CASH AND CASH EQUIVALENTS

Summary Notes:
Cash

- Money
- Any item that is used as a standard medium of exchange
- Normal People – currency and coins
- Accounting – an item is considered cash if it is acceptable by bank or other financial institution for deposit at face value.
    - it must be unrestricted and immediately available for use.
- **Examples**
    - Bills and coins on hand
    - Demand credit instruments
        - Checks (exclusive of post-dated checks)
        - Bank drafts – check drawn by a bank from its own fund in another bank.
        - Postal Money Orders – Cebuana, ML, Palawan Express, etc.
        - Demand deposits
        - Etc.

Cash Equivalents

- short-term highly liquid investments that are readily convertible to cash or their maturity is so near.
- They must be acquired 3 months before maturity.
- **Examples**
    - 3-month BSP treasury Bill
    - 3-year BSP treasury Bill purchased 3 months before maturity.
    - 3-month time deposit
    - 3-month money market instrument or commercial paper
    - Redeemable preference shares with specified redemption date and acquired 3 months before redemption.
    - Etc.
- Equity Securities are not included – shares do not have maturity date.
- BSP treasury Bill acquired a year ago with maturity date of 3 months from now is **EXCLUDED.**

Measurement of Cash
General Rule: Measured at Face Value
Exception: Cash in Foreign Currency – measured at current exchange rate

Financial Statement Presentation – first item among the current assets.

SoriaNotes on Cash and Cash Equivalents
SoriaNotes 1: Cash in Foreign Currency

- Measured using current exchange rate.
- **w/o Foreign Currency Restriction –** included in cash
- **w FOREX Restriction –** part of noncurrent assets.
- **Silent –** Unrestricted.

SoriaNotes 2: Cash Fund for a Certain Purpose

- Cash is set aside for a specific purpose.
- **Set Aside for Current Purposes –** included in cash
    - Petty Cash Fund
    - Payroll Fund
    - Interest Fund
    - Dividend Fund
    - Tax Fund
- **Set Aside for Noncurrent Purposes –** part of noncurrent assets
    - Sinking Fund*
    - Preference Share Redemption Fund*
    - Fund for Future Expansion
    - Fund for Acquisition or Construction of PPE

**Classification of cash is parallel to the classification of liability.*

SoriaNotes 3: Bank Overdraft
- Not permitted in the Philippines
- Credit balance in "Cash in Bank" account
- Issuance of checks in excess of deposits
- **General Rule:** do not offset against the balance in other banks. Presented as CURRENT LIABILITY
- **Exception:** Entity maintains 2 or more accounts in one bank and one account results in an overdraft – offsetting is permitted.

SoriaNotes 4: Compensating Balance
- Minimum balance that must be maintained in connection with a borrowing arrangement with a bank.
- **Deposit is NOT LEGALLY RESTRICTED AT TO WITHDRAWAL because of an INFORMAL AGREEMENT –** compensating balance is included in cash.
- **Deposit is LEGALLY RESTRICTED AT TO WITHDRAWAL because of a FORMAL AGREEMENT –** compensating balance is excluded from cash. Part of Current Assets.
- **If the Loan is long-term –** compensating balance is automatically excluded from cash but part of noncurrent assets.
- **Silent –** consider the deposit CURRENT and NOT LEGALLY RESTRICTED, therefore part of CASH.

SoriaNotes 5: Undelivered/Unreleased Checks
- Drawn and recorded but not given to the payee before end of reporting period.
- INCLUDED in cash.
- Part of Liability – technically, no payment yet.

SoriaNotes 6: Post Dated Check Delivered
- Drawn, recorded, and delivered but bears a date subsequent to the end of reporting period.
- INCLUDED in cash
- Part of Liability – technically, no payment yet.

SoriaNotes 7: Post Dated Check Received/NSF or DAIF Check Received/Stale Check Received
- **NSF/DAIF Checks –** checks deposited but returned by the bank because of insufficient fund.
- EXCLUDED from cash
- Part of Receivables

SoriaNotes 8: IOUs from Employees/Advances to Employees
- EXCLUDED from cash
- Part of Receivables

SoriaNotes 9: Stale Check Delivered
- Check not encashed by the payee within 6 months.
- Returned back to cash
- **Material –** reestablished payable
- **Immaterial –** record as miscellaneous income
- **Silent –** immaterial

SoriaNotes 10: Cash in Close Banks
- EXCLUDED from cash
- Part of Receivables

SoriaNotes 11: Postage Stamps
- EXCLUDED from cash
- Part of Expenses

SoriaNotes 12: Fraudulent Misstatement with Regards to Cash (Part of Auditing)
- **Window Dressing**
  - Books must be closed at the end of every reporting period in order that FS will be presented fairly.
  - A practice of opening the books BEYOND the close of the reporting period for the purpose of showing better financial position and performance.
  - Entries made to window dress must be reversed to correct the books.

- **Kitting**
  - Used for concealing cash shortage.
  - Only possible if the entity maintains an account with 2 or more banks.
- **Lapping**
  - Another device to control cash shortage.
  - Misappropriation of postponements.
  - Series of postponements.

PETTY CASH FUND – money set aside to pay small expenses.
2 methods of handling PCF
1. Imprest Fund System - **Silent**
2. Fluctuating Fund System

Entries
1. Establishment of the fund
2. Payment of expenses out of the fund
3. Replenishment of the fund – petty cash balance is fixed in imprest fund system unless increased or decreased during replenishment.
4. Adjustment at the end of the period if no replenishment.

Accounting for cash short or over
Cash short or over account
- Nominal Account
- Disposition:
  - **Fault of responsibility of the cashier –** Due from cashier or payable to cashier
  - **Otherwise –** Miscellaneous income or expense

BANK RECONCILIATION
- Is a statement which brings into agreement the cash balance per book and cash balance per bank.
- Usually prepared MONTHLY – since bank statements are received every month.

Bank Statement
- Monthly report provided by the bank to the deposit which shows the following information:
  - Cash balance per bank, beginning
  - Deposits made acknowledge by the bank
  - Checks drawn paid by the bank
  - Cash balance per bank, end
  - Bank charges and NSF checks
  - Interest earned by the depositor
  - ETC.

Depositor Ledger
- record of the depositor which shows the following:
  - Cash balance per book, beginning
  - Deposits made by the depositor
  - Checks drawn by the depositor
  - Cash balance per book, end
  - ETC.

Reconciling Items
1. Book Reconciling Items – possible items not recorded by the depositor.
  a. Credit Memos (CM)
  - Items not representing deposits credited by the bank to the account of the depositor but not yet recorded by the latter.
  - Effect – increasing balance per BANK.
  - **Examples:**
    - Note Receivables collected by the bank
    - Proceeds of bank loan
    - Matured time deposits transferred by the bank to the current account

  b. Debit Memos (DM)
  - Items not representing checks paid but charged or debited by the bank to the account of the depositor but not yet reported by the latter.
  - Effect – decreasing BANK balance

- **Examples:**
    - NSF Checks
    - Technically defective checks – checks deposited but returned by the bank because of technical defects (absence of signature, erasures, with alterations, etc.)
    - Bank Service Charges – interest expense, checkbook fee, penalty, etc.
    - Reduction/Payment of Loan (auto debit)

c. **Errors –** need to be analyzed for proper treatment (Company recorded customer check for P 1,000,000 instead of the correct amount of P 100,000.)

2. **Bank Reconciling Items –** possible items not recorded by the bank

a. **Deposits in Transit (DIT)**
- Collections already recorded by the depositor as cash receipts but not yet reflected in the bank statement.
- Effect – increasing balance per BOOK
- **Examples:**
    - Collections already forwarded to the bank for deposit but too late to appear in the bank statement.
    - Undeposited collections or Cash on Hand

b. **Outstanding Checks (OC)**
- Checks already recorded by the depositor as cash disbursements but not yet reflected on the bank statement.
- Effect – increasing BOOK balance
- **Examples:**
    - Checks drawn and already given to payees but not yet presented for payment.
- **Certified Checks**
    - Checks stamped by the bank in its face the word "accepted" or "certified" indicating sufficiency of fund.
    - Account is immediately charged or debited to ensure the eventual payment of the check.
    - NOT A RECONCILING ITEM.
    - **Deducted from OC –** if included.
    - **Ignored –** if not included in the total OC.

c. **Errors -** need to be analyzed for proper treatment (Check written by ABC Corp was charged to ABC Trading).

Forms of Bank Reconciliation

1. **Adjusted Balance Method (PREFERRED) –** the bank and book balance are brought to a correct cash balance that must appear on the balance sheet.

Book Balance, unadjusted	xx	Bank Balance, unadjusted	xx
Add: Credit Memos (CM)	xx	Add: Deposits in Transit (DIT)	xx
Less: Debit Memos (DM)	xx	Less: Outstanding Checks (OC)	xx
Adjusted Book Balance	Xx	Adjusted Bank Balance	xx

2. **Book to Bank Method –** book balance is adjusted to equal the bank balance.
3. **Bank to Book Method –** bank balance is adjusted to equal the book balance

Adjusting Entries – only book reconciling items.

PROOF OF CASH (more examples in Auditing)
- 4-column Bank Reconciliation
- Two-dates or two-month bank reconciliation
- Detailed Bank reconciliation
- It reconciles beginning and ending cash balances of the month as well as the receipts and disbursements made by the bank and by the company.

Terms related to Proof of Cash

1. **Bank Credits (Receipts)**
    - All items CREDITED by the bank to the account of the company.
    - Credit Memos, Deposits, and Errors.
2. **Bank Debits (Disbursements)**
    - All items DEBITED by the bank to the account of the depositor.
    - Debit Memos, Checks Paid, and Errors.

3. **Book Debits (Receipts)**
   - All items DEBITED by the depositor to the "Cash in Bank" account.
   - Deposits and Errors.
4. **Book Credits (Disbursements)**
   - All items CREDITED by the depositor to the "Cash in Bank" account.
   - Checks drawn and Errors.

Proof of Cash Assumption – All corrections or unrecorded items (DIT, OC, CM, DM) are presumed to be recorded or corrected the following month.

Theory Questions:

1. Which of the following should <u>not</u> be considered cash for financial reporting purposes?
   a. Petty cash funds and change funds
   b. Money orders, certified checks and personal checks
   c. Coin, currency and available funds
   d. Postdated checks and IOUs

2. Which of the following is false concerning the valuation of cash and cash equivalents?
   a. Cash is valued at face value
   b. Cash in foreign currency is valued at the exchange rate at balance sheet date
   c. Cash equivalents should be valued at maturity value, meaning face value plus interest
   d. If a bank or financial institution holding the funds of the company is in bankruptcy or financial difficulty, cash should be written down to net realizable value.

3. Deposits in foreign countries, which are subject to foreign exchange restrictions, should be
   a. Valued at current exchange rates and shown as current assets
   b. Valued at historical exchange rates and presented as noncurrent assets
   c. Valued at current exchange rates and presented as noncurrent assets
   d. Valued at historical exchange rates and presented as current assets

4. Which of the following should be considered cash equivalents?
   a. Certificates of deposit
   b. Money market with checking account privileges
   c. Legally restricted compensating balances
   d. Postdated checks

5. Travel advances should be reported as
   a. Supplies.
   b. Cash because they represent the equivalent of money.
   c. Investments.
   d. None of these.

6. Which of the following should be included in the balance sheet as cash and cash equivalents?
   a. Deposits to suppliers
   b. Employee IOUs
   c. Cash set aside for the retirement of preferred stock 12 months from the balance sheet date.
   d. Money market placements

7. The following statements relate to cash. Which statement is false?
   a. The term cash can refer to demand credit instruments such as money order and bank drafts.
   b. The purpose of establishing a petty cash fund is to keep enough cash for small recurring operating expenses for a period of time.
   c. Classification of a restricted cash balance as current or noncurrent should be not parallel to the classification of the related obligation for which the cash was restricted.
   d. Legally restricted compensating balances required by a bank should always be excluded from "cash and cash equivalent".

8. As contemplated in accounting, cash includes
   a. Money only
   b. Money and negotiable instruments
   c. Any negotiable instrument including promissory notes.
   d. Money and any negotiable instrument that is payable in money and acceptable by the bank for deposit and immediate credit.

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9. To be reported as "cash and cash equivalents", the cash equivalent must be
   a. Deposited in the bank
   b. Available for the redemption of preferred stock or bonds
   c. Unrestricted in use for current operations
   d. Set aside for the purchase or construction of fixed assets

10. Which of the following should be considered as cash in the balance sheet?
   a. Post dated checks received excluded
   b. IOUs from officers to be deducted from their salaries of the following month excluded
   c. Undelivered checks
   d. NSF checks excluded

11. Which of the following cannot be shown as part of cash in the current assets section of the balance sheet?
   a. Cash in special checking account for payroll
   b. Cash deposited with utility company
   c. Compensating balances
   d. Customer's checks

12. Unreleased checks (checks drawn before the balance sheet date but held for later delivery to creditors)
   a. Should be treated as outstanding checks
   b. Are treated as certified checks
   c. Should be restored to the cash balance
   d. Should be a book-reconciling item since the bank has deducted this amount at arriving at the cash balance in the bank statement.

13. Compensating balance agreement (choose the incorrect one)
   a. Reduces the amount of cash available to the borrower
   b. Always involves the legal restriction on the compensating cash balance
   c. Increases the effective interest rate to the borrower
   d. Should be disclosed in the notes to the financial statements

14. Which of the following statements best reflect a compensating balance agreement?
   a. A savings account maintained at the bank equal to the amount of all outstanding loans
   b. An amount of capital stock held in the company's treasury equal to outstanding loan commitments
   c. The portion of any demand deposit, time deposit, or certificate of deposit maintained by corporation which constitute support for existing borrowing arrangements of the corporation with the lending institution.
   d. A balance held in a time or demand deposit account that is equal to the interest currently due on a loan

15. Deposits held as compensating balances
   a. Usually do not earn interest.
   b. If legally restricted and held against short-term credit may be included as cash.
   c. If legally restricted and held against long-term credit may be included among current assets.
   d. None of these.

16. Cash equivalents are
   a. Short-term and highly liquid investments that are readily convertible into cash.
   b. Short-term and highly liquid investments that are readily convertible into cash with remaining maturity of three months.
   c. Short-term and highly liquid investments that are readily convertible into cash and so near their maturity that they represent insignificant risk of changes in value because of changes in interest rates.
   d. Short term and highly liquid marketable equity securities.

17. Which of the following statements regarding cash equivalents is correct?
    a. A one-year treasury note could not qualify as cash equivalent.
    b. All investment meeting the IASB's criteria for cash equivalent must be reported as such.
    c. The date a security is purchased determines its "original maturity" for cash equivalent classification purposes.
    d. Once established, management's policy for classifying items as cash equivalents cannot be changed.

18. Which of the following statements is *false?*
    a. Not all items included in cash constitute legal tender
    b. Cash may be offset against a liability if the deposit of funds in a restricted account clearly constitutes the legal discharge of the liability
    c. Petty cash fund of P 5,000 composed of currency and coins of P1,400 and unreplenished petty cash vouchers of P3,600 should be shown in the current asset section at P1,400 only.
    d. Marketable securities and commercial papers may be shown as part of cash provided this is disclosed

19. An item that should be excluded from cash and cash equivalent on the December 31, 2029 balance sheet of Pepper Company is
    a. A customer's check denominated in a foreign currency.
    b. A check issued by Pepper Company on December 30, 2029, but dated January 10, 2030.
    c. A P1,000,000 time deposit which matures in 4-months.
    d. A P100,000 balance in the company's current account maintained as a payroll fund.

20. Which will not be considered as cash equivalent?
    a. Postal money order
    b. Certificate of deposits
    c. Three-year treasury bills purchased three months before maturity.
    d. Redeemable preferred stock acquired three months before redemption

21. Bank overdraft, if material, should be
    a. Reported as a deduction from the current asset section
    b. Reported as a deduction from cash
    c. Netted against cash and a net cash amount reported
    d. Reported as a current liability

22. What is the adjusting entry for a customer NSF check?
    a. Debit cash and credit accounts receivable
    b. Debit accounts receivable and credit cash
    c. Debit service charge and credit cash
    d. No adjustment necessary

AR
Cash

23. All cash receipts are deposited intact and all cash disbursements are made by means of check. This internal control is known as
    a. Administrative control
    b. Accounting control
    c. Imprest system
    d. Auditing control

24. Cash control systems are the methods and procedures used to ensure
    a. That current obligations are met
    b. The safeguarding of cash.
    c. That excess cash does not exist
    d. That unused cash is invested.

25. Which of the following is not a basic characteristic of a system of cash control?
    a. Use of a voucher system
    b. Combined responsibility for handling and recording cash
    c. Daily deposit of all cash received
    d. Internal audits at irregular intervals

26. Which one of the following statements is incorrect?
    a. The accounting function should be separated from the custodianship of a company's assets
    b. Certain clerical personnel in a company should be rotated among various jobs
    c. The responsibility for receiving merchandise and paying for it should usually be given to one person
    d. A company's personnel should be given well-defined responsibilities

27. When a petty cash fund is used, which of the following is true?
    a. The balance of the petty cash fund should be reported on the balance sheet as a long-term investment.
    b. The petty cashier's summary of petty cash payments serves as a journal entry that is posted to the appropriate general ledger account.
    c. The reimbursement of the petty cash fund should be credited to the cash account.
    d. Entries that include a credit to the cash account should be recorded at the time the payments from the petty cash fund are made.

28. Entries to record the replenishment of petty cash fund result in a debit to petty cash fund and a credit to cash in bank. This accounting procedure typically exemplifies the
    a. Imprest petty cash system
    b. Internal control
    c. Fluctuating petty cash system
    d. Administrative control

29. What is the major purpose of an imprest petty cash fund?
    a. To effectively plan cash inflows and outflows
    b. To ease the payment of cash to vendors
    c. To determine the honesty of the employees
    d. To effectively control cash disbursements

The = Balance sheet

30. The Cash Over and Short account
    a. Is not an accepted account
    b. Is a deduction from the cash balance in the balance sheet
    c. Is not part of the entity's financial statements
    d. Is credited when the petty cash fund proves out short

A = Out over

31. A cash over or short account
    a. Is not generally accepted
    b. Is credited when the petty cash fund proves out over
    c. Is credited when the petty cash fund proves out short
    d. Is a contra account to cash

32. The payments of accounts payable made subsequent to the close of the accounting period are recorded as if they were made at the end of the current period.
    a. Window dressing
    b. Kiting
    c. Lapping
    d. Imprest system

33. If material, deposits in foreign bank which are subject to foreign exchange restriction should be classified
    a. Separately as current asset, with appropriate disclosure.
    b. Separately as noncurrent asset with appropriate disclosure.
    c. Be written off as loss.
    d. As part of cash and cash equivalents.

34. Bank reconciliation
    a. Is the process of transferring money in or out of a bank account.
    b. Requires that every transaction, which will result in a cash payment, be verified, approved and recorded before a bank check is prepared.
    c. Is an analysis that reflects the bank transactions made by a depositor.
    d. Explains the difference between the bank balance and the balance shown in the depositor's records.

35. If the cash balance shown in a company's accounting records is more than the correct cash balance and neither the company nor the bank has made any errors, there must be
    a. Deposits credited by the bank but not yet recorded by the company
    b. Deposits in transit
    c. Outstanding checks
    d. Bank charges not yet recorded by the company Shown

36. If the cash balance in a company's bank statement is more than the correct cash balance and neither the company nor the bank has made any errors, there must be
    a. Deposits credited by the bank but not yet recorded by the company
    b. Outstanding checks
    c. Bank charges not yet recorded by the company
    d. Deposits in transit Cash balance in

37. The journal entries for a bank reconciliation
    a. Are taken from the balance per bank only
    b. May include a debit to office expense for bank service charges
    c. May include a credit to accounts receivable for an NSF check
    d. May include a debit to accounts payable for an NSF check

Office expense
service charges

38. Bank statements provide information about all of the following *except*
    a. Checks cleared during the period
    b. NSF checks
    c. Bank charges for the period
    d. Errors made by the company

39. The bank statement shall provide information about which of the following
    a. Outstanding checks
    b. Deposits in transit
    c. Errors made by the company
    d. Notes charged by the bank

40. Which will not require an adjusting entry on the depositor's books?
    a. NSF check from customer
    b. Check in payment of accounts payable amounting to P50,000 is recorded by the depositor as P5,000
    c. Deposit of another company is credited to the account of our enterprise
    d. Bank service charges

41. When preparing a bank reconciliation, bank credits are
    a. Added to the bank statement balance
    b. Added to the balance per book
    c. Deducted from the bank statement balance
    d. Deducted from the balance per book

42. Which of the following statements is true?
    a. A certified check is a liability of the of the depositor's bank.
    b. A certified check will be less acceptable by many persons who would otherwise accept a personal check.
    c. A certified check has been withdrawn by the holder
    d. A certified check should be included in the outstanding checks in preparing a bank reconciliation.

43. Which of the following items must be deducted to the balance per ledger in preparing a bank reconciliation, which ends with adjusted cash balance?
    a. Erroneous bank debit
    b. Service charges
    c. Collections from customers
    d. Interest on deposits

44. A proof of cash would be useful for
    a. Discovering cash receipts that have not been recorded in the journal
    b. Discovering time lag in making deposits
    c. Discovering cash receipts that have been recorded but not deposited
    d. Discovering inadequate separation of incompatible duties of employees

Problem Questions:

Illustrative 1: Atty. Pepper, CPA Corporation reported the following items in its "Cash and cash equivalents" account as of December 31, 2027:

Undeposited receipts (including customer's check dated 1/3/2028, P284,100)	P910,000
Cash in bank – unrestricted	840,000
Cash in bank – for payment of payroll only	1,390,000
Postal money orders	123,450
Traveler's check	211,000
Cash in bank – restricted for additions to plant (to be disbursed in 2030)	3,260,000
Bank certificates of deposit (acquired 12/30/2027; due in 5/31/2028)	410,000
Cash in bank – to be used for payment of 2028 dividends	730,000
Time deposit (acquired on 12/1/2027 and due on 1/31/2028)	620,000
Redeemable preference shares (original term of 5 years due on 2/28/2028; acquired on 12/28/2027)	475,000

1. **How much is the amount of cash and cash equivalents that Atty. Pepper, CPA Corporation should report in its December 31, 2027, Statement of Financial Position?**
   a. P5,015,350
   b. P4,835,350
   c. P4,755,250
   d. P4,730,250

Illustrative 2: On December 31, 2027, Madame Bella Company reported cash and cash equivalents of P5,255,000 comprised of the following:

Petty cash fund (imprest balance)	P5,000
Undeposited collections	120,000
Cash in Bank – Metro Bank checking account	900,000
Cash in Bank – Metro Bank payroll fund	1,950,000
Cash in Bank - Metro Bank dividend fund	750,000
Cash in Bank - United Bank of Asia (Foreign currency – restricted)	800,000
Cash in Bank - money market instrument, 120 days	250,000
Redeemable preference shares, due in 2 months as of 12/31/27 purchased 6/30/2027	480,000
Total cash and cash equivalents	P5,255,000

2. **What amount should Madame Bella Company report as cash and cash equivalents on December 31, 2027?**
   a. P3,600,000
   b. P3,500,000
   c. P3,725,000
   d. P3,100,000

Illustrative 3: Prince Caleb Company shows a cash balance of P3,720,000 as of December 31, 2027. During the period, the following transactions are available:

- A check of P600,000 was drawn and recorded by Prince Caleb Company payable to Meralco for the utilities consumed for the month of December, but still not delivered to payee as of December 31, 2027.
- A check dated January 5, 2028 was held by Prince Caleb Company amounting to P880,000. The check was included in the cash balance, this is an advanced payment of a customer whose account is due on January 5, 2028.
- A customers check for P710,000 was deposited on December 29 but returned by bank on December 30 marked as DAIF. No entry was made on the return of the check.
- The cashier maintained a cash account that is for use in the purchase of company's equipment which expected to be delivered in two years' time, P390,000. This was included in the cash balance.

3. **How much is the adjusted cash balance of Prince Caleb Company as of December 31, 2027?**
   a. P2,010,000
   b. P2,140,000
   c. P2,280,000
   d. P2,340,000

Illustrative 4: Asher Company cash balance on December 31, 2027, was P5,000,000. In addition, Asher has the following items on December 31:

Check drawn on Asher Company's account, payable to a vendor, dated and recorded on June 30, 2027 and delivered to payee on August 30, 2027. This check is still outstanding as of December 31, 2027.	P300,000
Check drawn on Asher Company's account, payable to a supplier, dated November 30, 2027, was delivered and recorded on December 30, 2027.	700,000
Check drawn on Asher Company's account, payable to a supplier, dated January 2, 2028, was delivered and recorded on November 2, 2027.	200,000
Check drawn on Asher Company's account, payable to a supplier, dated and recorded December 15, 2027, delivered to payee on January 3, 2028.	130,000
Check payable to Asher Company, undeposited, dated August 31, 2027, included in December 31 checkbook balance	500,000
Check payable to Asher Company, deposited December 27, and included in December 31 cash balance, but returned by bank on December 30, stamped "NSF." The check was redeposited on January 3, 2028, and cleared on January 4, 2028	450,000
Check payable to Asher Company, deposited on December 29, 2027, returned by bank on December 30, 2027 marked DAIF. No entry made yet on the return of check.	150,000

4. How much is the adjusted cash balance of Asher Company as of December 31, 2027?
   a. P5,730,000
   b. P5,500,000
   c. P5,030,000
   d. P5,000,000

Illustrative 5: Aiah Corporation is attempting to determine the amount of cash to be reported on its December 31, 2026 balance sheet. The following information is provided:

- Commercial savings account of P1,200,000 and a commercial checking account balance of P1,800,000 are held at PS Bank.
- Travel advances of P360,000 for executive travel for the first quarter of the next year (employee to reimburse through salary deduction).
- A separate cash fund in the amount of P3,000,000 is restricted for the retirement of a long-term debt.
- Petty cash fund of P10,000.
- An I.O.U. from a company officer in the amount of P40,000.
- A bank overdraft of P250,000 has occurred at one of the banks the company uses to deposit its cash receipts. At the present time, the company has no deposits at this bank.
- The company has two certificates of deposit, each totaling P1,000,000. These certificates of deposit have maturity of 120 days.
- Aiah received a P 150,000 check from a customer on February 14, 2026 in payment of accounts payable that immediately deposited to the bank. This check was returned by the bank on March 19, 2026 marked "Drawn against insufficient funds". The check was replaced by the customer on May 16, 2026 and redeposited on July 31, 2026.
- Aiah has received a check dated January 2, 2027 in the amount of P150,000.
- Aiah has agreed to maintain a cash balance of P200,000 at all times at PS Bank to ensure future credit availability. This agreement is formal and legally restricted in terms of withdrawal.
- Currency and coin on hand amounted to P15,000.
- Aiah segregated the following cash balances during the year 2026:
    - ➢ P 275,000 cash for plant expansion expected to be disbursed 3 months after the reporting date.
    - ➢ P 50,000 for payment of taxes on April 15, 2027.
    - ➢ P 30,000 for payment of dividends and interests on January 2027.
    - ➢ P 100,000 for acquisition of machinery on March 2027.
    - ➢ P 75,000 for payment of bonds payable. These bonds will mature on January 2, 2028.
    - ➢ P 85,000 for payment of preference shares. These preference shares are expected to be redeemed by the shareholder on November 2, 2027.

5. How much will be reported as cash and cash equivalent at December 31, 2026?
   a. P3,025,000
   b. P2,575,000
   c. P2,825,000
   d. P3,140,000

Illustrative 6: Bini Aiah Corporation provided the following information for the year ended December 31, 2026:

Current account at Metrobank	P2,000,000
Current account at BPI	(100,000)
Payroll account	500,000
Foreign bank account – restricted (in equivalent pesos)	1,000,000
Postage stamps	1,000
Employee's postdated check	4,000
IOU from controller's sister	10,000
Credit memo from a vendor for a purchase return	20,000
Traveler's check	50,000
Not-sufficient-funds check	15,000
Money order	30,000
Petty cash fund (P4,000 in currency and expense receipts for P6,000)	10,000
Treasury bills, due 3/31/27 (purchased 12/31/26)	200,000
Treasury bills, due 1/31/27 (purchased 1/1/26)	300,000
Compensating balance	100,000

6. Compute the cash and cash equivalent that would be reported on the December 31, 2026 balance sheet.

a. P2,884,000
b. P2,790,000
c. P3,084,000
d. P2,704,000

Illustrative 7: You noted the following composition of Bini Colet Company's "cash account" as of December 31, 2026:

Demand deposit account – Metrobank	P2,000,000
Demand deposit account – PS Bank	1,000,000
Checking account – Security Bank	(700,000)
Checking account – PS Bank	(500,000)
Time deposit – 30 days	1,000,000
NSF check of customer	40,000
Money market placement (due June 30, 2027)	1,500,000
Savings deposit in a closed bank	100,000
IOU from employee	20,000
Pension fund	3,000,000
Petty cash fund	10,000
Customer's check dated January 1, 2027	50,000
Customer's check outstanding for 18 months	40,000
Total	P7,560,000

Additional information follows:

- Check of P200,000 in payment of accounts payable was recorded on December 31, 2026 but mailed to suppliers on January 5, 2027.
- Check of P100,000 dated January 15, 2027 in payment of accounts payable was recorded and mailed on December 31, 2026.
- The company uses the calendar year. The cash receipts journal was held open until January 15, 2027, during which time P400,000 was collected and recorded on December 31, 2026.

7. The cash and cash equivalents to be shown on the December 31, 2026 balance sheet is

a. P3,310,000
b. P2,910,000
c. P1,910,000
d. P3,410,000

Illustrative 8: Pepper Company has the following bank accounts:

Overdrawn checking account – PNB	(P70,000)
Payroll account – Landbank	770,000
Value added tax account – Metrobank	250,000

In addition to the bank accounts, the following items are on hand:

Employee's NSF check	P50,000
Postage stamps	800
IOU from the president	40,000
Stale check issued	80,000
Customer's check undeposited for lack of countersignature	40,000
Gcash account	30,000
Petty cash fund (expense receipts of P9,000)	30,000

8. What is the cash balance to be reported on the statement of financial position?

Illustrative 9: Gloria Company had the following balances at December 31, 2026:

Cash in checking account	P500,000
Cash in money market account – 60 days	200,000
Treasury bill, purchased Dec. 1, 2026 maturing Feb 28, 2027	500,000
Treasury note, purchased Mar. 1, 2026 maturing Feb. 28, 2027	700,000

9. What amount should Gloria Company report as cash and cash equivalents in its December 31, 2026 statement of financial position?

Illustrative 10: At December 31, 2026, Jennifer Company had the following balances in the accounts it maintains at Manila Bank:

Checking account # 101	P2,000,000
Checking account # 201	(200,000)
Time deposit account – 30 days	350,000
90-day treasury bill, due Mar. 1, 2027	400,000
Travel fund	125,000
Cash in sinking fund	500,000
180-day treasury bill due Apr. 1, 2027	875,000

Jennifer Company classifies investments with original maturities of three months or less as cash equivalents.

10. In its December 31, 2026 statement of financial position, what amount should Jennifer Company report as cash and cash equivalents?

Illustrative 11: The following information pertains to Mapa Company on December 31, 2026:

Correct cash balance in general checking account with BDO bank	P800,000
Overdraft in special checking account with Export bank	(25,000)
Cash accumulated in special fund that will be used for plant expansion	3,200,000
Cash surrender value	75,000
Cash travel advances in the hands of company salespersons	30,000
Currency and coins in petty cash fund (including unreplenished vouchers of P2,500)	20,000

11. What is the total amount that Mapa Company should report as "cash" in the current assets section of the statement of financial position on December 31, 2026?

Illustrative 12: The statement of financial position of Jhoanna Company as of December 31, 2026 showed a cash and cash equivalents balance of P950,000. It was found to include the following items:

E-Money from customers	P48,000
Current account	105,000
Note receivable in the possession of a collection agency	50,000
Customer's postdated checks	30,000
Customer's checks returned by bank marked "NSF"	50,000
Currencies and coins on hand	6,000
Petty cash fund	10,000
Cash in bank, net of bank overdraft of P30,000 in a checking account with another bank	350,000

It was determined that check of P200,000 in payment of an equipment was drawn and recorded on December 31, 2026 but delivered to the payee on January 5, 2027. The current account balance is being maintained from a closed bank and suffered loss due to fire.

12. What is the correct cash balance on December 31, 2026?

Illustrative 13: Josephine Company's checkbook balance on December 31, 2026 was P900,000. In addition, Josephine Company held the following items in its safe on December 31:

Check payable to Josephine Co., dated January 5, 2027, not included in December 31 checkbook balance	P200,000
Check payable to Josephine Co., deposited December 20 and included in December 31 checkbook balance but returned by bank on December 30, stamped "NSF". The check was redeposited January 2, 2027 and cleared on January 3, 2027.	50,000
Check drawn on Josephine Co.'s account and payable to a vendor, dated and recorded December 31 but not mailed until January 15, 2027.	150,000

13. What is the proper amount to be shown as cash on Josephine Co.'s statement of financial position on December 31, 2026?

Illustrative 14: Mikha Company had the following account balances at December 31, 2026:

Cash in bank	P2,500,000
Cash on hand	10,000
Cash legally restricted for addition to plant and expected to be disbursed in 2027	1,500,000

Cash in bank includes P200,000 compensating balances against short-term borrowing arrangements. The compensating balances are not legally restricted as to withdrawal by Mikha Company.

14. In the current assets section of Mikha Co.'s December 31, 2026 statement of financial position, how much should be reported as cash?

Illustrative 15: The December 31, 2026, cash and cash equivalents of Maloi Co. includes the following items:

Cash on hand	P 50,000
Petty cash fund	20,000
Security Bank account	1,250,000
PNB Current account No.1	1,450,000
PNB Current account No.2	(25,000)
BSP treasury bill – 60 days	3,500,000
BPI time deposit – 30 days	1,000,000

Other information:

a. The cash on hand includes a customer postdated check of P5,000, NSF customer check of P10,000 and GCash of P5,000.
b. The petty cash fund includes unreplenished petty cash vouchers for P3,000 and an employee check for P5,000 dated January 5, 2027.
c. A check for P250,000 was drawn against Security Bank account dated January 5, 2027, delivered to the payee and recorded December 31, 2026.
d. The BPI time deposit is set aside for acquisition of land to be used as factory site.

Compute the following:

15. Cash on hand
16. Petty cash fund
17. Security Bank current account
18. Cash and cash equivalents

Illustrative 16: As a step to safeguard the company's cash balance, **Sophie Company** established a petty cash fund in November 2026. The company, from November 2026 through January 2027 completed the following transactions related to petty cash.

2026

Nov. 20 — The company established an imprest/fluctuating petty cash fund amounting to P 5,000 and issued a check payable to the petty cash custodian.

Nov. 20 – Dec 15 — The petty cash custodian paid the following from petty cash fund, all supported by properly approved petty cash vouchers:

Transportation	P 1,500
Representation	1,200
Freight for merchandise purchased	1,300
Computer repairs	920

Dec. 16	The petty cash custodian submitted the above paid petty cash vouchers to request for replenishment of the fund. A check amounting to P 4,920 was issued to the petty cash custodian.	
Dec 16 – 31	The petty cash custodian paid the following from petty cash fund:	
	Transportation	P 340
	Office supplies	1,400
Dec. 31	A count of the petty cash fund revealed the following composition:	
	Bills and coins	P 3,260
	Paid petty cash voucher for:	
	Transportation	340
	Office supplies	1,400
	The fund was not replenished on this date	
2027		
Jan. 1 – 8	The petty cash custodian paid the following:	
	Representations	P 1,800
	Office Supplies	1,300
	Transportation	120
Jan. 9	The petty cash custodian submitted the petty cash vouchers evidencing payments from December 16 through January 8. A check amounting to P 7,960 was issued to the petty cash fund for its replenishment and to increase its balance by P 3,000.	

Prepare journal entries for the given transactions. Include any appropriate adjusting entries on December 31, the end of the company's reporting period, and reversing entries on January 1. Prepare the journal entries under the following methods:

19. Imprest Fund Method

20. Fluctuation Fund Method

Illustrative 17: G Company established a petty cash fund of P 5,000 for incidental expenses on June 1, 2026. At the end of the month, the count of cash on hand indicated that P 670.40 remained in the fund. A review of the petty cash vouchers disclosed that the following expenses had been paid during the month from the petty cash fund.

Office supplies	P 341.60
Transportation	1,321.40
Postage	780.00
Miscellaneous	837.60
Representation	1,000.00

21. What is the amount of shortage in the petty cash fund?

a. 40
b. 49
c. 50
d. 59

Illustrative 18: In your cash count of the petty cash fund of Ivana Company as of July 4, 2026, you found the following items in the petty cash box:

Bills and coins counted	P 1,450
Approved and signed petty cash vouchers:	
Dated June 2026	3,300
Dated July 1 – 4, 2026	800
IOU from Pam, an employee	1,400
A check drawn by Ella, an employee, dated July 15, 2026	2,000
An unsigned pay envelope, payable to an employee on leave, the envelope has been opened and there was no money inside. Indicated in the envelope is the amount of	1,500

Imprest balance of the petty cash fund is P 10,000.

22. Determine the amount of petty cash fund that will be included in the cash balance on June 30, 2026.
a. 1,450
b. 2,950
c. 2,250
d. 750

23. Determine the amount of cash shortage or overage.
a. 2,550 over
b. 2,550 short
c. 1,050 over
d. 1,050 short

Assuming that the unsigned pay envelope is sealed and the money is still inside.

24. Determine the amount of petty cash fund that will be included in the cash balance on June 30, 2026.
a. 1,450
b. 2,950
c. 2,250
d. 750

25. Determine the amount of cash shortage or overage.
a. 2,550 over
b. 2,550 short
c. 1,050 over
d. 1,050 short

Illustrative 19: An account of the petty cash fund showed composition as follows:

Coins and currency		P2,500
Paid vouchers		
Transportation	P900	
Gasoline	600	
Office Supplies	550	
Postage Stamps	350	
Due from employees	1,100	3,500
Employee's check returned by bank marked "NSF"		1,500
Check drawn by company to the order of petty cash custodian		4,500

26. What is the correct amount of petty cash fund?

Illustrative 20: On August 1, 2026, Job Company established an imprest petty cash fund for P25,000 by writing a check drawn against its general checking account. On August 23, the fund contained the following:

Currency and coins	P 500
Receipts for office supplies	7,000
Vouchers for cash advances of various employees	9,000
Receipts for transportation and gasoline	8,500
Receipt for notary fee	1,000
Receipts for postage still unused	300

On August 24, the company wrote a check to replenish the fund.

27. What is the amount of replenishment under the imprest fund system?
28. How much is the cash shortage or cash overage, if there is any?

Illustrative 21: Pepper Company provided the following data for the month of December of the current year:

Balance per book	P 500,000
Balance per bank	445,000
Deposits in transit	300,000
Outstanding checks	85,000
Bank Service charge for the month of December	5,000
Customer's check returned by bank marked "NSF"	50,000
Customer's note collected by the bank.	215,000

29. What is the correct amount of cash in bank?

a. 500,000
b. 445,000
c. 600,000
d. 660,000

Illustrative 22: The books of Accounting Lecture Series, Inc. disclosed a cash balance of P687,570 on December 31, 2026. The bank statement as of December 31 showed a balance of P547,900. Additional information that might be useful in reconciling the two balances follows:

- Check issued with reference number 748 for P30,000 was originally recorded on the books as P45,000.
- The bank statement received on January of following year for the month of December shows a customer's note dated September 25 was discounted on October 12. The note was dishonored on December 29 (maturity date). The bank charged Accounting Lecture Series' account for P142,650, including a protest fee of P2,650.
- The deposit of December 24 was recorded on the books as P28,950, but it was actually a deposit of P27,000.
- Outstanding checks totaled P100,000 as of December 31 including a certified check of P 1,150.
- There were bank service charges for December of P2,100 not yet recorded on the books.
- Accounting Lecture Series' account had been charged on December 26 for a customer's NSF check for P12,960.
- Accounting Lecture Series properly deposited P6,000 on December 3 but the same was not recorded by the bank.
- Receipts of December 31 for P134,150 were recorded by the bank on January 2.
- A bank memo stated that a customer's note for P45,000 and interest of P1,650 had been collected on December 27, and the bank charged a P360 collection fee.

30. Adjusted cash in bank balance

a. P583,200
b. P589,200
c. P577,200
d. P512,400

Illustrative 23: Andrea Corporation keeps all its cash in a check account. An examination of the company's accounting records and bank statement for the month ended October 31, 2026 revealed the following information:

- The cash balance at October 31, 2026 represents:
  - Bank statement balance P846,900
  - Book balance P852,400
- A deposit of P95,000 placed in the bank's night depository on October 30, 2026 does not appear on the bank statement.
- The bank statement shows that on October 26, 2026, the bank collected a note for Andrea and credited the proceeds of P93,500 to the company's account. The proceeds included P3,500 interest, all of which Andrea earned during the current accounting period. Andrea has not yet recorded the collection.
- Checks outstanding on October 31, 2026:
  - No. 752 P15,000
  - No. 758 4,800
  - No. 767 7,200

- Andrea discovered that check number 759, written in October 2026 for P18,300 in payment of an account had been recorded in the company's records as P13,800.

- Included with the October 31, 2026 bank statement was an NSF check for P25,000 that Andrea had received from Riverside Company on account on October 20. Andrea has not yet recorded the returned check.

- The bank statement shows a P1,500 service charge for October.

31. Prepare a bank reconciliation statement using the adjusted balance method

Illustrative 24: Forever Company <3 provided the following data for the month of July:

Cash in Bank	
Balance, June 30	P 1,000,000
Book debits for July including June CM for note collected, P 300,000	4,000,000
Book credits for July including June NSF of P 100,000 and service charge of P 4,000	3,600,000
Bank statement for July	
Balance June 30	1,650,000
Bank debits for July including service charge of P 1,000 and June outstanding checks of P 854,000	2,500,000
Bank credits for July including CM for bank loan of P 500,000 and June deposit in transit of P 400,000	3,500,000

Required:

32. What is the adjusted balance of Cash as of June 30?
a. 1,196,000
b. 4,200,000
c. 3,497,000
d. 1,899,000

33. What is the adjusted balance of Cash as of July 31?
a. 1,196,000
b. 4,200,000
c. 3,497,000
d. 1,899,000

34. What is the correct amount of Receipts during July?
a. 1,196,000
b. 4,200,000
c. 3,497,000
d. 1,899,000

35. What is the correct amount of disbursement during July?
a. 1,196,000
b. 4,200,000
c. 3,497,000
d. 1,899,000

Illustrative 25: The following information has been extracted from the cash records of Jobjob Ltd and shows four independent situations. Assume there were no direct bank debits or credits on the bank statement and that all outstanding deposits and unpresented checks in one month appeared on the bank statement in the following month.

a. The total of outstanding deposits on the 30 April bank reconciliation statement was P1,875. During May, the company made deposits of P40,200 to its bank account but the bank statement showed that only P39,840 was deposited during the month.
b. The total of unpresented checks on the 30 April bank reconciliation statement was P1,440. During May, the total of checks issued was P29,175 but the bank statement showed that only P27,720 in checks were presented during the month.
c. During July, deposits recorded on the bank statement totaled P46,200, but deposits according to the company's records were P43,950 and outstanding deposits at 31 July were P4,125.
d. In July, cash payments according to Jobjob Ltd records were P40,800, checks presented and shown on the bank statement were P43,000 and unpresented checks at 31 July were P3,960.

Required:

36. In situation a, what were the outstanding deposits at 31 May?
37. In situation b, what were the unpresented checks at 31 May?
38. In situation c, what were the outstanding deposits at 30 June?
39. In situation d, what were the unpresented checks at 30 June?

Illustrative 26: The accountant for Bini Sheena Company assembled the following data:

	June 30	July 31
Cash account balance	P 15,822	P 39,745
Bank statement balance	107,082	137,817
Deposits in transit	8,201	12,880
Outstanding checks	27,718	30,112
Bank service charge	72	60
Customer's check deposited July 10, returned by bank on July 16 marked NSF, and redeposited immediately; no entry made on books for return or redeposit		8,250
Collection by bank of company's notes receivable	71,815	80,900

The bank statements and the company's cash records show these totals:

Disbursements in July per bank statement	P218,373
Cash receipts in July per Bini Sheena's books	236,452

40. How much is the adjusted cash balance as of June 30?
a. P87,565
b. P107,082
c. (P3,695)
d. P15,822

41. How much is the adjusted bank receipts for July?
a. P253,787
b. P245,537
c. P214,802
d. P232,881

42. How much is the adjusted book disbursements for July?
a. P220,767
b. P181,782
c. P212,517
d. P206,673

43. How much is the adjusted cash balance as of July 31?
a. P137,817
b. P22,513
c. P112,335
d. P120,585

Illustrative 27: Data concerning the records of Colet Company for the months of June and July 2026 follow:

	June 30	**July 31**
Book balance	P1,900,000	P?
Total cash receipts per book		1,400,000
Total cash disbursements per book		2,400,000
Bank balance	2,100,000	?
Total charges in bank statement		2,500,000
Total credits in bank statement		1,200,000
NSF Check	60,000	40,000
Collections of accounts receivable not recorded by company (corrected in subsequent month)	30,000	50,000
Overstatement of check in payment of salaries (corrected in subsequent month)	90,000	120,000
Deposit in transit	130,000	260,000
Outstanding checks	270,000	30,000

Required:

44. How much is the adjusted cash balance as of June 30?
45. How much is the adjusted cash balance as of July 31?
46. How much is the adjusted bank receipts for July?
47. How much is the adjusted book disbursements for July?

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