CH 4 — Cash & Receivables

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Summary

Cash, A/R, and Notes Receivable: how to **report**, **control**, **reconcile**, **value**, and **analyze** for liquidity and credit risk. Includes bank reconciliation mechanics, allowance method, aging schedule, notes receivable & interest, and core liquidity ratios. :contentReference{index=0}

Learning Objectives

• **Report cash** on the balance sheet
• **Prepare bank reconciliation** and journalize book-side items
• **Account for A/R** (control + subsidiary ledgers)
• **Allowance** for uncollectible accounts (aging method)
• **Notes receivable & interest** (timing, classification, SCF category)
• **Evaluate liquidity** via current, quick, and collection metrics
• Use **Excel pivot tables** to analyze receivables aging

Reporting Cash on the Balance Sheet

Cash & Cash Equivalents presented as one total.
Cash is the most liquid asset (bills, payroll, loans, equipment).
Cash equivalents are liquid, interest-bearing instruments with maturity < 3 months (T-bills, commercial paper, money market funds). :contentReference{index=1}

Controlling Cash & Bank Reconciliation

Why controls?

Cash is easy to conceal/steal → enforce: bank accounts, **segregation of duties**, authorization for purchases & payments, limited cheque signers, daily deposits. :contentReference{index=2}

Bank account tools

Signature card, bank statement, deposit slip, cheques; EFT enables electronic payments. :contentReference{index=3}

Reconciliation logic

Two balances usually differ (timing, missing items, errors). Reconcile the **Bank** vs **Books** balances:

Bank side	Book side
Deposits in transit	Bank collections (EFT receipts)
Outstanding cheques	Service charges
Bank errors	Interest revenue
	NSF cheques
	Cheque-printing cost
	Book errors

Rule for entries: All **book** side items require journal entries
• Add to books → **Debit Cash**
• Subtract from books → **Credit Cash**

Example — Nixon Partners Inc. (structure)

Bank balance 5,931.51; Books 3,294.21. Reconciling items include: deposit in transit 1,591.63 (Bank +), bank error +100 (Bank +), outstanding cheques –1,350.14 (Bank -); EFT rent 904.03 (Books +), bank collection 2,114.00 (Books +), interest 28.01 (Books +), book error +360 (Books +), service charge –14.25 (Books -), NSF –52.00 (Books -), EFT insurance –361.00 (Books -).
After reconciling, journalize all **book** side items.

Accounts Receivable (A/R) & Notes Receivable

Receivables are monetary claims—third-most liquid asset.
A/R: general ledger **control account** + **subsidiary ledger** by customer.
Notes receivable: formal written promise (principal + interest; current or long-term).

Allowance Method & Aging

Why an allowance? Credit boosts sales but some accounts won't be collected → record **Bad Debt Expense** and **Allowance for Uncollectible Accounts** (contra to A/R) to report **Net realizable value**.

Aging-of-Receivables (balance-sheet approach)

Older balances → higher uncollectible %. Adjust the **Allowance** to the aging total.

Age bucket	Est. % uncollectible
Current	Low
1–30 days	Moderate
31–60 days	Higher
> 60 days	Highest

Write-off (DR Allowance, CR A/R)—reduces both Allowance and A/R—**no** income effect at write-off.
Speed cash with discounts, interest on overdue, and card acceptance (retailer pays fee).

Notes Receivable & Interest

Annual rate; prorate for months/12 or days/365.
SCF: A/R collections → **Operating**; N/R collections → **Investing** (principal).

Liquidity Ratios

Ratio	Formula	Purpose
Current	Current Assets ÷ Current Liabilities	Short-term pay capacity
Acid-Test (Quick)	(CA - Inventory) ÷ CL	Immediate liquidity
Days' Sales in Receivables	Avg Net Receivables ÷ Avg Daily Sales	Collection speed

Excel Pivot Table (Aging)

Summarize invoices by **Days Past Due** and apply bucket % to estimate total uncollectibles efficiently. :contentReference{index=10}

Examples

Example A — Bank reconciliation entries (book side)

1) EFT receipt 904.03: DR Cash 904.03; CR Rent Revenue 904.03
2) Bank collection 2,114.00: DR Cash 2,114.00; CR N/R 2,000.00; CR Interest Rev 114.00
3) Interest 28.01: DR Cash 28.01; CR Interest Rev 28.01
4) Service charge 14.25: DR Bank Charges Exp 14.25; CR Cash 14.25
5) NSF 52.00: DR A/R 52.00; CR Cash 52.00
6) EFT insurance 361.00: DR Insurance Exp 361.00; CR Cash 361.00

Example B — Aging adjustment (sketch)

Aging total expected uncollectible = 15,000; Allowance **before** adj. has 2,000 debit balance → adjustment needed = 17,000 (to bring Allowance up to 15,000 credit). Journal: DR Bad Debt Exp 17,000; CR Allowance 17,000.

One-Page Reference

• Bank vs Books items; **only** books get entries
• Allowance reports A/R at **net realizable value**
• N/R interest timing; SCF categories
• Use **current** and **quick** ratios; track collection speed