Lesson Blueprint

Computerized Accounting with QuickBooks® 2019

# Chapter 10: Banking

## Introduction

* An integral part of operating any business is effectively managing cash.
* usually involves maintaining cash in one or more bank accounts
* Managing cash involves
  + transferring funds among bank accounts
  + reconciling account balances
  + utilizing credit cards for business purchases and making credit card payments
* QuickBooks allows you to
  + transfer funds from one bank account to another
  + process the month-end bank reconciliation
  + enter and pay credit card charges
* Many companies have more than one checking account.
  + regular checking account
    - commonly known as the *operating account*
    - used for paying bills, collecting and depositing receivables and other funds
  + A company usually maintains a separate checking account solely for payroll transactions.
  + Periodically, funds from the operating checking account will be transferred to the payroll checking account in order to pay employees and payroll taxes.
* As a business grows in complexity, the need for special purpose accounts grows correspondingly.
  + For example, many companies have interest bearing money market accounts that are designed to hold excess funds temporarily.
  + These funds earn interest until they are needed for an operating activity, at which time they are transferred to a checking account.
* Companies can transfer funds as needed among the different accounts, often via online banking connections.
* With QuickBooks, you use the Transfer Funds Between Accounts window to record and monitor the transfer of funds between accounts.
* Companies typically receive a statement from the bank at the end of the month detailing the activity the bank has recorded in the company’s checking account, along with a month-end balance.
  + Often, this balance does not agree with the company’s records.
  + Differences are usually due to transactions that the bank has recorded in the account of which the company is unaware.
  + Bank reconciliation is a procedure used to determine the correct cash balance by accounting for these differences and to ensure that they are not a result of errors, either on the part of the bank or the company, or from theft of funds.
  + In addition, if the bank makes changes to the company’s account, the company will have to record transactions in the general ledger accounts to reflect these changes.
  + In QuickBooks, the Reconcile window is used to reconcile the balance per the bank statement to the balance per the accounting records.
* Many companies utilize credit cards to pay bills.
  + This allows the company to track expenses of a specific nature, such as travel and entertainment expenses, and defer payment of expenses as needed.
  + In QuickBooks, the Enter Credit Card Charges window is used to record credit card expenditures.
* In this chapter, the sample company, Kristin Raina Interior Designs, will
  + transfer funds between accounts
  + process bank reconciliations
  + use a credit card to pay for expenses

## QuickBooks versus Manual Accounting: Banking

* Banking activities in both manual and computerized accounting systems require a company to
  + record transfers of funds among bank accounts
  + reconcile each bank account balance to the company’s balances
  + track charges and payments by credit card

### Transfers

* In a manual accounting system, when funds are transferred to or from one cash account to another, the transaction can be handled in several ways.
* Transfers from the company’s operating account can be recorded in the
  + cash payments journal
    - A cash payments journal procedure is used when a check is drawn from a cash account in order to accomplish the transfer.
    - If the cash payments journal is used for transfers out of the cash accounts, the cash receipts journal will be used for transfers into the cash accounts.
  + general journal
    - If the transfer is accomplished via a bank credit and debit memo, an online transfer, or a phone transfer, the general journal procedure is used.
    - If the general journal is used to record the transfer out of the cash accounts, it also will be used to record the transfers into the cash accounts.
* In QuickBooks, transfers among bank accounts, if not done by check, are recorded in the Transfer Funds Between Accounts activity window.
* This window indicates the cash accounts involved in the transfer and the amount of the transfer.

### Bank Reconciliation

* The steps to completing a bank reconciliation in QuickBooks are similar to those in a manual accounting system.
* The company receives a statement from the bank detailing the activity in the account for the month.
  + This statement shows
    - deposits (or other additions) to the account
    - checks that have cleared (were paid by) the bank
    - If the account has earned interest, it is added to the balance by the bank.
    - If the bank has charged any fees, called service charges, they will be deducted from the account.
  + Other items that may appear are
    - NSF (non-sufficient funds) checks
    - credit memos (additions)
    - debit memos (subtractions)
* The bank statement is compared to the company’s accounting records and any differences identified.
  + Generally, these differences, called *reconciling items*, fall into three categories:
    - timing differences, such as deposits in transit or outstanding checks
    - omissions, such as the interest recorded by the bank not yet recorded by the company
    - errors by either party
  + The first two are normal differences that are expected as part of the reconciliation process.
* If all timing differences and omissions are accounted for, and there are no errors, the adjusted bank balances will agree with the adjusted balance for the company’s books.
  + However, if there is an error, a difference will remain until the source of the mistake is found.
  + When the mistake is corrected and the difference is zero, the account is then said to be reconciled.
* In QuickBooks, the bank reconciliation procedure is carried out using the Reconcile windows.
  + Once a cash account is identified, the window displays all activity in the account, including deposits or other additions (debits), and checks or other reductions (credits).
  + This information is compared to the bank statement in order to reconcile the account.

### Credit Card Charges

* In a manual accounting system, a credit card charge is usually recorded when the bill is paid by the company or tracked as part of accounts payable.
  + This often results in expenses being recorded in periods after they are actually incurred.
* In QuickBooks, a credit card charge can be recorded immediately when it is incurred using the Enter Credit Card Charges window.
* QuickBooks tracks the resulting credit card liability, which will be paid at a later date separate from accounts payable.
* This ensures that assets and/or expenses are recorded in the proper time period and the credit card liability is tracked.

## Chapter Problem

* In this chapter, Kristin Raina Interior Designs will
  + transfer funds among the company’s bank accounts
  + prepare a reconciliation of the cash accounts
  + enter credit card transactions
* Balances as of April 30, 2021, are contained in the company file CH10 Kristin Raina Interior Designs.
* Using the steps similar to those you used in Chapters 1 through 5, complete the following.
  + Open the company file CH10 Kristin Raina Interior Designs.QBW and enter the password.
  + Make a backup copy of the file using the file name EX10 [*Your Name*] Kristin Raina Interior Designs.
  + Restore the backup copy and enter the password.
  + Change the company name in the file to EX10 [*Your Name*] Kristin Raina Interior Designs.

## Lists: Updating the Chart of Accounts List

* Kristin Raina has decided to open and fund a money market cash account because the bank offers a higher rate of interest on money market funds than it offers on a Cash – Operating account.
  + Typically, a company will have a separate general ledger account for each bank account to facilitate the bank reconciliation process.
  + Kristin Raina needs to add an additional cash account and accounts that reflect the adjustments resulting from the bank reconciliation.
* In addition, Kristin will begin using a credit card to pay for travel-related expenses, so accounts must be added for this additional expense and liability.
* You will need to update Kristin Raina’s Chart of Accounts List to include these new accounts necessary for the additional banking procedures.
* See text for new accounts to be added.

## Activities: The Transfer Funds Window

* In QuickBooks, use the Transfer Funds Between Accounts window (or Transfer Funds window, for short) to record the movement of funds among the cash accounts of the business.
  + If you are transferring funds by writing a check from one cash account to be deposited into another cash account, use the Write Checks window.
  + However, when you transfer funds via bank memo, telephone, or online services, use the Transfer Funds window to record the transaction.
* See text for sample journal entry.
* This window allows you to identify the
  + source (transferor) cash account
  + receiving (transferee) account
  + amount to be transferred
  + current balance of the source account, thus preventing you from overdrawing from it
    - The Previous and Next arrows and the Save & Close, Save & New, and Clear buttons all have the same function in this window as in other Activity windows.
* See text for steps to transfer funds.
* See text for practice exercise.

## Activities: The Reconcile Window

* In QuickBooks, activities identified as bank reconciliation are processed in the Reconcile windows.
* The reconciliation procedure in QuickBooks accomplishes two purposes.
  + First, it ensures that the company’s cash records are correct and agree with that of the bank.
  + Second, transactions missing from the company’s records that are discovered during the reconciling process can be recorded at this time.
* The Reconcile windows display
  + all additions to a given account, such as deposits and transfers in
  + all reductions to the account, such as checks written and transfers out
* Use the Reconcile windows to compare the information for each account with the bank statement for that account.
  + Indicate the transactions that have cleared the bank by placing a check next to the transaction.
  + Add transactions recorded on the bank statement that are not yet on the company’s books.
* As part of the reconciling process, you may need to make adjustments to the cash account.
  + For example, the bank may have deducted service charges from the company’s bank account during the course of the month.
    - This deduction is reflected on the bank statement but has not yet been recorded in the company’s records.
  + The same holds true for any interest income earned on the company’s bank account.
  + While performing the bank reconciliation in the Reconcile windows, you have the opportunity to identify and record these transactions and adjust the company’s accounts accordingly.
* When you add service charges, the default accounts are the Bank Service Charges account and the Cash account.
  + See text for sample journal entry.
* When you record interest income, the default accounts are the Cash account and the Interest Income account.
  + See text for sample journal entry.
* If the bank records an NSF check from a customer, QuickBooks does not automatically record the transaction.
  + Instead, you must record the transaction in the Create Invoices window to re-establish the accounts receivable for this customer and deduct the cash that was never actually collected.
    - Recall that the system default account in the Create Invoices window is a debit to Accounts Receivable.
    - When you select an item, usually a service or inventory part item, the appropriate revenue account is credited.
    - If using QuickBooks to reconcile accounts, you create an item for NSFs in the Item List.
    - When you establish an NSF item, identify the default account as Cash.
    - When you record an NSF in the Create Invoices window, the Accounts Receivable is debited for the amount of the NSF still due the company and the corresponding credit, based on the NSF item, will be to Cash.
  + The QuickBooks Reconcile window consists of two parts.
    - The first window, called the Begin Reconciliation window, allows you to select a bank account to reconcile, add transactions such as service charges and interest income, and enter the bank statement balance.
    - The second window, called the Reconcile window, will be used to indicate which transactions recorded on the company’s books have cleared the bank.
  + See text for Begin Reconciliation window.
* Special note should be made of the following parts of the Begin Reconciliation window:

|  |  |
| --- | --- |
| **Account** | QuickBooks allows you to reconcile all cash accounts set up by the company. |
| Once you select an account from the drop-down list, all activity for that account only is displayed. |
| **Beginning Balance** | Indicates the opening balance for the bank statement. |
| If this is the first time you are reconciling the account, the figure will be zero. |
| Do not edit this number. |
| **Ending Balance** | Used to enter the ending balance appearing on the bank statement. |
| **Service Charge** | Used to enter the amount of the service charges appearing on the bank statement. |
| Indicates the account the service charge will be charged to. |
| When you click Reconcile Now, QuickBooks automatically posts the expense and reduces the Cash account. |
| **Interest Earned** | Used to enter the amount of interest shown on the bank statement along with the appropriate income account for interest. |
| When you click Reconcile Now, QuickBooks automatically posts the increase to Cash and Interest Income. |
| **Locate Discrepancies Button** | Used to undo the previous reconciliation to correct errors or omissions. |

* Once the information is entered in the first window, the Reconcile window will be used to indicate which transactions recorded on the company’s books have cleared the bank.
* Once all cleared or missing transactions have been accounted for, the difference amount should be zero.
* See text for the Reconcile window.
* Make special note of the following in the Reconcile window:

|  |  |
| --- | --- |
| **Difference** | If all reconciling items are accounted for, the difference will be zero. |
| If after completing the reconciliation process a difference remains, it is probably due to an error, either on the part of the bank or the company. |
| You must identify the error and correct it before completing the reconciliation. |
| **Reconcile Now** | Click this button if the Difference amount is zero. |
| The account is now reconciled, and a *Reconciliation* report can be printed. |

* See text for steps to process a bank reconciliation.
* Print the *Reconciliation* report immediately after completing the bank reconciliation.
* Access the *Reconciliation* report from the Reports menu using the Previous Reconciliation.
* See text for practice exercise.
* QuickBooks allows you undo a previous reconciliation to correct any errors.
* See text for steps to undo the last reconciliation.

## Activities: The Enter Credit Card Charges Window

* Activities identified as credit card purchases of goods or services are recorded in the Enter Credit Card Charges window.
* When a credit card is used to purchase goods, the asset purchased or expense incurred is recorded as if the goods were purchased with cash or on account.
* The purchase creates a liability in the form of a credit card balance that will be paid at a later date.
  + The default account is a Credit Card Liability account.
    - Since the liability is not posted to the Accounts Payable account, Accounts Payable is not used to track the credit card liability.
  + See text for sample journal entry.
* When the credit card bill is paid, the credit card liability is reduced by a cash payment.
  + The default accounts are the Credit Card Liability account and the Cash account.
  + See text for sample journal entry.
* See text for Enter Credit Card Charges window.
* The procedures for this window are very similar to those of the Enter Bills and Write Checks windows.
* Make special note of the following fields:

|  |  |
| --- | --- |
| **CREDIT CARD** | QuickBooks allows you to track the activity of more than one credit card. |
| Choose the credit card for the current transaction from the drop-down list. |
| **PURCHASED FROM** | Used to choose the vendor that the item or expense was purchased from with the selected credit card. |
| **PURCHASE/CHARGE**  **REFUND/CREDIT** | If this is a purchase, click *Charge.* (A charge will increase the liability.) |
| If you are processing a vendor credit, click *Credit.* (A credit will reduce the liability.) |

* See text for steps to enter a credit card charge.
  + See text for practice exercise.
* See text for steps to pay a credit card charge.
  + See text for practice exercise.

# Chapter 10 Accounting Terms

bank reconciliation Procedure used to determine the correct cash balance in an account by comparing the activity recorded in the account to the activity recorded on the bank statement.

credit card charges Expenditures charged to a credit card to be paid at a later date.

deposit in transit A deposit recorded on the company’s books, usually at the end of the month, yet deposited too late to be on the current month’s bank statement.

outstanding check A check written and recorded by the company that has not yet been paid by the bank.

reconciling items Differences between the bank statement and the company’s records that have to be reconciled in order to have the cash balance in the company’s accounting records agree with the balance in its bank statement.

transfer funds The movement of money from one account to another account.