

# Cash and cash equivalents

## Study Unit 8

Study Unit 8: Cash and cash equivalents

### Introduction

Lecture 1

# What are cash and cash equivalents?

- Cash:
  - Legal means of payment that can be immediately used as a means to pay someone else
- Cash equivalents:
  - Short-term, highly liquid investments which are convertible into cash, with very low risks of the value thereof

Lecture 1

# What do we need to know about it?

- Internal controls over cash
  - As a very active, risky part of the business, we need to know how to control transactions relating to cash
- Using the bank account
- Reconciling the bank account
- Petty Cash journal

Lecture 1

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## Internal Controls over cash

Lecture 2

### What do we need to control?

- Cash Receipts
  - All cash that should be paid to the business should be received and recorded
  - Everything that should be in the bank account should be deposited
- Cash Payments
  - No payments should be made without the proper authorisation

Lecture 2

## Cash Receipts: Sources

- Sources:
  - Cash Sales
  - Debtors paying their accounts
  - Rentals received
  - Loans,
  - Proceeds from sale of assets etc

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## Cash Receipts: Controls

- Determination of responsibility
  - Only specified people should deal with cash
- Allocation of duties
  - Functions of receiving, recording and custody of assets should be allocated to different people
- Documentation procedures
  - The process should include daily reviews, checking actual cash against what was supposed to be received

Lecture 2

## Cash Receipts: Controls

- Physical, mechanical and electronic controls
  - Keep cash in safes, locked away
- Independent internal verification
  - Cash counts after shifts, deposited daily, checked against documentation
- Other controls
  - Insurance, leave cycles

Lecture 2

## Cash Payments: Controls

- Determination of responsibilities
  - Only specified people should be authorised to make payments
- Allocation of duties
  - Requesting the payment or incurring the expense should be separated from the payment

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## Cash Payments: Controls

- Documentation procedures
  - The process should include daily reviews, checking actual cash against what was supposed to be received
  - Pre-numbered documents, always with supporting documentation, keeping the cheques safe

Lecture 2

## Cash Payments: Controls

- Independent internal verification
  - Check payments against supporting documents BEFORE releasing.
  - Reconcile the bank accounts regularly
- Other controls
  - Mark cheques as paid once issued

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## Use of the bank account

Lecture 3

### Opening an account

- Current account
  - Cheques
  - Debit orders
  - Electronic Funds Transfers
- Overdraft facilities
  - Current Liability

Lecture 3

# Depositing money

- Nature of deposits
  - Cash deposits by the entity
    - Deposit slips
  - Interest on favourable accounts
    - Done by the bank, picked up from the bank statements
  - Payments by third parties directly into the bank account
    - Picked up from the bank statements

Lecture 3

# Depositing money

- Nature of deposits
  - Electronic Transfers
    - Debit orders, EFT's
    - Directly into the bank account, picked up from the bank statements

Since all of these are cash, they should all be brought in through the CRJ

Lecture 3



## Issuing of cheques

- Unconditional order in writing, signed by the signatory, to his banker to pay the beneficiary a certain sum of money on their demand
- Pre-numbered
- Cheque counterfoils
  - Source document for the recording in the CPJ

**Lecture 3**

## The bank statement

- A statement reflecting all the transactions for the period (usually done monthly) and the daily balance
- This will be used by the entity to make sure that the bank balance in their records matches the balance that the bank has

**Lecture 3**

## Debit and credit memos

- The bank charges a fee for their services. They won't send an invoice and wait for payment, they simply take the money out your bank account
- The source of these transactions will be the bank statements. You will have to use them to do the recording of these transactions

**Lecture 3**

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## **The Bank Reconciliation**

**Lecture 4**

# What is the bank reconciliation?

- The bank is holding the entity's cash. Whatever they have represents how much cash your business has. You need to ensure you know how much there is, and take into account any transactions that have been done directly with the bank that you are not aware of yet
- This is best done by reconciling what your records say you have in the bank with the bank statement

Lecture 4

# What does it look like?

Bank Reconciliation Statement at XXXX

	Fol	Debit	Credit
Favourable balance per bank statement			1 000
Favourable balance per Bank Account		1 000	
		<u>1 000</u>	<u>1 000</u>

Lecture 4

## Reconciling Items

- The differences between the bank statement and the bank account in the records should be as a result of reconciling items
- These can be timing issues, or just transactions only shown on the bank statements
- We can use this to record the transactions we need to

Lecture 4

## Timing differences

- You issue a cheque to someone. When you issue it, you record it as a payment, since the person can take that to the bank immediately and deposit it in their account
- If they only deposit the cheque in a few days time, and you get a bank statement that day, your records will show a payment, but the bank won't

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## Timing differences

- This is a reconciling item. It doesn't represent an error, since there are no adjustments that need to be made. As soon as the person deposits the cheque in their account, your bank will pay the money, and the payment will reflect off of your account... and then you and the bank will have the same balance again

Lecture 4

## What does it look like?

### Example 1: Outstanding cheques

Bank statement (28 February 2013) reflects a R1 000 favourable balance. The records reflect a balance of R800. Cheque 04 for R200 was made out to M Smith on 26 February and hasn't been presented for payment yet

#### Bank Reconciliation Statement at 28 February 2013

	Fol	Debit	Credit
Favourable balance per bank statement			1 000
Cheque not yet presented for payment: Chq04 - 26 Feb (M Smith)		200	
Favourable balance per Bank Account		800	
		<u>1 000</u>	<u>1 000</u>

Lecture 4

# What does it look like?

## Example 2: Outstanding deposits

Bank statement (28 February 2013) reflects a R1 200 favourable balance. The records reflect a balance of R1 500. R Bill paid their account, R300 on 28 February and we deposited the payment in the bank on 1 March

### Bank Reconciliation Statement at 28 February 2013

	Fol	Debit	Credit
Favourable balance per bank statement			1 200
Deposit not yet credited : R Bill, 28 Feb			300
Favourable balance per Bank Account		1 500	
		1 500	1 500

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## Transactions recorded from the bank statements

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## Bank charges

- The bank takes their fees straight from your account, without sending any documentation, thus there will be no recording of these transactions in the CPJ unless you take them from the bank statement
- These transactions are recorded in the CPJ once you've picked them up from the bank statement

Record in the CPJ before doing the reconciliation

Lecture 5

## Interest Paid and Received

- The bank charges interest on overdue accounts (if you have an overdraft that you are using) and the interest that you receive on a favourable bank balance is also debited / credited straight to your bank account. These should be recorded in the CPJ & CRJ respectively, from the bank statements

Record in the CPJ & CRJ before doing the reconciliation

Lecture 5

## Stop orders & Debit Orders

- Stop orders and Debit orders are instructions to the bank, and again are done straight from the bank account. In most cases, these are monthly transactions that don't change, and there is no monthly documentation for this
- They should be recorded in the CPJ, from the bank statements

Record in the CPJ before doing the reconciliation

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### **Bank Reconciliation – Example (Study Guide)**

**Refer to your Tabaldi online  
classroom for the relevant example  
for this topic**

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## Petty Cash

Lecture 7

## Petty Cash

- Keep separate from other cash received
- Draw an amount from the bank, use as a float to cover smaller cash expenses
- Document, and journalise expenses in the Petty Cash Journal

Lecture 7

## Petty Cash Journal for...

Receipts			Payments									
Date	Fol	Amt	Date	Details	No	Fol	Total	Postage	Wages	Sundries	Details	

Lecture 7

## Imprest system

- The float amount should stay the same, cheques drawn to 'refill' the Petty Cash should be based on actual expenses, with invoices and receipts
- Eg: Company has R500 float. R100 is spent on stationery. A cheque will be drawn for R100 to get the cash back to R500

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## Measurement and Disclosure

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### Measurement and Disclosure

- “Cash and Cash Equivalents” are combined in a single line item, include Bank and Petty Cash and is disclosed as a current asset
- If the company has made use of their overdraft facility, this will be disclosed as a current liability
- Should a company have both a bank account in overdraft and another one with a favourable balance, show them separately

Lecture 8