
112 Practice Material: Cash, Cash Equivalents, Bank Reconciliation Petty Cash
Do-It-Yourself - With Answers

PART I

1. To be reported as “cash and cash equivalent”, the cash and cash equivalent must be
- A. Unrestricted in use for current operations.
 - B. Available for the purchase of property, plant and equipment.
 - C. Set aside for the liquidation of long-term debt
 - D. Deposited in bank.

Answer A

2. Cash equivalents are
- A. Short-term and highly liquid investments that are readily convertible into cash
 - B. Short-term and highly liquid investments that are readily convertible into cash with remaining maturity of three months.
 - C. Short-term and highly liquid investments that are readily convertible into cash and acquired three months before maturity.
 - D. Short-term and highly liquid marketable equity security.

Answer C

3. Which of the following is not considered as a cash equivalent?
- A. A three-year treasury note maturing on May 30 of the current year purchased by the entity on April 15 of the current year
 - B. A three-year treasury note maturing on May 30 of the current year purchased by the entity on January 15 of the current year
 - C. A 90-day T-bill
 - D. A 60-day money market placement

Answer B

4. All of the following can be classified as cash and cash equivalents, except?
- A. Redeemable preference shares acquired and due in 60 days
 - B. Commercial papers held and due for repayment in 90 days
 - C. Equity investments
 - D. A bank overdraft

Answer C

5. Which is false concerning measurement of cash and cash equivalents?
- A. Cash is measured at face value.
 - B. Cash in foreign currency is measured at the current exchange rate.
 - C. If a bank or financial institution holding the funds of the company is in bankruptcy or financial difficulty, cash should be written down to estimated realizable value.
 - D. Cash equivalents should be measured at maturity value, meaning face value plus interest.

Answer D

6. If material, deposits in foreign bank which are subject to foreign exchange restriction shall be classified.
- A. Separately as current asset, with appropriate disclosure.
 - B. Separately as noncurrent asset with appropriate disclosure.
 - C. Be written off as an extraordinary loss.
 - D. As part of cash and cash equivalents.

Answer B

7. Bank overdraft
- A. Is a debit balance in a cash in bank account.
 - B. Is offset against demand deposit account in another bank.
 - C. Which cannot be offset is classified as current liability.
 - D. Which cannot be offset is classified as noncurrent liability.

Answer C

8. A compensating balance
- A. Must be included in cash and cash equivalent.
 - B. Which is legally restricted and related to a long-term loan is classified as current asset.
 - C. Which is legally restricted and related to a short-term loan is classified separately as current asset.
 - D. Which is not legally restricted as to withdrawal is classified separately as current asset.

Answer C

9. Unreleased checks (checks drawn before the end of reporting period but held for later delivery to creditors)
- A. Shall be treated as outstanding checks.
 - B. Shall be restored to the cash balance.
 - C. Shall be treated as outstanding checks if the date is shortly after the end of operating period.
 - D. Shall be treated as outstanding checks if they are ultimately encashed.

Answer B

10. Which of the following shall not be considered "cash" for financial reporting purposes?
- A. Petty cash funds and change funds.
 - B. Money orders, certified checks and personal checks
 - C. Coin, currency and available funds
 - D. Postdated checks and IOUs

Answer D

11. Which of the following is usually considered cash?
- A. Certificate of deposit
 - B. Checking account
 - C. Money market saving certificate
 - D. Postdated check

Answer B

12. Petty cash fund is
- A. Separately classified as current asset
 - B. Money kept on hand for making minor disbursements of coin and currency rather than by writing checks
 - C. Set aside for the payment of payroll
 - D. Restricted cash

Answer B

13. The petty cash fund account under the impress fund system is debited
- A. Only when the fund is created.
 - B. When the fund is created and everytime it is replenished.
 - C. When the fund is created and when the size of the fund is increased.
 - D. When the fund is created and when the fund is decreased.

Answer C

14. What happens when a petty cash is in use?

- A. Expenses paid with petty cash are recorded when the fund is replenished.
- B. Most small amounts are paid from cash receipts before they are deposited.
- C. Petty cash is debited when the fund is replenished.
- D. Petty cash is credited when the fund is replenished.

Answer A

15. In reimbursing the petty cash fund, which of the following is true?

- A. Cash is debited
- B. Petty cash is debited
- C. Petty cash is credited
- D. Expense accounts are debited

Answer D

16. When a petty cash fund is used, which of the following is true?

- A. The balance of the petty cash fund should be reported in the statement of financial position as a long-term investment.
- B. The petty cashier's summary of petty cash payments serves as a journal entry that is posted to the appropriate general ledger account.
- C. The reimbursement of the petty cash fund should be credited to the cash account.
- D. Entries that include a credit to the cash account should be recorded at the time the payments from the petty cash fund are made.

Answer C

17. A Cash Over and Short account

- A. Is not generally accepted.
- B. Is debited when the petty cash fund proves out over.
- C. Is debited when the petty cash fund proves out short.
- D. Is a contra account to cash.

Answer C

18. At the end of the current year, an entity had cash accounts at three different banks. One account is segregated solely for payment into a bond sinking fund. A second account, used for branch operations, is overdrawn. The third account, used for regular corporate operations, has a positive balance. How should these accounts be reported?

- A. The segregated account should be reported as a noncurrent asset, the regular account should be reported as a current asset, and the overdraft should be reported as a current liability.
- B. The segregated and regular accounts should be reported as current assets, and the overdraft should be reported as a current liability.
- C. The segregated account should be reported as a noncurrent asset, and the regular account should be reported as a current asset net of the overdraft.
- D. The segregated and regular accounts should be reported as current assets net of the overdraft

Answer A

19. A bank reconciliation is

- A. A formal financial statement that lists all of the bank account balances of an entity.
- B. A merger of two banks that previously were competitors.
- C. A statement sent by the bank to depositor on a monthly basis.
- D. A schedule that accounts for the differences between an entity's cash balance as shown in the bank statement and the cash balance shown in the general ledger.

Answer D

20. Which of the following items must be added to the cash balance per ledger in preparing a bank reconciliation which ends with adjusted cash balance?
- A. Note receivable collected by bank in favor of the depositor and credited to the account of the depositor
 - B. NSF customer check
 - C. Service charge
 - D. Erroneous bank debit

Answer A

21. In preparing a bank reconciliation, interest paid by the bank on the account is
- A. Added to the bank balance
 - B. Subtracted from the bank balance
 - C. Added to the book balance
 - D. Subtracted from the book balance

Answer C

22. In preparing a monthly bank reconciliation, which of the following items would be added to the balance per bank statement to arrive at the correct cash balance?
- A. Outstanding checks
 - B. Bank service charge
 - C. Deposits in transit
 - D. A customer's note collected by the bank on behalf of the depositor

Answer C

23. Which of the following must be deducted from the bank statement balance in preparing a bank reconciliation which ends with adjusted cash balance?
- A. Deposit in transit
 - B. Outstanding check
 - C. Reduction of loan charged to the account of the depositor
 - D. Certified check

Answer B

24. If the balance shown on an entity's bank statement is less than the correct cash balance and neither the entity nor the bank has made any error, there must be
- A. Deposits credited by the bank but not yet recorded by the entity
 - B. Outstanding checks
 - C. Deposits in transit
 - D. Bank charges not yet recorded by the entity

Answer C

25. If the cash balance shown on entity's accounting records is less than the correct cash balance and neither the entity nor the bank has made any errors, there must be
- A. Deposits credited by the bank but not yet recorded by the entity
 - B. Deposits in transit
 - C. Outstanding checks
 - D. Bank charges not yet recorded by the entity

Answer A

26. Which of the following will not require an adjusting entry on the depositor's books?
- A. NSF check from customer
 - B. Check in payment of account payable as recorded by the depositor is overstated
 - C. Deposit of another entity is credited by the bank to the account of the depositor
 - D. Bank service charge

Answer C

27. Bank reconciliations are normally prepared on a monthly basis to identify adjustments needed in the depositor's records and to identify bank errors. Adjustments on the part of the depositor should be recorded for
- A. Bank errors, outstanding checks and deposits in transit.
 - B. All items except bank errors, outstanding checks and deposits in transit.
 - C. Book errors, bank errors, deposits in transit and outstanding checks.
 - D. Outstanding checks and deposits in transit.

Answer B

28. Bank statements provide information about all of the following, except
- A. Checks cleared during the period
 - B. NSF checks
 - C. Bank charges for the period
 - D. Errors made by the depositor

Answer D

29. Which of the following statements is false?
- A. A certified check is a liability of the bank certifying it.
 - B. A certified check will be accepted by many persons who would not otherwise accept a personal check.
 - C. A certified check is one drawn by a bank upon itself.
 - D. A certified check should not be included in the outstanding checks.

Answer C

30. A proof of cash
- A. Is a physical count of currencies on hand at the end of reporting period.
 - B. Is a formal statement showing the total cash receipts during the year.
 - C. Is a four-column bank reconciliation showing reconciliation of cash balances per book and per bank at the beginning and end of the current month and reconciliation of cash receipts and cash disbursements of the bank and the depositor during the current month.
 - D. Is a summary of cash receipts and cash payments.

Answer C

PART II

1. The following information are provided the ABCD CORPORATION:

| | |
|---|-----------|
| Current account at PNB Savings | P (1,000) |
| Current account at PNB Current | 65,000 |
| Treasury bills (acquired 6 months before maturity) | 200,000 |
| Treasury bills (maturity date is 1/31/21, acquired December 15, 2020) | 500,000 |
| Payroll account | 175,000 |
| Foreign bank account - unrestricted (translated using the 12/31/20 exchange rate) | 900,000 |
| Postage stamps | 600 |
| Employees' checks marked "DAIF" | 10,000 |
| IOU from the President | 50,000 |
| Credit memo from a supplier for a purchase return | 25,000 |
| Traveler's check | 60,000 |
| Money order | 10,000 |
| Company's check dated 12/30/20 but not mailed at year-end | 30,000 |
| Petty cash fund (P4,000 in currency and P6,000 in check) | 10,000 |

Additional information:

- PNB Savings account of P1,000 overdraft is deemed immaterial for ABCD.

ABCD CORPORATION'S cash and cash equivalents balance at December 31, 2020 is:

Answer: 1,749,000

2. The controller of CPA Company is attempting to determine the amount of cash to be reported on its December 31, 2020 balance sheet. The following information is provided:

- Commercial savings account of P1,000,000 and a commercial checking account balance of P900,000 are held at Phil. Banking Corporation.
- Money market fund account (24-month maturity), held at Allied Bank, P600,000
- Travel advance of P180,000 for executive travel for the first quarter of next year (employee to reimburse through salary reduction)
- A separate fund in the amount of P1,500,000 is restricted for the retirement of long-term debt.
- Petty cash fund, P5,000
- An IOU from David Santos, a company officer, in the amount of P10,000.
- A bank overdraft of P110,000 has occurred at one of the banks the company uses to deposit its cash receipts. At the present time, the company has no other deposits at this bank.
- The company has two certificates of deposit, each totaling P500,000. These certificates of deposit have a maturity of 120 days.
- CPA Company has received a check that is dated January 12, 2021 in the amount of P125,000.
- Currency and coins on hand amounted to P5,300.

CPA COMPANY'S adjusted cash and cash equivalents balance at December 31, 2020 is:

Answer: 1,910,300

3. The controller of BBA Company is attempting to determine the amount of cash to be reported on its December 31, 2020 balance sheet. The following information is provided:

- Commercial savings account of P1,200,000 and a commercial checking account balance of P250,000 are held at Phil. Banking Corporation.
- Money market fund account (90 days), held at Allied Bank, P800,000
- Traveler's check of P180,000 for executive travel
- A separate fund in the amount of P1,500,000 is restricted for the retirement of long-term debt. The related debt will mature on March 31, 2021
- Petty cash fund shows a record of P5,000 (P3,000 of which are in the form of expense receipts per petty cash box)
- An IOU from Ree Santos, a company asset custodian, in the amount of P10,000.
- A bank overdraft of P110,000 has occurred at one of the banks the company uses to deposit its cash receipts. At the present time, the company has no other deposits at this bank.
- The company has two certificates of deposit, each totaling P500,000. One certificate of deposit have a maturity of 90 days while the other has 120 days maturity.
- BBA Company has received a check that is dated December 31, 2020 in the amount of P125,000.
- Currency and coins on hand amounted to P2,300.

BBA COMPANY'S adjusted cash and cash equivalents balance at December 31, 2020 is:

Answer: 4,558,300

4. Logan Ltd has just received the August 31, 2020 bank statement, which is summarized below:

| <u>County Bank</u> | <u>Payments</u> | <u>Receipts</u> | <u>Balance</u> |
|--------------------|-----------------|-----------------|----------------|
| Balance, August 1 | | | P 9, 369 |

| | | |
|--|----------|--------|
| Deposits during August | P 32,200 | 41,569 |
| Note collected for depositor, including P40 interest | 1,040 | 42,609 |
| Checks cleared during August | P34,500 | 8,109 |
| Bank service charges | 20 | 8,089 |
| Balance, August 31 | | 8,089 |

The general ledger Cash account contained the following entries for the month of August.

| Cash | | | |
|------------------------|--------|--------------------|--------|
| Balance, August 1 | 10,050 | Payments in August | 34,903 |
| Receipts during August | 35,000 | | |

Deposits in transit at August 31 are P3,800, and checks outstanding at August 31 total P1,050. Cash on hand at August 31 is P310. The bookkeeper improperly entered a check for P164.50 into the records at P146.50 for supplies (expense); it cleared the bank during the month of August. Determine the adjusted cash balance. That should be presented at the end of August. **Answer: 11,149**

5. The following data were taken from ABC's check register for the month of April. ABC's bank reconciliation for March showed one outstanding check, check no. 178 for P2,150 (written on March 20), and one deposit in transit for P4,350 (made on March 31).

| Date (2020) | Item | Checks | Deposits | Balance |
|-------------|----------------|--------|----------|---------|
| April 01 | Beginning bal. | | | 6,150 |
| 01 | Deposit | | 26,167 | 32,317 |
| 01 | Check no. 179 | 250 | | 32,567 |
| 04 | Check no. 180 | 10,673 | | 21,898 |
| 27 | Deposit | | 11,774 | 33,672 |
| 29 | Check no. 181 | 13,217 | | 20,490 |

The following is from ABC's bank statement for April:

| Date (2020) | Item | Checks | Deposits | Balance |
|-------------|----------------|--------|----------|---------|
| April 01 | Beginning bal. | | | 3,950 |
| 03 | Check no. 179 | 250 | | 3,700 |
| 03 | Deposit | | 4,350 | 8,050 |
| 05 | Check no. 180 | 10,673 | | (2,623) |
| 05 | Automatic loan | | 8,150 | 5,527 |
| 05 | Deposit | | 26,417 | 31,944 |
| 20 | NSF Check | 1,000 | | 30,944 |
| 20 | Service charge | 600 | | 30,344 |
| 30 | Interest | | 82 | 30,426 |

Assume that any errors or discrepancies you find are ABC's, not the bank's.

What is the adjusted cash balance as of April 30 **Answer: 26,833**

6. ABC Company keeps all its cash in a checking account. An examination of the company's accounting records and bank statement for the month ended June 30, 2020 revealed the following information:
- The cash balance per book on June 30 is P12,000,000
 - A deposit of P2,000,000 that was placed in the bank's night depository on June 30 does not appear on the bank statement
 - The bank statement shows on June 30, the bank collected note for ABC and credited the proceeds of

- P1,400,000 to the company's account
- Checks outstanding on June 30 amount to P500,000
- ABC discovered that a check written in June for P200,000 in payment of an account payable, had been recorded in the company's records as P300,000
- Included with the June bank statement was NSF check for P400,000 that ABC had received from a customer on June 26
- The bank statement shows a P50,000 service charge for June

The cash in bank to be shown on the balance sheet on June 30, 2020 is **13,050,000**

7. ABC Company keeps all its cash in checking account. An examination of the company's accounting records and bank statement for the month ended December 31, 2020 revealed bank statement balance of P43,000,000 and book balance of P45,000,000.

A deposit of P5,000,000 placed in the bank's night depository on December 29, 2020 does not appear on the bank statement. Checks outstanding on December 31, 2020 are still undetermined. The bank statement shows that on December 26, 2020, the bank collected a note for ABC and credited the proceeds of P2,200,000 to the company's account. The proceeds included P200,000 interest, all of which ABC earned during the current period. ABC has not yet recorded the collection.

ABC discovered that check no. 011050 written in December 2020 for P400,000 in payment of an account had been recorded in the company's records as P40,000. Included with the December 31, 2020 bank statement was NSF check for P500,000 that ABC has not yet recorded the returned check. The bank statement shows a P140,000 service charge for December.

The outstanding checks as of December 31, 2020 amount to **1,800,000**