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# BALANCE SHEET

## CURRENT ASSETS:

- **CASH AND EQUIVALENTS**
- Account Receivable
- Inventory
- Prepaid Expenses
- Supplies

This presentation contains information, in addition to the material prepared and provided by the professor, from:

1. Financial Accounting, David Spiceland, 6th Ed., McGraw-Hill
2. Intermediate Accounting, David Spiceland, 11th Ed., McGraw-Hill
3. Intermediate Accounting, Donald Kieso, 18th Ed., Wiley
4. Other: Official Websites

## CASH

*The most liquid asset*

- Cash on Hand
- Cash in banks (saving and checking accounts)
- Checks
- Money Orders
- Debit Card sales

## EQUIVALENTS

*Investment that can be quickly converted into cash (less than 3 months)*

- U.S. Treasury Bills
- Short-term Government Bonds
- Marketable Securities
- Commercial Paper
- Money Markets Funds

## CASH THAT IS RESTRICTED

- Special Purpose (e.g., purchase an equipment, purchase an company in other country, repay a debt, etc.)
- Not available for current operations
- Classified as current asset if it is expected to be used within one year.
- Classified as a non-current asset if its use will be after one year.

# EQUIVALENTS

Investment that can be quickly converted into cash (less than 3 months)

## U.S. Treasury Bills (T-Bills)

- Investments in debt (lend money)
- Backed by U.S. Treasury Department
- Maturity less than a year
- Quantity \$1,000 up to \$5,000,000
- Issued at discount from par.
- U.S. Treasury Department writes IOU:  
*(I owe you) An IOU is a written acknowledgement of debt that one party owes another.*
- Investors received interest maturity date.

## Short-term Government Bonds

- Investments in debt (lend money)
- Backed by U.S. Government (raise money for government spending)
- Includes: Saving Bonds, Treasury Bonds, etc.
- Investors must assess country risk (e.g., country, political, inflation, etc.)

## Marketable Securities

- Investment in shares or debt.
- Include: (e.g., government bonds, common stocks, etc.)

## Commercial Paper

- Investments in debt (lend money to a corporation)
- To finance short term operations and pay current liabilities.
- Issued at a discount from face value at market interest rates.

## Money Markets Funds

*\*Mutual Fund*

- Invest in debt (e.g., T Bills and Commercial Paper).

\* A pool of money collected from many investors to invest in securities (e.g., stocks, bonds, money market instruments, and other assets).

# CASH CONTROLS

## RECEIPTS:

### Employee 1:

- Collect cash from daily operations (cash and checks).
- Prepare a Report.

### Employee 2:

- Deposit the cash and checks in the Bank (Many companies use pick up services)

### Employee 3:

- Record the cash receipts in the accounting records.

### To minimize the risk of cash theft:

- ❖ Companies accept payments through credit cards, debit cards, and electronic payments.
- ❖ Encourage purchases and payments through the business website.

## DISBURSEMENTS:

### Employee 4:

- Authorized the payments (e.g., purchases)

### Employee 5:

- Prepare the documents for payments using: checks, credit cards, debit cards

### Employee 6:

- Prepare a Report (e.g., check list)

### Employee 7 and 8:

- Signs the documents for payments (e.g., sign the checks).

### To minimize the risk of cash theft:

- ❖ Audit the purchases report.
- ❖ Set maximum purchases limits.

# CASH CONTROLS

## BANK RECONCILIATION

- Match the cash balance of the accounting records and the bank statement balance at the end of each month.
- Differences arise in the cash balance of the records of the company and the bank because the transactions are not recorded on the same date.

## CASH BALANCE COMPARISON: COMPANY RECORDS vs BANK STATEMENT

COMPANY RECORDS		BANK STATEMENT	
1/31/Year 1		1/31/ Year 1	
GENERAL LEDGER: CASH: #100100		DEBIT: DECREASE IN CASH BALANCE	CREDITS: INCREASE IN CASH BALANCE
Dr. +	Cr. -	1/1/Year 1	\$0
<b>Receipts and Deposit:</b>	<b>Payments:</b>		
2) 2,000	5) 1,000	5) 1,000	2) 2,000
7) 5,000	6) 2,000	6) 2,000	7) 5,000
15) 15,000	20) 3,000	20) 3,000	15) 15,000
25) 20,000	31) 5,000	31) NO PROCESSED BY BANK	25) 20,000
31) 30,000			31)NO PROCESSED BY BANK
\$72,000	\$11,000	\$6,000	\$42,000
<b>1/31/Year 1 \$61,000</b>	<b>≠</b>		<b>1/31/Year 1 \$ 36,000</b>

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**THE ENDING CASH BALANCE IS NOT THE SAME**

### REASONS:

- The deposit for \$30,000 was not recorded in the Bank as of January 31.
- Note: When the deposit is processed by the bank, then the cash balance will increase. But if it is a deposit using a (NSF: No Sufficient Check) then the bank cash balance will not increase. And company's cash balance (Cash: General Ledger) should be reduced.
- The payment for \$5,000 was not recorded in the Bank as of January 31.

## CASH BALANCE COMPARISON: COMPANY RECORDS vs BANK STATEMENT

COMPANY RECORDS		BANK STATEMENT	
1/31/ Year 1		1/31/ Year 1	
GENERAL LEDGER: CASH: #100100		DEBIT: DECREASE IN CASH BALANCE	CREDITS: INCREASE IN CASH BALANCE
Dr. +	Cr. -		
1/1/2021 \$0		1/1/2021 \$0	
<b>Receipts and Deposit:</b>	<b>Payments:</b>		
2) 2,000	5) 1,000	5) 1,000	2) 2,000
7) 5,000	6) 2,000	6) 2,000	7) 5,000
15) 15,000	20) 3,000	20) 3,000	15) 15,000
25) 20,000	31) 5,000	31) 5,000 RECONCILED BY ACCOUNTANT	25) 20,000
31) 30,000			RECONCILED BY ACCOUNTANT 31) 30,000
<b>\$72,000</b>	<b>\$11,000</b>	<b>\$11,000</b>	<b>\$72,000</b>
<b>1/31/2021 \$61,000</b>	<b>=</b>		<b>1/31/2021 \$ 61,000</b>

↖
 THE ENDING CASH BALANCE AFTER THE RECONCILIATION IS THE SAME
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### RECONCILIATION:

- The Accountant included now the \$30,000 in the reconciliation process: **(Bank side: added)** as of January 31.
- The Accountant included the payment for \$5,000 in the reconciliation process **(Bank side: deduct)** as of January 31.



# ¿HOW TO RECONCILE BOTH BALANCES?

## GENERAL LEDGER: CASH

**Balance: (unreconciled)** \$

### ADD:

- Clients Cash deposit directly in the Bank:
  - Note received +
  - Interest earned from Note +
- Interest earned on bank accounts +
- Error (if any) +

### DEDUCT:

- Payments using different methods:
  - Debit Cards -
  - Electronic Transfer -
- Service Fees -
- Not Sufficient Funds (NSF) -
- Error (if any) -

## BANK STATEMENT

**Balance: (unreconciled)** \$

### ADD:

- Deposit outstanding: +
  - Deposits made by the company but not yet received by Bank.  
When the bank receives it, the balance will increase.
- Error (if any) +

### DEDUCT:

- Outstanding Checks: -
  - Payments made by the company but not recorded by Bank.  
When the bank receives it, the balance will decrease.
- Error (if any) -

## EXAMPLE: BANK RECONCILIATION

### Information from January's Company Records and Bank Statement

1. The ending cash balance recorded in the company general ledger is \$4,700.
2. The ending cash balance recorded in the bank statement is \$5,790.
3. Cash receipts of \$1,100 from 01/31 were deposit but still are outstanding.
4. Checks #2045 for \$500 are outstanding.
5. The deposit on 01/20 included a customer's check for \$420 that did not clear the bank (NSF check). The check receipt was included in the Company General Ledger: Cash.
6. Check #2040 was written for \$2,500 for computers in January. The bank properly recorded the check for this amount. The accountant included \$2,000 in the accounting records.
7. An automatic withdrawal for January rent was made on January 1 for \$500.
8. The amount of interest earned on company account for January is \$40.
9. Amount paid directly in the bank (Note Receivable) for \$4,000 on January 15. The creditor paid \$4,120 (principal plus interest).
10. Bank service fees: NSF: \$30, and \$20 for automatic withdrawal.

Required: Prepare a bank reconciliation for January 31 and record the necessary cash adjustments.

## EXAMPLE: BANK RECONCILIATION

Bank's Cash Balance		Company's Cash Balance	
Per bank statement: January 31	\$5,790	Per general ledger: January 31	\$4,700
Deposits outstanding	+1,100	NSF check	-420
Checks outstanding	-500	Company error	-500
		EFT for rent	-500
		Interest on account	+40
		Note collected	+3,000
		Interest on note	+120
		Service fees	-50
Bank balance per reconciliation	<b><u>\$6,390</u></b>	Company balance per reconciliation	<b><u>\$6,390</u></b>

## EXAMPLE: BANK RECONCILIATION

<b>Cash Balance: General Ledger</b>	
<b>Unreconciled Balance: January 31</b>	<b>\$4,700</b>
NSF check	-420
Company error	-500
EFT for rent	-500
Interest on account	+40
Note collected	+3,000
Interest on note	+120
Service fees	-50
<b>Cash Balance per reconciliation</b>	<b><u>\$6,390</u></b>

<b>Cash Balance: Bank Statement</b>	
<b>Unreconciled Balance: January 31</b>	<b>\$5,790</b>
Deposits outstanding	+1,100
Checks outstanding	-500
<b>Cash Balance per reconciliation</b>	<b><u>\$6,390</u></b>

## JOURNAL ENTRIES

Dr. Cash	3,120	
Cr. Notes Receivable		3,000
Cr. Interest Revenue		120

**Description: Cash collection at the bank.**

Dr. Account Receivable (NSF)	420	
Cr. Cash		420

**Description: Reverse entry ( No sufficient Funds)**

Dr. Equipment (computers)	500	
Cr. Cash		500

**Description: Purchases Equipment for Cash.**

Dr. Rent Expense	500	
Cr. Cash		500

**Description: Paid rent expense in cash.**

Dr. Service Fees Expense	50	
Cr. Cash		50

**Description: Payment of service fees charged by the bank.**

## REVENUE RECOGNITION: GENERAL RULE

**Revenue.** Even though no cash is received at the time of the credit sale, the seller records revenue immediately once goods or services are provided to the customer, *and* future collection from the customer is probable.

Financial Accounting, David Spiceland, 6th Ed., McGraw-Hill.

- inflows from operating activities (sales and services, others)
- recorded in cash transactions or accounts receivable transactions
- increase retained earnings account
- determine how much and when to record

# REVENUE RECOGNITION: GENERAL RULE

## Accounting Standards Update (ASU) No. 2014–09: “Revenue from Contracts with Customers”

- Provides a concise guidance for revenue recognition under various industries and transactions.

### RULE:

- Recognize revenue when goods or services are transferred to customers for the amount the company expects to be entitled to receive in exchange for those goods and services.
- **When:** upon transfer to customers
- **How much:** amount the seller is entitled to receive

### STEPS:

1. Identify the contract:
  - legal rights between sellers and customer
2. Identify the obligations:
  - single or multiple:
3. Determine the transaction price:
  - amount the seller will receive from customer
4. Allocate/split the transaction price:
  - Single: not necessary and Multiple: allocate to each performance obligation
5. Recognized revenue when each performance obligation is satisfied:
  - Single: At a point in time or over a period of time
  - Multiple: At whatever time is appropriate for each performance obligation

# GENERAL RULE : REVENUE RECOGNITION FROM CONTRACTS: CUSTOMERS:

FASB: <https://asc.fasb.org/1943274/2147479991>

## 606-10-05-1

This Topic specifies the accounting for revenue from contracts with customers.

## 606-10-05-2

This Topic establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

## 606-10-05-3

The core principle of this Topic is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

## 606-10-05-4

An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price—The transaction price is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

\*A contract is an agreement between two or more parties that creates enforceable rights and obligations.



## REVENUE RECOGNITION: EXAMPLES

The ABC Company provides accounting services. The company made the following transactions in November of Year 1.

1. ABC provided services on November 4 and the customer paid \$50,000 the same day.

**Question:** Can ABC recognize revenue on November 4?

**Answer: Yes. \$50,000.**

2. ABC provided services on November 7th and the client paid 50% (\$35,000) that same day and the other 50% (\$35,000) will be paid within a month.

**Question:** How much revenue will ABC recognize on November 7?

**Answer: \$70,000.**

3. ABC received \$100,000 on November 19 from a customer. ABC will provide the services on December 15.

**Question:** When can ABC recognize revenue?

**Answer: \$100,000 on December 15.**