440)	Deposits in Transit	\$6,800

D) Deposits amounting to \$6,800 recorded by the company have not been recorded by the bank.



Bank Reconciliation Example

Company Books		Bank Statement	
Ending Cash balance	\$22,800	Ending Cash Balance	\$36,840
Error in Recording	\$2,970	Outstanding Cheques	(\$22,400)
NSF Cheque	(\$4,440)	Deposits in Transit	\$6,800
Service Charges	(\$90)		

E) The bank charged service charges of \$90 that have not been recorded by the company



Bank Reconciliation Example

Company Books		Bank Statement	
Ending Cash balance	\$22,800	Ending Cash Balance	\$36,840
Error in Recording	\$2,970	Outstanding Cheques	(\$22,400)
NSF Cheque	(\$4,440)	Deposits in Transit	\$6,800
Service Charges	(\$90)		
Ending Balance	\$21,240	Ending Balance	\$21,240

The Correct ending cash balance is \$21,240.



Ethical Decisions

Ensure when making ethical decisions that you complete these steps:

- 1) Identify the ethical Issue
- 2) Specify the alternatives
- 3) Identify the people involved
- 4) Assess the outcomes
- 5) Determine the best solution



Good Luck!!

