Accounting Units 1 & 2

Chapter 8 Cash control

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Theory

Every business owns **resources** — cash, equipment, and the money owed to it by its customers — and every one of those resources is vulnerable to being **lost, stolen, damaged or misused**, whether through deliberate **theft and fraud** or through honest **error**. **Internal control** is the system of policies and procedures a business puts in place to *safeguard its resources against theft and fraud, keep its accounting records accurate and reliable, and encourage everyone in the business to follow its rules*. Good internal control does more than protect assets: by protecting the records against manipulation it keeps the reports a **faithful representation** of the business's performance and position, so that the owner, a lender or the tax office can rely on them.

Internal control matters most for the resource that is easiest to steal and hardest to trace: **cash**. This section first sets out the **general internal control procedures** that apply to all of a business's resources, then the specific **cash control** procedures that protect a service business's cash receipts and payments. None of this is a "recording" task, so most answers are written as reasoned prose: you must be able to **identify a weakness** in a described situation, **recommend** an appropriate control, and **explain** how that control safeguards the business. Command terms such as *identify*, *explain*, *justify* and *discuss* call for reasons, not one-word answers.

The internal control procedures

Five procedures form the backbone of internal control. A well-run business uses them **together**, because each one covers a gap the others leave open.

- **Separation of duties.** No single person should control every stage of a transaction. The duties of *handling* an asset, *recording* the transaction, *authorising* it and *reconciling* the records should be split among different people. When duties are separated, one person's work automatically checks another's, an error made by one is likely to be caught by the next, and committing fraud would require two or more people to **collude** — which is far less likely. In a small physiotherapy clinic, the receptionist who takes a patient's cash fee should not also be the only person who records it and prepares the bank deposit.
- **Authorisation.** Transactions should be **approved by an appropriate person before they occur**. Requiring the owner or a manager to authorise payments, purchases, refunds and wage rates means money cannot leave the business, and commitments cannot be made, without someone accountable having agreed to them. An **authorisation limit** — for example, "any payment above $500 must be approved by the owner" — focuses close attention on the largest risks while letting routine transactions proceed.
- **Physical safeguards.** Resources should be **physically protected** from theft and damage. Cash is kept in a **locked till or safe**, the premises are secured with locks, alarms and security cameras, access to storerooms and equipment is restricted, and blank cheque and receipt books are locked away. Physical safeguards are the simplest and most visible controls: they make theft harder and deter it.
- **Documentation.** Every transaction should be supported by a **pre-numbered source document** — a receipt, an invoice, an EFT remittance, a **Memo** — that provides the evidence for the entry in the accounting records. Sequentially **pre-numbered** documents create an **audit trail**: a missing number stands out, so a transaction cannot easily be omitted or invented, and any figure in the reports can be traced back to the document that supports it.
- **Independent checks.** The work of one person should be **independently checked or verified by another**. Regularly comparing the accounting records with an outside source — counting the cash on hand and agreeing it to the register roll, reconciling the firm's records with the **Bank Statement**, or checking a supplier's invoice against the service actually received — detects errors, omissions and fraud that routine processing has missed. An independent check is only effective if the person performing it did **not** carry out the transaction being checked.

Controlling cash

Cash — notes, coins and the balance in the business's bank account — is the resource most exposed to theft and fraud. It is valuable, easily concealed, changes hands constantly and, unlike equipment, carries no label showing where it came from. A service business that receives fees in cash must therefore apply the general controls above specifically to its cash receipts and payments. Four **cash control** procedures are central.

- **Banking cash intact daily.** All cash received should be **banked in full ("intact") and every day**, and **never used to pay expenses** or to cash personal cheques out of the till. Banking intact means the amount deposited each day equals the amount recorded as received, which creates an independent **bank record** of every receipt that can later be reconciled. Banking *daily* minimises the cash held on the premises overnight, and paying expenses by EFT or cheque — rather than out of undeposited takings — keeps a complete record of both sides of the business's cash.
- **Restricting access to cash.** The number of people who can handle cash should be **kept to a minimum**, and each person made **individually accountable** for the cash in their care. A single cashier works from an assigned float in a locked till; access to the safe is limited to the owner and one trusted employee; and the person who handles the cash does not also have access to the accounting records (an application of separation of duties). The fewer the hands cash passes through, the easier it is to pinpoint responsibility for a shortage.
- **Using electronic funds transfer (EFT).** Receiving and paying money **electronically** — by EFT, card or direct transfer — reduces the amount of physical cash the business handles, and therefore the amount exposed to theft or loss. Just as importantly, every electronic transaction generates an **automatic, independent record** in the bank's system, which strengthens the audit trail and makes concealment far harder than it is with cash.
- **Reconciling the bank.** The business should **regularly reconcile** its own record of cash (the Cash Receipts Journal and the Cash Payments Journal) against the **Bank Statement** issued by the bank. Because the bank is an independent party, agreeing the two records is a powerful independent check: it confirms that every receipt banked and every payment made has been recorded correctly, and it brings to light errors, omitted transactions, bank charges and — crucially — any misappropriation of cash. (The mechanics of the bank reconciliation are covered in Section 8B.)

Counting cash: shortages and surpluses

A routine and effective cash control is the daily **cash count**. At the end of trading the cash in the till is counted and compared with the cash that *should* be present according to the records:

Expected cash = opening float + cash receipts recorded

Cash shortage (or surplus) = expected cash − cash counted

If the count is **less** than expected there is a **cash shortage**; if it is **more**, a **cash surplus**. Small differences arise from honest errors in giving change, but a persistent or large shortage is a warning sign of theft — which is exactly why the count should be an **independent check**, performed by someone other than the cashier.

Worked model. At *Brightpath Physiotherapy* the receptionist begins the day with a float of $200. The receipt book and register roll show cash fees of $770 (including $70 GST) received during the day. The expected cash in the till is therefore $200 + $770 = **$970**. The practice manager — not the receptionist — counts the till at closing and finds $970, so the count **agrees** and there is no shortage. The manager removes the day's takings of $770 and banks them **intact** the same day, leaving the $200 float for tomorrow. Banking the full $770 (rather than, say, paying a $70 casual wage out of the till and banking only $700) preserves a complete bank record that can be reconciled against the Cash Receipts Journal.

Ethical considerations

Ethical considerations. Sound internal control is not only a matter of efficiency; it is an **ethical responsibility** of the business owner. An owner who fails to put reasonable controls in place — who lets one employee handle, record and bank the cash entirely unchecked — exposes both the business and its own **employees** to harm: resources are put at risk, and honest staff can fall under suspicion when money goes missing and no records show who was responsible. Establishing controls is part of the owner's duty to run the business honestly and to protect the people who work in it. Internal control also underpins the **integrity** of the accounting information: records safeguarded against manipulation and error remain a **faithful representation** of the business, so the reports its users depend on stay **complete, free from material error and neutral (without bias)**. Fraud committed by an employee is plainly wrong — but an owner who tolerates weak controls, perhaps to save the wage of a second staff member, shares responsibility for creating the *opportunity*, and cannot truthfully claim the reports are reliable. Acting ethically here means investing in controls that protect the firm's resources and the accuracy of its records, even though those controls cost time and money.

Worked examples (scaffolded)

Example 1 — identify control weaknesses and recommend controls

At *Sunnyside Dog Grooming* a single employee, Dana, greets customers, takes their cash and EFT payments, writes the receipts, records the takings in the Cash Receipts Journal, prepares the bank deposit and reconciles the Bank Statement at month-end. Cash is kept in an unlocked drawer, and the owner (who works off-site) has never reviewed the records. Identify the internal control weaknesses and recommend a control for each.

Working — weakness identified	Comment — recommended control
Dana performs every stage — handling, recording, banking and reconciling the cash — with no one checking her work, so a suppressed receipt would never be contradicted.	**Separation of duties:** split the tasks so the person who handles cash does not also record, bank and reconcile it; at a minimum the owner should perform the reconciliation independently.
Cash is kept in an unlocked drawer where anyone can reach it.	**Physical safeguards** and **restricting access to cash:** keep cash in a locked till or safe, with access limited to Dana during her shift.
The owner never reviews the records, so no independent verification occurs.	**Independent checks:** the owner should regularly count the cash against the register roll and reconcile the records to the **Bank Statement**.
Takings might be used for small expenses or left un-banked overnight.	**Banking cash intact daily:** bank all receipts in full each day and pay expenses by EFT or cheque, so the bank record stays complete.
Refunds and payments are made without anyone's approval.	**Authorisation:** require the owner to approve refunds and any payment above a set limit.

∴ the root problem is that one person controls the whole cash cycle with no independent check; separating the duties, securing the cash, banking intact daily and having the owner reconcile the bank would close every gap.

Example 2 — a cash count with a shortage

Coral Coast Dentistry runs a single till with an opening float of $150. On 14 May the register roll and receipts show cash fees of $660 (including $60 GST). At closing, the office manager counts $795 in the till. Prepare the cash count, identify any shortage or surplus, and state which internal control this count represents.

Working	Comment
Expected cash = float $150 + cash fees $660 = **$810**.	Expected cash is what the records say *should* be in the till.
Cash counted at closing = $795.	Counted by the office manager — someone other than the cashier.
Cash shortage = $810 − $795 = $15 (the count is *below* expected).	A count below expected is a shortage; a count above would be a surplus.
GST on the day's fees = 1/11 of $660 = $60; fee revenue = $600.	Cash fees carry 10% GST, collected through the **GST Clearing** account.
The internal control this count represents is an **independent check**.	The cash is counted and agreed to the recorded receipts by someone who did **not** handle it — the test of an independent check.

∴ there is a **cash shortage of $15**, revealed by an **independent check**: an independent person counts the till and compares it with the recorded receipts. The $15 should be investigated rather than simply written off.

Worked examples (unscaffolded)

Example 3 — fraud enabled by a lack of separation of duties

At *Hillcrest Auto Service* the service receptionist both receives customers' cash payments and records them in the Cash Receipts Journal, and no one reconciles the recorded receipts against the amounts banked. Over a fortnight she keeps the cash from three jobs billed at $220 each (including GST) and simply does not record them. Explain how the weakness allowed the fraud, quantify the loss, and recommend controls.

Because one person both **handles** and **records** the cash, she can suppress a receipt and pocket the matching cash with no second record to contradict her — the classic failure of **separation of duties**. With no **independent** reconciliation of recorded receipts against bankings, the missing money never surfaces. The amount stolen is 3 × $220 = **$660**, which includes 3 × $20 = $60 of GST, so $600 of fee revenue and $60 of GST payable are also left out of the records — understating both income and the amount owed to the tax office. The controls that would have prevented or quickly exposed this are: separate the duties so the person receiving cash does not also record it; **bank all cash intact daily** and have a *different* person **reconcile** the bankings to the recorded receipts and the **Bank Statement**; issue **pre-numbered receipts** for every payment, so a missing number is obvious; and require the owner's **authorisation** for any adjustment to the records. ∴ a lack of separation of duties and of independent checking let $660 be stolen undetected; separating duties, banking intact and reconciling independently would have stopped it.

Example 4 — using EFT to reduce the cash at risk

Seabreeze Swim School receives weekly fees of $1 650 (including $150 GST). It moves most enrolments onto **EFT**, so that $1 430 (including $130 GST) now arrives electronically and only $220 (including $20 GST) is still taken in cash. Explain how this improves cash control and quantify the cash now exposed to theft or loss.

Before the change the whole $1 650 passed through the till as cash — all of it exposed to theft, miscounting and loss, and all of it dependent on staff honestly recording and banking it. After the change, only $220 is handled as cash, so the amount **physically at risk falls from $1 650 to $220**. The $1 430 received by **EFT** generates an **automatic, independent record** in the bank's system that cannot be suppressed the way a cash receipt can, which strengthens the audit trail and makes concealment far harder. Cash control is improved further by **restricting access** to the remaining $220 and **banking it intact daily**. ∴ shifting $1 430 of receipts to EFT cuts the cash exposed to theft or loss from $1 650 to $220 and creates an independent electronic record of the bulk of the school's income.

Practice questions — scaffolded

Question 1

a. Define **internal control**.

b. State two purposes of a business's internal control system.

c. Explain why **cash** is the resource most in need of control.

Question 2

a. List the five internal control procedures.

b. For **separation of duties**, explain how splitting the duties involved in a transaction makes fraud harder to commit.

c. State one **physical safeguard** a service business could use to protect its cash.

Question 3

Meadowbrook Vet Clinic opens its till with a float of $100. Its register roll shows cash fees of $330 (including GST) for the day. At closing the supervisor counts $438 in the till.

a. Calculate the expected cash in the till.

b. Calculate the cash shortage or surplus, and state which it is.

c. Name the internal control procedure this count represents, and explain why the supervisor — not the cashier — should perform it.

Question 4

At *Parkview Tutoring* one part-time employee collects the cash fees, records them, banks them and reconciles the Bank Statement, and the cash is kept in an unlocked cash box.

a. Identify two internal control weaknesses at Parkview.

b. Recommend a control for each weakness you identified.

c. Explain how **banking cash intact daily** would improve control at Parkview.

Question 5

a. Define **electronic funds transfer (EFT)**.

b. Explain two ways that using EFT improves a business's cash control.

c. State one cash control the business should still apply to the cash it continues to receive.

Question 6

a. Explain why establishing internal controls is an **ethical** responsibility of a business owner, not just an efficiency measure.

b. State one qualitative characteristic that internal control helps protect, and explain the link in one sentence.

c. Explain how weak controls can unfairly expose honest employees to suspicion.

Practice questions — unscaffolded

Question 7

Fernvale Grooming banks its takings intact each day. Over three days it receives cash fees of $220, $330 and $550 (each including GST). Calculate the total amount that should be banked over the three days, explain what "banking cash intact daily" means, and explain why it aids cash control.

Question 8

Cliffside Dental has grown from one employee to four, all of whom take cash payments from the same unlocked drawer, and any of them may write receipts and prepare the bank deposit. Recommend three internal control procedures the practice should introduce, and explain how each would reduce the risk of theft.

Question 9

Explain how **reconciling the bank** acts as an independent check on a business's cash records, and state two things a bank reconciliation can bring to light.

Question 10

Riverside Optics opens its till with a $200 float. Its records show cash fees of $880 (including GST) for the day, and the manager counts $1 065 at closing. Calculate the expected cash, the cash shortage or surplus, and the GST included in the day's fees.

Question 11

Explain the principle of **separation of duties**, and describe how the duties involved in a single cash receipt could be divided among different people in a service business.

Question 12

Explain how using **pre-numbered source documents** (documentation) contributes to internal control, and explain what is meant by an **audit trail**.

Question 13

At *Brightsmile Dental* an assistant who both receives and records the cash pockets the fee from four patient visits billed at $110 each (including GST) without recording them. Calculate the total amount stolen and the amount of GST the business fails to record, and identify the two control weaknesses that allowed the theft.

Question 14

Distinguish between **physical safeguards** and **restricting access to cash**, and give one example of each for a mobile dog-washing service that collects cash from customers on the road.

Question 15

Explain the internal control procedure of **authorisation**, and explain how setting an authorisation limit on payments helps protect a business.

Question 16 (ethics — evaluate)

The owner of *Lakeside Physio* could save the $18 000 annual wage of a part-time bookkeeper by letting the single receptionist handle, record, bank and reconcile all of the clinic's cash, unchecked. Evaluate this decision, referring to internal control, the risk to the business and its employees, and the owner's ethical responsibility.

Question 17 (ethics — discuss)

A long-serving, trusted employee at *Homewood Cleaning* has sole control of all cash. The owner argues that controls such as separation of duties are unnecessary "because we trust her completely". Discuss the ethical and practical problems with relying on trust instead of internal controls.

Question 18 (ethics — discuss)

The owner of *Cedarbrook Clinic* notices a persistent weekly cash shortage of about $40 but decides not to investigate, because tightening the controls would upset staff and the amounts are small. Discuss the ethical considerations, referring to the owner's duty to safeguard the business's resources, the risk of the problem growing, and the effect of unexplained shortages on the reliability of the reports.

Answers

1. See solutions
2.
    a. separation of duties; authorisation; physical safeguards; documentation; independent checks
3.
    a. $430 b. surplus $8 c. independent check
4. See solutions
5. See solutions
6. See solutions
7. $1 100 banked over the three days ($220 + $330 + $550)
8. See solutions
9. See solutions
10. Expected $1 080; shortage $15; GST $80
11. See solutions
12. See solutions
13. Stolen $440; unrecorded GST $40; weaknesses = no separation of duties + no independent check
14. See solutions
15. See solutions
16. See solutions (the $18 000 saving does not justify the risk)
17. See solutions
18. See solutions (≈ $2 080 a year; the owner has a duty to investigate)

Fully-worked solutions

Question 1

a. **Internal control** is the system of policies and procedures a business puts in place to safeguard its resources against theft, fraud and error, to keep its accounting records accurate and reliable, and to encourage everyone in the business to follow its rules.

b. Two purposes (any two): to **safeguard the business's resources** (especially cash) against theft and fraud; to ensure the **accounting records are accurate and reliable**, so the reports are a faithful representation; and to promote adherence to the business's policies.

c. **Cash** needs the most control because it is the resource most exposed to theft and fraud: it is valuable, easily concealed, changes hands constantly, and — unlike equipment — carries no label showing whose it is or where it came from, so a stolen dollar is very hard to trace.

Question 2

a. The five procedures are **separation of duties**, **authorisation**, **physical safeguards**, **documentation** and **independent checks**.

b. **Separation of duties** splits the handling, recording, authorising and reconciling of a transaction among different people. This makes fraud harder because one person's work automatically checks another's, so a single person cannot both take an asset and conceal the theft in the records — committing fraud would require two or more people to **collude**, which is far less likely than one person acting alone.

c. Any one physical safeguard, for example: a **locked till or safe** for cash, a lockable cash drawer, security cameras, or an alarm on the premises.

Question 3

a. Expected cash = float $100 + cash fees $330 = **$430**.

b. Cash counted $438 − expected $430 = **$8 surplus** (the count is *above* expected, so it is a surplus, not a shortage).

c. The count is an **independent check**. The supervisor — not the cashier — should perform it because an independent check is only effective if the person verifying the cash did not handle it; if the cashier counted their own till, a shortage caused by theft or error could be hidden rather than revealed.

Question 4

a. Two weaknesses: (i) **no separation of duties** — one person collects, records, banks and reconciles the cash, so no one checks their work; and (ii) **inadequate physical safeguards / access** — the cash is kept in an **unlocked** cash box that anyone can reach.

b. Controls: for the first, **separate the duties** (for example, have the owner reconcile the bank independently of the employee who handles and records the cash); for the second, keep the cash in a **locked till or safe** and **restrict access** to it.

c. **Banking cash intact daily** would improve control because it means every dollar received is deposited in full and every day, creating an independent **bank record** of the receipts that can be reconciled against the Cash Receipts Journal. It stops takings being used for expenses or held on the premises, so a shortfall between what was recorded and what was banked would quickly stand out.

Question 5

a. **Electronic funds transfer (EFT)** is the electronic movement of money between bank accounts — by online transfer, card payment or direct transfer — without physical cash or cheques changing hands.

b. Two ways EFT improves cash control: (i) it **reduces the amount of physical cash** the business handles, so less is exposed to theft, miscounting or loss; and (ii) every EFT creates an **automatic, independent record** in the bank's system, strengthening the audit trail and making it far harder to conceal or falsify a transaction than with cash.

c. For the cash it still receives, the business should continue to apply a cash control such as **banking that cash intact daily**, **restricting access** to it, or performing a daily **cash count**.

Question 6

a. Establishing internal controls is an **ethical** responsibility because the owner has a duty to run the business honestly and to protect its resources and its people. Failing to put reasonable controls in place exposes the business to theft and puts honest employees at risk of suspicion; an owner who tolerates weak controls shares responsibility for creating the opportunity for fraud, so controls are a matter of ethical duty, not merely efficiency.

b. Internal control helps protect **faithful representation**: by safeguarding the records against manipulation and error, controls keep the reports **complete, free from material error and neutral (without bias)**, so users can rely on them. (**Verifiability** is also acceptable: pre-numbered source documents and independent checks let a knowledgeable, independent observer confirm that every recorded amount is genuine.)

c. When one person controls all of the cash and no records show who was responsible for a shortfall, any missing money casts suspicion on **every** employee who had access — including honest ones — because there is no independent evidence to clear them; proper controls protect the innocent by making each person accountable only for the cash in their own care.

Question 7

Total to be banked = \$220 + \$330 + \$550 = **\$1 100**. **Banking cash intact daily** means depositing *all* of each day's cash receipts, in full, every day — never using takings to pay expenses or holding them back. It aids control because the amount banked each day then equals the amount recorded as received, creating an independent **bank record** that can be reconciled against the Cash Receipts Journal; any difference between recorded receipts and banked cash is exposed quickly, and little cash is left on the premises to be stolen.

Question 8

Three procedures (any three, each with an explanation):

- **Separation of duties** — assign the collecting, recording and banking of cash to *different* people so that no one employee controls a transaction from start to finish; theft would then require collusion and each person's work checks another's.
- **Restricting access to cash / physical safeguards** — give each cashier their own **locked till and float** instead of a shared unlocked drawer, so responsibility for any shortage can be pinpointed and the cash is physically protected.
- **Independent checks** — have someone independent (for example the owner) perform a daily **cash count** against the register roll and **reconcile the bank**, so a shortfall caused by theft or error is detected promptly.

(Authorisation of refunds and **banking intact daily** are also acceptable, each with a reason.)

Question 9

Reconciling the bank compares the business's own record of cash (the Cash Receipts Journal and the Cash Payments Journal) with the **Bank Statement** prepared by the bank. Because the bank is an **independent** third party, agreement between the two records is strong evidence that the cash has been recorded correctly — making it an independent check. A reconciliation can bring to light (any two): recording **errors** by the business; **omitted** receipts or payments; **bank charges, interest or dishonoured cheques** not yet recorded; and **misappropriation of cash**, such as takings that were recorded but never banked.

Question 10

Expected cash = float $200 + cash fees $880 = **$1 080**. Cash counted $1 065, so the count is *below* expected: cash shortage = $1 080 − $1 065 = **$15**. GST included in the day's fees = 1/11 of $880 = **$80** (leaving $800 of fee revenue). The $15 shortage should be investigated as it may indicate an error in giving change or, if it persists, theft.

Question 11

Separation of duties is the principle that no single person should control every stage of a transaction; the duties of handling the asset, recording it, authorising it and reconciling the records are divided among different people so that each person's work checks another's and fraud would require collusion. For a single cash receipt in a service business, the duties could be divided so that: one employee **receives** the cash and issues a pre-numbered receipt; a second **records** the receipt in the Cash Receipts Journal; a third **prepares the bank deposit and banks** the cash; and the owner (or a fourth person) later **reconciles** the recorded receipts and bankings against the **Bank Statement**. No one person then handles, records and reconciles the same money.

Question 12

Using **pre-numbered source documents** contributes to internal control by ensuring that every transaction is supported by written evidence and by making it hard for a transaction to be omitted or invented: because the documents are numbered in sequence, a **missing number** immediately stands out. An **audit trail** is the chain of documents and records that allows any figure in the reports to be traced *back* to the original source document that supports it (and forward from the document to the report). A complete audit trail lets an independent person verify that every recorded amount is genuine and that no genuine transaction has been left out, which deters and helps detect both error and fraud.

Question 13

Amount stolen = 4 × $110 = **$440**. Each $110 fee includes GST of 1/11 × $110 = $10, so the GST the business fails to record = 4 × $10 = **$40** (and $400 of fee revenue is also unrecorded). The two control weaknesses that allowed the theft are: (i) **no separation of duties** — the same assistant both *receives* and *records* the cash, so she can suppress the receipt and pocket the matching cash; and (ii) **no independent check** — no one reconciles the recorded receipts against the amounts banked, so the missing $440 never comes to light.

Question 14

Physical safeguards are measures that physically protect the cash from theft or loss, whereas **restricting access to cash** limits *who* is allowed to handle it and makes each person accountable for the cash in their care. For a mobile dog-washing service collecting cash on the road: a **physical safeguard** would be keeping the takings in a **locked cash box or bag bolted in the van** (and offering EFT so less cash is carried); **restricting access** would mean that only the **one**

operator on that run holds the key and is accountable for that day's cash, which is then banked intact. The first protects the cash; the second pins down responsibility for it.

Question 15

Authorisation is the internal control procedure that requires transactions to be **approved by an appropriate person before they occur** — for example, the owner approving payments, purchases, refunds and wage rates. Setting an **authorisation limit** (such as "payments above $500 require the owner's approval") protects the business because money cannot leave it, and commitments cannot be made, without someone accountable agreeing first; the limit concentrates the owner's attention on the **largest and riskiest** payments while letting small routine ones proceed efficiently, reducing the chance of unauthorised or fraudulent payments.

Question 16

Letting the single receptionist handle, record, bank and reconcile all cash unchecked would **abolish the separation of duties and the independent check** — the two controls that most protect cash. Although it saves the $18 000 bookkeeper's wage, that saving must be weighed against the risk it creates. With one person controlling the whole cash cycle, cash could be stolen and the theft concealed in the records with nothing to contradict it, and losses could easily exceed $18 000 over time while going undetected. There is also a real cost to the **employees**: if money goes missing, the receptionist is the only suspect and honest performance cannot be proven, while the receptionist is also placed under the temptation that weak controls create. The reports, no longer safeguarded, might cease to be a **faithful representation**. Ethically, the owner has a duty to safeguard the firm's resources and protect staff, and cannot claim the reports are reliable while removing the controls that make them so. On balance the decision is **not justified**: the $18 000 saving does not outweigh the risk of undetected fraud, the exposure of honest staff and the loss of reliable records; if cost is the concern, the owner could instead retain a *cheaper* control — for example, personally performing the bank reconciliation and a periodic cash count.

Question 17

Relying on trust instead of controls is problematic both ethically and practically. **Practically**, trust is not a control: even a long-serving employee may face financial pressure or temptation, and giving one person sole control of cash removes every check that would detect a problem, so a fraud (or even an honest error) could continue for years undetected and grow large. It also leaves the business dangerously dependent on one person, with no independent record if that person is absent or leaves. **Ethically**, the owner has a responsibility to safeguard the business's resources and to protect *all* staff — and, ironically, weak controls do the trusted employee no favours: they expose her to suspicion if anything ever goes wrong and place her under temptation that proper controls would remove. Sound internal control is not an accusation of dishonesty; it protects the honest employee as much as the business, by making each person accountable only for the cash in their care and by providing evidence that clears them. The owner should therefore introduce **separation of duties** and **independent checks** regardless of how much the employee is trusted.

Question 18

Ignoring a persistent $40 weekly shortage raises clear ethical concerns. First, the owner has a **duty to safeguard the business's resources**, and $40 a week is not trivial — it is roughly $40 × 52 = **$2 080 a year**, and a shortage that recurs is unlikely to be random error. Second, there is a serious **risk that the problem grows**: if an employee is taking the cash and sees that no one investigates, the amounts are likely to increase, so failing to act now invites a larger loss later. Third, unexplained shortages undermine the **reliability of the reports** — recorded cash no longer matches the cash actually held, so the accounting records cease to be a **faithful representation**, and the owner cannot be confident the reports are **complete, free from material error and neutral (without bias)**. There is also a duty to the **staff**: leaving the matter unexamined lets suspicion hang over honest employees. Not investigating because it might "upset staff" or because the amounts are "small" is therefore hard to justify. The ethical course is to **investigate** the cause — tighten the cash count, apply separation of duties and reconcile the bank — so that any error is corrected or any theft stopped, protecting both the business's resources and the integrity of its records.

Chapter 8 Cash control — 8B The Bank Statement and bank reconciliation

Theory

A business keeps its own record of the cash flowing through its **Bank** account in two special journals — the **Cash Receipts Journal (CRJ)** and the **Cash Payments Journal (CPJ)**. The **bank** keeps its own record of the same account and reports it on the **Bank Statement** (Chapter 6B). Because both records track the same money, they should tell the same story — but at the end of a month the **closing balance in the cash records rarely equals the closing balance on the Bank Statement**, even when neither the business nor the bank has made any error. **Bank reconciliation** is the process of comparing the two records, explaining every difference, and confirming that — once each difference is accounted for — the two balances agree. It is one of the most important **internal control** procedures a business has over its cash.

Why the two balances differ. Every difference between the cash records and the Bank Statement falls into one of **two kinds**:

- **Bank-Statement-only items** — transactions the **bank** has recorded but the **business has not yet entered** in its own journals, because only the bank knew about them at the time. These include **account-keeping and transaction fees**, **interest received**, **interest charged** on an overdraft, **direct debits** the business has authorised (insurance, a lease, a subscription), **direct credits** paid straight into the account, and **dishonoured** cheques or EFTs. The business first learns of these items **when the statement arrives**, so its cash records are **incomplete** until they are added.
- **Timing differences** — transactions the **business has already recorded** in its journals but which have **not yet reached the bank**, so they do not yet appear on the statement. There are two:
  - **Unpresented cheques / EFT** — payments recorded in the Cash Payments Journal that the bank has **not yet processed** (a cheque written but not yet banked by the payee, or an electronic payment that has not yet cleared). The business's balance is already lower; the bank's is not — *yet*.
  - **Outstanding (late) deposits** — receipts recorded in the Cash Receipts Journal that the bank has **not yet credited** (money banked after the statement was drawn up, or a deposit still clearing). The business's balance is already higher; the bank's is not — *yet*.

The distinction is the whole idea: a bank-only item means the **cash records are wrong (incomplete)** and must be **corrected**; a timing difference means the **cash records are right** and the **Bank Statement will catch up** in a day or two, so it is merely **reconciled**, never altered.

The two-step reconciliation process.

Step 1 — update (correct) the cash records. Enter every **Bank-Statement-only item** in the appropriate journal: **interest received** and any **direct credits** in the **Cash Receipts Journal**; **fees, direct debits and dishonoured receipts** in the **Cash Payments Journal**. Fees, interest and a dishonoured cheque carry **no GST** (bank charges and interest are input-taxed financial supplies, and a dishonour simply reverses an earlier receipt), while a direct debit for a taxable supply such as insurance is split **1/11 to GST, 10/11 to the expense**. After these entries the cash records show the **updated (adjusted) cash balance** — the true, complete balance of the business's own record.

Step 2 — prepare the Bank Reconciliation Statement. This statement takes the **Bank Statement balance** and adjusts it for the **timing differences** only:

$$\text{Bank-Statement balance} + \text{outstanding deposits} - \text{unpresented cheques/EFT} = \text{updated cash balance}$$

Outstanding deposits are **added** (the bank's balance is about to rise) and unpresented cheques are **subtracted** (the bank's balance is about to fall). If the resulting figure **equals the updated cash balance from Step 1**, the two records **reconcile** and every difference has been explained. The bank-only items are *not* listed on the Bank Reconciliation Statement — they were dealt with in Step 1, and they already appear on the Bank Statement, so listing them again would double-count them.

A dishonoured cheque. When a customer's cheque or EFT is **dishonoured** (it "bounces" — the payer's account had insufficient funds, or the payment was recalled), the bank **reverses** the deposit it had earlier credited. The business must reverse its receipt too: record it in the **Cash Payments Journal**, reducing **Bank** and **reinstating the Accounts**

Receivable balance (the customer still owes the money), plus any **dishonour fee** the bank charges. Nothing about the original GST changes.

Overdrafts. If the account is **overdrawn**, the Bank Statement shows a **debit (DR)** balance and the business's cash records show a **credit** balance — both meaning the business **owes the bank**. In the reconciliation an overdrawn balance is treated as a **negative** figure (shown in brackets): an outstanding deposit reduces the overdraft and an unpresented cheque increases it, exactly as before.

Ethical considerations. Bank reconciliation is where an independent record — the Bank Statement, prepared by the bank — is checked against the business's own record, so it is both a **control** and a point of **ethical exposure**. Under **faithful representation** the cash records must be **complete**: every fee, direct debit, interest amount and dishonoured receipt revealed by the statement must be entered, even those that reduce reported profit, and none may be left out to flatter the balance. A reconciliation must **never be forced to balance** — inventing a fictitious unpresented cheque, omitting a real deposit or altering a figure so the two sides appear to agree conceals error or, worse, the **misappropriation of cash**, and destroys the **verifiability** the reconciliation exists to provide. Good practice also requires a **separation of duties**: the person who handles the cash should not be the only person who prepares and reviews the reconciliation, so that theft cannot be hidden behind the figures. Reconciling promptly and honestly protects the owner, and gives any bank, investor or the ATO confidence that the reported cash position is real.

Worked model. *Rivergum Gardening Services* (a service business) is reconciling its records for May 2025. Its Cash Receipts and Cash Payments Journals show a Bank balance of **$4 020 Dr** at 31 May. Its Bank Statement for May is:

Rivergum Gardening Services — Bank Statement (May 2025)

Date 2025	Details	Debit $	Credit $	Balance $
1 May	Opening balance			3 000
4 May	Deposit — **Rec. 87**		1 800	4 800
9 May	**EFT 414** — Wages	1 500		3 300
18 May	Deposit — **Rec. 89**		1 620	4 920
24 May	**Chq 416**	700		4 220
30 May	Interest		5	4 225
31 May	Account-keeping fee	25		4 200

On comparing the statement with the journals, two entries on the statement — the **$5 interest received** and the **$25 account-keeping fee** — had not been recorded by the business (Bank-Statement-only items). Two entries in the journals had not yet reached the bank: a **$900 deposit (Rec. 90)** banked late on 31 May, and two payments — **EFT 417 $480** and **Chq 418 $620** — not yet presented (timing differences).

Step 1 — update the cash records. The interest is recorded in the Cash Receipts Journal and the fee in the Cash Payments Journal:

Date	Details	Rec./Chq	Bank $	Other $	GST $	Sundries $
31 May	Interest revenue *(CRJ)*	—	5			5
31 May	Bank charges *(CPJ)*	—	25			25

	$	$
Balance as per cash records (before update)		4 020
Add: Interest received		5
		4 025
Less: Bank charges		25
Updated balance as per cash records (Dr)		**4 000**

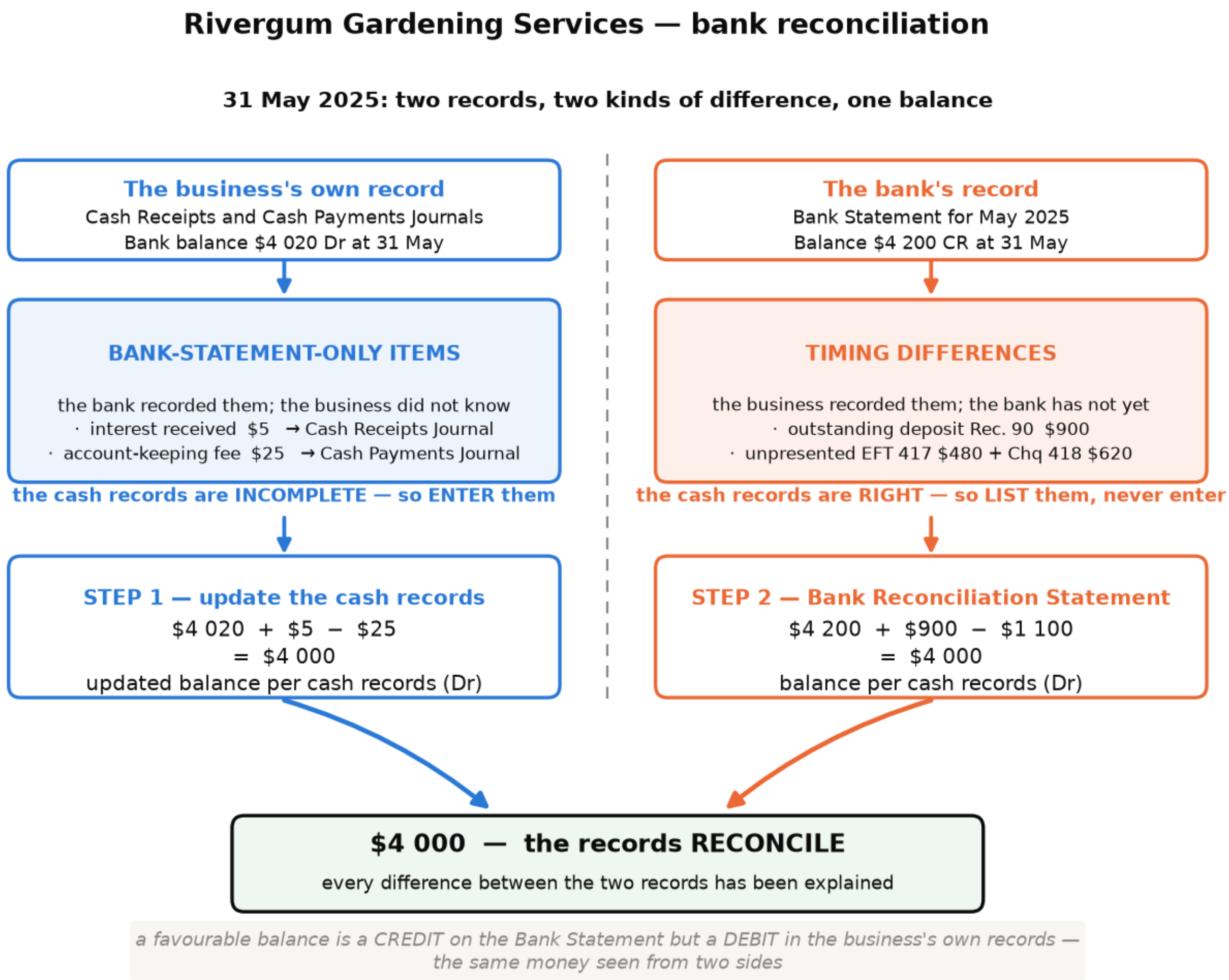
Step 2 — prepare the Bank Reconciliation Statement:

Rivergum Gardening Services — Bank Reconciliation Statement as at 31 May 2025

	$	$
Balance as per Bank Statement (CR)		4 200
Add: Outstanding deposit — Rec. 90		900
		5 100
Less: Unpresented cheques/EFT		
EFT 417	480	
Chq 418	620	1 100
Balance as per cash records (Dr)		**4 000**

The Bank Reconciliation Statement arrives at **$4 000**, exactly the **updated cash balance** from Step 1, so the records **reconcile**. Note the mirror image from Chapter 6B: a favourable balance is a **credit (CR)** on the Bank Statement but a **debit (Dr)** in the business's own records — the same money seen from two sides.

The whole procedure is set out below, with May's four differences sorted into the step that deals with each:



Rivergum Gardening Services — bank reconciliation at 31 May 2025: two records, two kinds of difference, one balance

The two columns never meet until the bottom, and that is the point. The **$5 interest** and the **$25 fee** are dealt with only on the left, because they mean the business's own records are incomplete and must be **entered** in the journals. The **$900 deposit** and the **$1 100 of unpresented payments** are dealt with only on the right, because the business has already recorded them correctly and it is the bank that must catch up — so they are **listed** on the Bank Reconciliation Statement and never entered again. Putting a bank-only item on the reconciliation statement, or a timing difference through the journals, would double-count it and the two columns would not close on the same figure.

Worked examples (scaffolded)

Example 1 — a full reconciliation: interest, a fee, a late deposit and two unpresented payments

Brightwater Pool Care is reconciling June 2025. Its cash records show a Bank balance of $5 220 Dr at 30 June. Its Bank Statement is shown below. A $1 500 deposit (**Rec. 62**) banked on 30 June, and two payments — **EFT 803 $900** and **Chq 804 $1 610** — had not reached the bank.

Brightwater Pool Care — Bank Statement (June 2025)

Date 2025	Details	Debit $	Credit $	Balance $
1 Jun	Opening balance			4 000
5 Jun	Deposit — **Rec. 60**		2 500	6 500
10 Jun	**EFT 801** — Wages	1 800		4 700
19 Jun	Deposit —		2 130	6 830

Date 2025	Details	Debit $	Credit $	Balance $
	Rec. 61			
25 Jun	**Chq 802**	600		6 230
29 Jun	Interest		10	6 240
30 Jun	Account-keeping fee	30		6 210

Working	Comment
Bank-only items: interest $10 (statement, not in journals) and the $30 fee. Record interest in the CRJ, the fee in the CPJ.	These reach the account at the bank, so the business learns of them only from the statement — its records are incomplete until they are added.
Updated cash balance: 5 220 + 10 (interest) − 30 (fee) = **$5 200**.	Add receipts, subtract payments: 5 220 + 10 = 5 230; 5 230 − 30 = **5 200**.
Timing differences: the $1 500 deposit (Rec. 62) is an **outstanding deposit** (add to the bank balance); EFT 803 $900 and Chq 804 $1 610 are **unpresented** (subtract).	These are correctly recorded in the journals; the bank simply has not processed them yet, so they explain — not correct — the difference.
Reconciliation: 6 210 + 1 500 − (900 + 1 610) = 6 210 + 1 500 − 2 510 = **$5 200**.	The adjusted Bank Statement figure equals the updated cash balance, so the records reconcile.

Brightwater Pool Care — Bank Reconciliation Statement as at 30 June 2025

	$	$
Balance as per Bank Statement (CR)		6 210
Add: Outstanding deposit — Rec. 62		1 500
		7 710
Less: Unpresented cheques/EFT		
EFT 803	900	
Chq 804	1 610	2 510
Balance as per cash records (Dr)		**5 200**

Example 2 — a fee, a GST direct debit and a dishonoured cheque

Cedarcrest Veterinary is reconciling July 2025. Its cash records show a Bank balance of $4 150 Dr at 31 July. Its Bank Statement is shown below. A $800 deposit (**Rec. 51**) and **Chq 611 $700** had not reached the bank.

Cedarcrest Veterinary — Bank Statement (July 2025)

Date 2025	Details	Debit $	Credit $	Balance $
1 Jul	Opening balance			3 000
6 Jul	Deposit — **Rec. 48**		1 600	4 600
12 Jul	**Chq 610**	1 200		3 400
18 Jul	Deposit — **Rec. 49**		1 400	4 800
24 Jul	**EFT 613** — Wages	750		4 050

Date 2025	Details	Debit $	Credit $	Balance $
28 Jul	Dishonour — M. Farrow	400		3 650
30 Jul	Direct debit — CoverSure insurance	132		3 518
31 Jul	Account-keeping fee	18		3 500

Working	Comment
Bank-only items (all in the CPJ): fee $18; direct debit $132 incl GST for insurance; dishonoured cheque $400 from M. Farrow.	Each reduces the Bank balance and none was in the journals.
Direct debit split: GST = 132 ÷ 11 = $12; insurance expense = $120.	A direct debit for a taxable supply is split 1/11 to GST, 10/11 to the expense — the reconciliation still uses the full $132 paid.
Dishonour: reduce Bank $400 and **reinstate Accounts Receivable — M. Farrow $400**; the customer still owes the money.	A dishonoured cheque reverses the earlier receipt; no GST changes.
Updated cash balance: 4 150 − 18 − 132 − 400 = **$3 600**.	All three are payments (money out), so all are subtracted.
Reconciliation: 3 500 + 800 (Rec. 51) − 700 (Chq 611) = **$3 600**.	Equals the updated cash balance — reconciled.

Cedarcrest Veterinary — Bank Reconciliation Statement as at 31 July 2025

	$	$
Balance as per Bank Statement (CR)		3 500
Add: Outstanding deposit — Rec. 51		800
		4 300
Less: Unpresented cheque — Chq 611		700
Balance as per cash records (Dr)		**3 600**

Worked examples (unscaffolded)

Example 3 — a clean full reconciliation

Hollybank Consulting is reconciling August 2025. Its cash records show a Bank balance of $7 008 Dr at 31 August. Its Bank Statement (below) includes $12 interest received and a $20 account-keeping fee. A $1 800 deposit (**Rec. 210**) and two payments — **EFT 915 $900** and **Chq 917 $1 500** — had not reached the bank.

Hollybank Consulting — Bank Statement (August 2025)

Date 2025	Details	Debit $	Credit $	Balance $
1 Aug	Opening balance			5 000
5 Aug	Deposit — **Rec. 208**		3 000	8 000

Date 2025	Details	Debit $	Credit $	Balance $
11 Aug	**EFT 914** — Wages	1 400		6 600
20 Aug	Deposit — **Rec. 209**		1 700	8 300
27 Aug	**Chq 916**	692		7 608
30 Aug	Interest		12	7 620
31 Aug	Account-keeping fee	20		7 600

The bank-only items are the $12 interest (record in the CRJ) and the $20 fee (record in the CPJ): updated cash balance = 7 008 + 12 − 20 = **$7 000**. The timing differences are the $1 800 outstanding deposit and the $2 400 of unpresented payments.

Hollybank Consulting — Bank Reconciliation Statement as at 31 August 2025

	$	$
Balance as per Bank Statement (CR)		7 600
Add: Outstanding deposit — Rec. 210		1 800
		9 400
Less: Unpresented cheques/EFT		
EFT 915	900	
Chq 917	1 500	2 400
Balance as per cash records (Dr)		**7 000**

∴ the reconciliation reaches $7 000, equal to the updated cash balance, so the records **reconcile**.

Example 4 — reconciling an overdrawn account

Marloch Dental is reconciling April 2027. Its cash records show an **overdrawn** Bank balance of **$356 (Cr)** at 30 April. Its Bank Statement (below) shows an overdrawn (**DR**) balance and includes a $25 account-keeping fee and a $99 direct debit (incl GST) for a *SoftDesk* subscription. A $900 deposit (**Rec. 40**) and **EFT 512 $1 000** had not reached the bank.

Marloch Dental — Bank Statement (April 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Apr	Opening balance			500
4 Apr	Deposit — **Rec. 38**		900	1 400
9 Apr	**EFT 510** — Wages	1 600		200 DR
16 Apr	Deposit — **Rec. 39**		700	500
22 Apr	**Chq 511**	756		256 DR
28 Apr	Direct debit — SoftDesk	99		355 DR

Date 2027	Details	Debit $	Credit $	Balance $
30 Apr	Account-keeping fee	25		380 DR

The account was overdrawn twice during the month. The bank-only items are the $25 fee and the $99 direct debit (GST = 99 ÷ 11 = $9; subscription expense $90), both recorded in the Cash Payments Journal: updated cash balance = −356 − 25 − 99 = **$480 (Cr), overdrawn**. In the reconciliation an overdrawn balance is a **negative** figure (shown in brackets):

Marloch Dental — Bank Reconciliation Statement as at 30 April 2027

	$	$
Balance as per Bank Statement — overdrawn (DR)		(380)
Add: Outstanding deposit — Rec. 40		900
		520
Less: Unpresented payment — EFT 512		1 000
Balance as per cash records — overdrawn (Cr)		**(480)**

∴ −380 + 900 − 1 000 = **−480**: the reconciliation confirms an overdrawn balance of **$480**, equal to the updated cash balance, so the records reconcile.

Practice questions — scaffolded

Question 1

Sablewood Tutoring's Cash Receipts and Cash Payments Journals showed a Bank balance of $2 508 Dr at 30 September 2026. Its Bank Statement closed at $2 660 CR. On comparing the two, the owner found: interest received $6; an account-keeping fee $14; a deposit of $600 (**Rec. 30**) banked on 30 September that did not appear on the statement; and **Chq 210 $760**, recorded on 28 September, not yet presented.

a. Classify each of the four items as either an item to be **recorded in the cash records** or a **timing difference** for the Bank Reconciliation Statement.

b. Update the cash records and state the updated Bank balance.

c. Prepare the Bank Reconciliation Statement and confirm the records reconcile.

Question 2

After recording all Bank-Statement-only items, *Fernvale Physiotherapy*'s cash records showed a Bank balance of $4 400 Dr at 31 October 2026. The October Bank Statement closed at $4 900 CR. A deposit of $1 250 (**Rec. 88**) banked on 31 October, and two payments — **EFT 640 $820** and **Chq 641 $930** — had not yet reached the bank.

a. Prepare the Bank Reconciliation Statement as at 31 October 2026.

b. State whether the records reconcile.

c. Explain why the two closing balances differed even though neither the business nor the bank made an error.

Question 3

Oakhaven Web Design's cash records showed a Bank balance of $5 000 Dr at 30 November 2026. Its Bank Statement revealed four items not yet recorded: interest received $8; an account-keeping fee $16; a direct debit of $154 (including GST) for *CoverSure* insurance; and a dishonoured cheque of $300 originally received from the customer T. Blake.

a. For each item, state the special journal (CRJ or CPJ) in which it is recorded and the account named in the Details/Sundries column.

b. Record the four items and state the updated Bank balance.

c. The Bank Statement closed at $4 800 CR; a $700 deposit (**Rec. 77**) and **Chq 815 $962** were outstanding. Prepare the Bank Reconciliation Statement.

Question 4

Thornbury Landscaping's cash records showed a Bank balance of $3 560 Dr at 31 March 2027. Comparison with the March Bank Statement (closing balance $3 400 CR) revealed: interest received $10; an account-keeping fee $20; a dishonoured cheque of $250 from R. Vale; an outstanding deposit of $1 400 (**Rec. 55**); and an unpresented cheque, **Chq 722 $1 500**.

a. Update the cash records and state the updated Bank balance.

b. Prepare the Bank Reconciliation Statement.

c. Explain why the dishonoured cheque reduces the cash balance, and state what the business must now do about the $250.

Question 5

Pinehill Accounting Services' cash records showed a Bank balance of $3 335 Dr at 30 April 2027. Its Bank Statement closed at $2 940 CR and showed: an account-keeping fee $15; a dishonoured cheque of $520 from the client G. Ashworth; an outstanding deposit of $980 (**Rec. 22**); and an unpresented payment, **EFT 305 $1 120**.

a. Update the cash records and state the updated Bank balance.

b. Prepare the Bank Reconciliation Statement.

c. Explain what a dishonoured cheque is, and identify the qualitative characteristic that requires it to be recorded.

Question 6

Redgum Surveying's cash records showed a Bank balance of $6 012 Dr at 31 May 2027. Its Bank Statement closed at $5 400 CR and showed: interest received $14; an account-keeping fee $26; an outstanding deposit of $2 100 (**Rec. 140**); and two unpresented payments — **Chq 418 $900** and **EFT 420 $600**.

a. Update the cash records and state the updated Bank balance.

b. Prepare the Bank Reconciliation Statement.

c. Explain **one** way that preparing this reconciliation each month strengthens the business's internal control over cash.

Practice questions — unscaffolded

Question 7

Willowmere Cleaning's cash records showed a Bank balance of $4 210 Dr at 30 June 2027. Its Bank Statement for June is shown below. A $1 300 deposit (**Rec. 60**) banked on 30 June and **Chq 512 $1 500** were outstanding. Identify the Bank-Statement-only items, update the cash records, then prepare the Bank Reconciliation Statement.

Willowmere Cleaning — Bank Statement (June 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Jun	Opening balance			3 000
6 Jun	Deposit —		1 900	4 900

Date 2027	Details	Debit $	Credit $	Balance $
	Rec. 58			
12 Jun	**EFT 510** — Wages	1 200		3 700
21 Jun	Deposit — **Rec. 59**		1 300	5 000
27 Jun	**Chq 511**	590		4 410
29 Jun	Interest		7	4 417
30 Jun	Account-keeping fee	17		4 400

Question 8

Brookstone IT's cash records showed a Bank balance of $5 698 Dr at 31 July 2027. Its Bank Statement (closing $6 000 CR) included an account-keeping fee of $22 and a direct debit of $176 (including GST) for electricity. Outstanding were a deposit of $1 600 (**Rec. 88**) and two payments — **EFT 910 $900** and **Chq 912 $1 200**. Update the cash records (showing the GST on the direct debit) and prepare the Bank Reconciliation Statement.

Question 9

Havenwood Design's cash records showed a Bank balance of $6 000 Dr at 31 August 2027, and its Bank Statement closed at $5 600 CR. Bank-Statement-only items were: interest received $11; an account-keeping fee $19; a direct debit of $66 (including GST) for a software subscription; and a dishonoured cheque of $380 from L. Prendergast. Outstanding were a deposit of $900 (**Rec. 75**) and **Chq 641 $954**. Record the four items in the correct journals, then prepare the Bank Reconciliation Statement.

Question 10

Silverbrook Marketing's cash records showed a Bank balance of $4 452 Dr at 30 September 2027. Its Bank Statement (closing $4 300 CR) showed: an account-keeping fee $13; a direct debit of $99 (including GST) for software; and a dishonoured customer EFT of $440. Outstanding were a deposit of $1 100 (**Rec. 101**) and two payments — **EFT 720 $700** and **Chq 723 $800**. Update the cash records and prepare the Bank Reconciliation Statement.

Question 11

After updating for all Bank-Statement-only items, *Grovemont Tutoring*'s cash records showed a Bank balance of $3 000 Dr at 31 October 2027. Its Bank Statement closed at $3 450 CR, and a deposit of $800 (**Rec. 40**) was outstanding. The only other reconciling items were unpresented cheques, whose total the owner has mislaid. Calculate the total of the unpresented cheques and present the completed Bank Reconciliation Statement.

Question 12

A business's Cash Receipts and Cash Payments Journals showed a closing Bank balance that differed from the closing balance on its Bank Statement, even though every transaction had been recorded correctly by both the business and the bank. Explain the **two kinds** of reason the two balances can differ, giving an example of each, and state which kind is corrected by **updating the cash records** and which by **preparing a Bank Reconciliation Statement**.

Question 13

Blackwood Automotive's cash records showed an **overdrawn** Bank balance of $477 (Cr) at 30 November 2027. Its Bank Statement showed an overdrawn (**DR**) balance of $150 and included an account-keeping fee of $30 and a direct debit of $143 (including GST) to *SignPro* for advertising. Outstanding were a deposit of $1 000 (**Rec. 15**) and an unpresented payment, **EFT 830 $1 500**. Update the cash records and prepare the Bank Reconciliation Statement.

Question 14

Amberleigh Consulting's cash records showed a Bank balance of $8 000 Dr at 31 December 2027, before the December Bank Statement was checked. The statement revealed four items not yet in the cash records: interest received $15; an account-keeping fee $24; a direct debit of $231 (including GST) for insurance; and a dishonoured cheque of $610 from the customer D. Okafor. Record each item in the correct special journal (naming the account) and state the updated Bank balance. Explain why these four items appear on the Bank Statement before the business records them.

Question 15

Explain how the regular preparation of a bank reconciliation acts as an **internal control** over cash. In your answer, refer to at least **two** specific errors or irregularities a bank reconciliation can detect, and to the qualitative characteristic of **verifiability**.

Question 16

On comparing its cash records (Bank balance $3 110 Dr at 31 January 2028) with its Bank Statement (closing $3 400 CR), *Kelvingrove Catering Services* found four differences: interest received $5; an account-keeping fee $15; a deposit of $700 (**Rec. 66**) banked on 31 January; and **Chq 240 $1 000** not yet presented. Present a table classifying each item (record in cash records / timing difference), then prepare both the **updated cash balance** and the **Bank Reconciliation Statement**.

Question 17

The owner of a small service business prepares the monthly bank reconciliation personally and also has sole access to the cash and to the accounting records. In one month the owner takes $500 of cash fees for private use without recording it, and disguises the missing amount by listing a fictitious “unpresented cheque” of $500 on the Bank Reconciliation Statement so that the statement still appears to reconcile. **Discuss** the ethical and internal-control problems this raises, referring to **faithful representation**, the **accounting entity** assumption, and the **separation of duties**.

Question 18

Meridianvale Property Management’s cash records showed a Bank balance of $9 660 Dr at 31 March 2028. Its March Bank Statement is shown below. On comparing the two records the owner identified: interest received $18; an account-keeping fee $28; a direct debit of $110 (including GST) to *LeaseCo*; a dishonoured cheque of $540 from the tenant P. Nakamura; two outstanding deposits — **Rec. 300 $1 800** and **Rec. 301 $1 200**; and two unpresented payments — **EFT 1120 $1 100** and **Chq 1123 $1 400**. Update the cash records and prepare the Bank Reconciliation Statement.

Meridianvale Property Management — Bank Statement (March 2028)

Date 2028	Details	Debit $	Credit $	Balance $
1 Mar	Opening balance			6 000
7 Mar	Deposit — **Rec. 298**		3 200	9 200
13 Mar	**Chq 1119**	2 640		6 560
20 Mar	Deposit — **Rec. 299**		2 600	9 160
26 Mar	Dishonour — P. Nakamura	540		8 620
29 Mar	Direct debit — LeaseCo	110		8 510
30 Mar	Account-keeping fee	28		8 482
31 Mar	Interest		18	8 500

Answers

1.
    a. See solutions b. Updated Bank balance **$2 500** c. Reconciles at **$2 500**
2. a/b. Reconciles at **$4 400** c. See solutions
3.
    b. Updated Bank balance **$4 538** c. Reconciles at **$4 538**
4.
    a. Updated **$3 300** b. Reconciles at **$3 300** c. See solutions
5.
    a. Updated **$2 800** b. Reconciles at **$2 800** c. See solutions
6.
    a. Updated **$6 000** b. Reconciles at **$6 000** c. See solutions
7. Updated **$4 200**; reconciles at **$4 200**
8. Updated **$5 500**; reconciles at **$5 500** (direct-debit GST $16, electricity $160)
9. Updated **$5 546**; reconciles at **$5 546**
10. Updated **$3 900**; reconciles at **$3 900**
11. Unpresented cheques total **$1 250**
12. See solutions
13. Updated **$650 (Cr), overdrawn**; reconciles at **$650 overdrawn**
14. Updated Bank balance **$7 150**
15. See solutions
16. Updated **$3 100**; reconciles at **$3 100**
17. See solutions
18. Updated **$9 000**; reconciles at **$9 000**

Fully-worked solutions

Question 1

a. **Record in the cash records** (Bank-Statement-only items): interest received $6 (CRJ) and the account-keeping fee $14 (CPJ). **Timing differences** (Bank Reconciliation Statement): the $600 outstanding deposit (Rec. 30) and the unpresented Chq 210 $760.

b. Updated Bank balance = 2 508 + 6 (interest) − 14 (fee) = **$2 500**.

c. **Sablewood Tutoring — Bank Reconciliation Statement as at 30 September 2026**

	$	$
Balance as per Bank Statement (CR)		2 660
Add: Outstanding deposit — Rec. 30		600
		3 260
Less: Unpresented cheque — Chq 210		760
Balance as per cash records (Dr)		**2 500**

The statement reconciles to $2 500 — the updated cash balance — so the records agree.

Question 2

a. **Fernvale Physiotherapy — Bank Reconciliation Statement as at 31 October 2026**

	$	$
Balance as per Bank Statement (CR)		4 900
Add: Outstanding deposit — Rec. 88		1 250
		6 150
Less: Unpresented cheques/EFT		
EFT 640	820	
Chq 641	930	1 750
Balance as per cash records (Dr)		**4 400**

b. The statement reaches $4 400, equal to the cash-records balance, so the records **reconcile**.

c. The balances differ only because of **timing**. The business had already recorded the $1 250 deposit and the two payments in its journals, but the bank had **not yet processed** them — the deposit was banked too late to be credited and the two payments had not yet been presented for clearing. No error was made by either party; the Bank Statement will show these items in the next few days, at which point the two records will match on their own.

Question 3

a. Interest received → **Cash Receipts Journal**, Sundries account **Interest revenue**. Account-keeping fee → **Cash Payments Journal**, Sundries account **Bank charges**. Direct debit for insurance → **Cash Payments Journal**, Sundries account **Insurance** (with the GST portion in the GST column). Dishonoured cheque → **Cash Payments Journal**, Sundries account **Accounts Receivable — T. Blake** (reinstating the debt).

b. GST on the direct debit = 154 ÷ 11 = $14; insurance expense = $140. Updated Bank balance = 5 000 + 8 (interest) − 16 (fee) − 154 (direct debit) − 300 (dishonour) = **$4 538**.

c. **Oakhaven Web Design — Bank Reconciliation Statement as at 30 November 2026**

	$	$
Balance as per Bank Statement (CR)		4 800
Add: Outstanding deposit — Rec. 77		700
		5 500
Less: Unpresented cheque — Chq 815		962
Balance as per cash records (Dr)		**4 538**

The statement reconciles to $4 538, matching the updated cash balance.

Question 4

a. Updated Bank balance = 3 560 + 10 (interest) − 20 (fee) − 250 (dishonour) = **$3 300**.

b. **Thornbury Landscaping — Bank Reconciliation Statement as at 31 March 2027**

	$	$
Balance as per Bank Statement (CR)		3 400
Add: Outstanding deposit — Rec. 55		1 400

	$	$
		4 800
Less: Unpresented cheque — Chq 722		1 500
Balance as per cash records (Dr)		**3 300**

c. The $250 cheque from R. Vale was recorded earlier as a **receipt**, increasing Bank and reducing the customer's Accounts Receivable. When it was **dishonoured** the bank reversed the deposit, so the money never actually arrived; recording it in the Cash Payments Journal reduces Bank by $250 and **reinstates Accounts Receivable — R. Vale $250**. The business must now **pursue R. Vale for the $250 still owed** (and may charge any dishonour fee back to the customer).

Question 5

a. Updated Bank balance = 3 335 − 15 (fee) − 520 (dishonour) = **$2 800**.

b. **Pinehill Accounting Services — Bank Reconciliation Statement as at 30 April 2027**

	$	$
Balance as per Bank Statement (CR)		2 940
Add: Outstanding deposit — Rec. 22		980
		3 920
Less: Unpresented payment — EFT 305		1 120
Balance as per cash records (Dr)		**2 800**

c. A **dishonoured cheque** is a receipt the bank at first credited to the account but which then failed — the payer's account had insufficient funds or the payment was recalled — so the bank reverses the amount. It must be recorded to satisfy **faithful representation**: the cash records must be **complete and free from error**, and leaving out a receipt that never truly arrived would overstate both Bank and profit and understate the amount owed by the customer.

Question 6

a. Updated Bank balance = 6 012 + 14 (interest) − 26 (fee) = **$6 000**.

b. **Redgum Surveying — Bank Reconciliation Statement as at 31 May 2027**

	$	$
Balance as per Bank Statement (CR)		5 400
Add: Outstanding deposit — Rec. 140		2 100
		7 500
Less: Unpresented cheques/EFT		
Chq 418	900	
EFT 420	600	1 500
Balance as per cash records (Dr)		**6 000**

c. Any one: the reconciliation checks the business's cash records against the bank's **independent** record, so it **detects errors** (a receipt or payment recorded twice, omitted or entered at the wrong amount) by either party;

it **picks up bank-only items** (fees, interest, direct debits, dishonours) so the recorded cash balance stays complete; and, because it must genuinely balance, it makes it far harder for **theft or the misuse of cash to go unnoticed** — a missing amount cannot be hidden without leaving an unexplained difference.

Question 7

The Bank-Statement-only items are the **$7 interest** (record in the CRJ) and the **$17 account-keeping fee** (record in the CPJ): updated Bank balance = 4 210 + 7 − 17 = **$4 200**. The timing differences are the $1 300 outstanding deposit (Rec. 60) and the unpresented Chq 512 $1 500.

Willowmere Cleaning — Bank Reconciliation Statement as at 30 June 2027

	$	$
Balance as per Bank Statement (CR)		4 400
Add: Outstanding deposit — Rec. 60		1 300
		5 700
Less: Unpresented cheque — Chq 512		1 500
Balance as per cash records (Dr)		**4 200**

Reconciles to $4 200 — the updated cash balance.

Question 8

The direct debit is split: GST = 176 ÷ 11 = **$16**; electricity expense = **$160** (the full $176 is still what left the Bank). Updated Bank balance = 5 698 − 22 (fee) − 176 (direct debit) = **$5 500**.

Brookstone IT — Bank Reconciliation Statement as at 31 July 2027

	$	$
Balance as per Bank Statement (CR)		6 000
Add: Outstanding deposit — Rec. 88		1 600
		7 600
Less: Unpresented cheques/EFT		
EFT 910	900	
Chq 912	1 200	2 100
Balance as per cash records (Dr)		**5 500**

Reconciles to $5 500.

Question 9

Recording the four bank-only items (GST on the $66 subscription = 66 ÷ 11 = $6, expense $60):

Date	Details	Bank $	GST $	Sundries $	Journal
31 Aug	Interest revenue	11		11	CRJ
31 Aug	Bank	19		19	CPJ

Date	Details	Bank $	GST $	Sundries $	Journal
	charges				
31 Aug	Software subscription	66	6	60	CPJ
31 Aug	Accounts Receivable — L. Prendergast	380		380	CPJ

Updated Bank balance = 6 000 + 11 − 19 − 66 − 380 = **$5 546**.

Havenwood Design — Bank Reconciliation Statement as at 31 August 2027

	$	$
Balance as per Bank Statement (CR)		5 600
Add: Outstanding deposit — Rec. 75		900
		6 500
Less: Unpresented cheque — Chq 641		954
Balance as per cash records (Dr)		**5 546**

Reconciles to $5 546.

Question 10

GST on the $99 software direct debit = 99 ÷ 11 = $9 (expense $90). Updated Bank balance = 4 452 − 13 (fee) − 99 (direct debit) − 440 (dishonoured EFT) = **$3 900**.

Silverbrook Marketing — Bank Reconciliation Statement as at 30 September 2027

	$	$
Balance as per Bank Statement (CR)		4 300
Add: Outstanding deposit — Rec. 101		1 100
		5 400
Less: Unpresented cheques/EFT		
EFT 720	700	
Chq 723	800	1 500
Balance as per cash records (Dr)		**3 900**

Reconciles to $3 900.

Question 11

The reconciliation must reach the updated cash balance of $3 000. Let the unpresented-cheque total be $U. Then Bank-Statement balance + outstanding deposit − U = cash balance:

$$3\,450 + 800 - U = 3\,000 \Rightarrow U = 4\,250 - 3\,000 = \$1\,250.$$

Grovemont Tutoring — Bank Reconciliation Statement as at 31 October 2027

	$	$
Balance as per Bank Statement (CR)		3 450
Add: Outstanding deposit — Rec. 40		800
		4 250
Less: Unpresented cheques (total)		1 250
Balance as per cash records (Dr)		**3 000**

The unpresented cheques must total **$1 250** for the records to reconcile.

Question 12

The two balances differ for **two kinds** of reason.

(1) Bank-Statement-only items — transactions the **bank** has recorded but the **business has not yet entered**, because it learns of them only when the statement arrives. Examples: an **account-keeping fee**, **interest received**, a **direct debit** or a **dishonoured cheque**. These mean the **cash records are incomplete**, so they are corrected by **updating the cash records** (entering them in the Cash Receipts or Cash Payments Journal), which produces the updated cash balance.

(2) Timing differences — transactions the **business has already recorded** but which have **not yet reached the bank**. Examples: an **outstanding (late) deposit** not yet credited, and an **unpresented cheque or EFT** not yet processed. Here the **cash records are correct** and the Bank Statement will catch up shortly, so these are not corrected but simply **listed on the Bank Reconciliation Statement** — the outstanding deposit added to, and the unpresented cheques subtracted from, the Bank-Statement balance — to show that, once timing is allowed for, the two records agree.

Question 13

GST on the $143 advertising direct debit = 143 ÷ 11 = $13 (expense $130). The account is overdrawn, so balances are negative. Updated cash balance = −477 − 30 (fee) − 143 (direct debit) = **−650**, i.e. **$650 (Cr), overdrawn**.

Blackwood Automotive — Bank Reconciliation Statement as at 30 November 2027

	$	$
Balance as per Bank Statement — overdrawn (DR)		(150)
Add: Outstanding deposit — Rec. 15		1 000
		850
Less: Unpresented payment — EFT 830		1 500
Balance as per cash records — overdrawn (Cr)		**(650)**

−150 + 1 000 − 1 500 = **−650**: the reconciliation confirms an overdraft of **$650**, equal to the updated cash balance, so the records reconcile.

Question 14

Each Bank-Statement-only item is recorded in its journal (GST on the $231 insurance direct debit = 231 ÷ 11 = $21, expense $210):

Date	Details	Bank $	GST $	Sundries $	Journal
31 Dec	Interest revenue	15		15	CRJ
31 Dec	Bank charges	24		24	CPJ
31 Dec	Insurance	231	21	210	CPJ
31 Dec	Accounts Receivable — D. Okafor	610		610	CPJ

Updated Bank balance = 8 000 + 15 − 24 − 231 − 610 = **$7 150**.

These four items appear on the Bank Statement **before** the business records them because each is **generated or triggered at the bank**, not by the business: the bank charges its own fee, credits its own interest, executes the authorised direct debit, and reverses the dishonoured cheque — in each case **without the business creating a source document** at that moment. The business therefore discovers them only when it reads the statement, which is why they are entered as part of the reconciliation.

Question 15

A bank reconciliation is a powerful **internal control** because it checks the business's own cash records against the **Bank Statement — an independent record prepared by the bank**. By comparing the two line by line, the business can **detect errors and irregularities** it could not otherwise see. For example: (i) a **recording error** — a receipt or payment entered twice, omitted, or recorded at the wrong amount in a journal — shows up as an unexplained difference that will not reconcile; and (ii) a **bank error or an unauthorised withdrawal** — a payment on the statement the business never made, or an amount debited in error — is exposed because it does not match anything in the records. Reconciling also ensures **bank-only items** (fees, interest, direct debits, dishonours) are picked up so the recorded balance stays complete. Because it draws on the bank's independent evidence, the reconciliation supports **verifiability**: an outside party such as an auditor, lender or the ATO can confirm that the business's reported cash balance is faithfully represented and has been independently checked. Performed regularly — and, ideally, by someone other than the person who handles the cash — it both **deters** and **detects** the misuse of cash, because a missing amount cannot be hidden without leaving a difference that does not reconcile.

Question 16

Kelvingrove Catering Services — classification of items

Item	Amount $	Classification	Treatment
Interest received	5	Bank-Statement-only	Record in the CRJ (Interest revenue)
Account-keeping fee	15	Bank-Statement-only	Record in the CPJ (Bank charges)
Deposit Rec. 66 (banked 31 Jan)	700	Timing difference	Add to the Bank Reconciliation Statement
Chq 240 (not presented)	1 000	Timing difference	Subtract on the Bank Reconciliation Statement

Updated cash balance = 3 110 + 5 (interest) − 15 (fee) = **$3 100**.

Kelvingrove Catering Services — Bank Reconciliation Statement as at 31 January 2028

	$	$
Balance as per Bank Statement (CR)		3 400
Add: Outstanding deposit — Rec. 66		700
		4 100
Less: Unpresented cheque — Chq 240		1 000
Balance as per cash records (Dr)		**3 100**

Both the updated cash balance and the Bank Reconciliation Statement reach **$3 100**, so the records reconcile.

Question 17

This scenario raises serious **ethical** and **internal-control** failures.

Faithful representation. The $500 of cash fees is genuine **revenue** of the business and must be recorded **completely**. Omitting it makes the Cash Receipts Journal — and every report drawn from it — incomplete and biased: revenue, profit, the GST owed to the ATO and the owner's income tax are all understated, so the reports are **not a faithful representation** of the firm's performance. Fabricating an "unpresented cheque" compounds the breach by putting a **false item** into the reconciliation to make it appear to balance, concealing the shortfall rather than revealing it.

Accounting entity. Taking business cash for private use is a **drawing**, not something that may be hidden. Under the **accounting entity** assumption the owner's private affairs are separate from the business; if the owner wishes to take the $500, it must be recorded as **Drawings** (reducing Capital), not disguised so that the business's revenue simply disappears.

Separation of duties. The root control weakness is that **one person handles the cash, keeps the records and prepares the reconciliation** with no independent check. This concentration of duties is what makes the fraud possible and the false reconciliation undetectable. Proper internal control requires a **separation of duties** — the person who receives and banks the cash should **not** be the same person who prepares or reviews the bank reconciliation — together with intact banking of all receipts and review of the reconciliation by the owner or an independent party. A reconciliation that is honestly prepared and independently checked would have exposed the missing $500, because the fictitious cheque would never clear and the difference would persist.

Question 18

The Bank-Statement-only items are recorded first (GST on the $110 LeaseCo direct debit = 110 ÷ 11 = $10, expense $100):

Date	Details	Bank $	GST $	Sundries $	Journal
31 Mar	Interest revenue	18		18	CRJ
31 Mar	Bank charges	28		28	CPJ
31 Mar	LeaseCo (lease)	110	10	100	CPJ
31 Mar	Accounts Receivable — P. Nakamura	540		540	CPJ

Updated Bank balance = 9 660 + 18 − 28 − 110 − 540 = **$9 000**.

Meridianvale Property Management — Bank Reconciliation Statement as at 31 March 2028

	$	$
Balance as per Bank Statement (CR)		8 500
Add: Outstanding deposits		
Rec. 300	1 800	
Rec. 301	1 200	3 000
		11 500
Less: Unpresented cheques/EFT		
EFT 1120	1 100	
Chq 1123	1 400	2 500
Balance as per cash records (Dr)		**9 000**

8 500 + 3 000 − 2 500 = **$9 000**, equal to the updated cash balance, so the records reconcile.