**Cash Control Script**

Slide 1: In this presentation, we will delve a little deeper into the topic of Internal Control and look, specifically, at control of the asset cash.

Slide 2: For our purposes, “cash” consists of cash and cash equivalents. Cash can include currency, checking and savings accounts, petty cash and checks from customers. Cash equivalents are highly liquid investments that will convert to cash in the immediate future.

Slide 3: As we saw in the Internal Control presentation, separation of duties is especially important with handlers of cash. For instance, cashiers shouldn’t prepare deposits made from their cash drawers – an accountant or manager should. With two sets of eyes, the opportunity for Errors and Fraud are greatly diminished.

As well, daily cash deposits should be made – the longer cash sits around, the more open to misappropriation it is.

All payments should be made by check as this provides a “paper trail” for transactions where cash cannot.

Most companies want to collect cash from their A/R customers are soon as possible and wait until just before payments are due to remit payment.

Finally, planning and budgeting of expenditures helps identify times when cash will be needed, hence identifying times when cash must be on hand.

Slide 4: Part of the cash control process is the bank reconciliation process. Due to timing and receipt of information, the company and bank often have different cash amounts. With this process, we share the information on a worksheet and reconcile the differences between the two institutions. If you wish to work along with the example, I have some working papers available in ‘cash control blanks.’

Slide 5: Here is a typical scenario: the bank statement shows a different amount than the cash ledger. After examining the bank statement and the cash ledger, we note the differences – in this case, around 2,500 dollars.

Slide 6: We begin the process by listing the Company Balance and the Bank Balance on our sheet, along with the balances. Next, we go through what we know and ask “ does this go on the bank side or the company side?”

For example, the deposit made late last week goes to the bank side: we know we made it, but the bank hasn’t seen it yet. This is known as a ‘deposit in transit’ from back in the days when a lot of banking was done by mail.

Next, we see that a customer’s check was returned for Not Sufficient Funds (NSF) – we only know that because the bank presented the check for payment and it was denied. So, that 557.65 we thought we had isn’t there, and we need to adjust accordingly.

Continuing along, we see on the statement checks that are outstanding – these are checks that we have written to others, but have not yet been presented for payment. We’ve deducted them from our balance, but, the bank has not. We deduct these from the bank side of the reconciliation, as shown.

We find from the statement that our monthly service charge is 18; the bank has taken that out already, so, we need to do that from our side.

We next need to account to a recording error we made on check #136 that we discovered while reviewing the statement. We see that 584.18 was deducted by the bank, but, we only deducted 548.18 (this is known as a transposition error). So, we need to deduct another 36 from our balance.

Finally, we learn from the bank that a purchase return was deposited directly into our account – we need to add that to our side.

Now, we have all the information from the bank we didn’t know on our side and we put all those items we knew about on the bank side. When we sum everything up, we can see that the two sides are reconciled (!).

Slide 7: To complete the reconciliation process, we need to journalize all those adjustments that affect our side – we’ve already accounted for the things we used to adjust the bank side, and the bank already accounted for those items we learned from the statement.

Starting from the top, we account for the purchase return of 1,712.77 with a debit to cash and a credit to inventory (since it was for a return of inventory).

Since the check our customer sent us was no good, we are still owed the 557.65; as such we need to create a receivable and reduce cash accordingly.

Next, we account for the service charge with a debit (it’s an operating expense) and a credit to cash.

Finally, since we understated the advertising expense with check #136, we need to debit that expense and reduce cash accordingly.

Now, our cash balance on the books equals the bank balance as of the date of the statement.

Slide 8: Here, I’ve listed some of the reasons we might employ a petty cash system. If we have a good system of internal controls, we might need several approvals before a check can be written. If a factory employee needs something from the hardware store to get the production up and running again, we’d be better served to get them cash to get the part right away; waiting for a check after the approval process would be counterproductive.

This is referred to as a ‘replenishment’ approach – once we’ve settled on a proper petty cash amount, we simply replenish at the end of the period to restore it to the beginning balance.

Slide 9: Here we see how to establish the petty cash account. We’ll look at some example transactions on the next slide.

We take cash from checking and use it to create the petty cash account. Generally, we only need to do this once. However, if we discover we need more or less, we can make adjustments as shown.

Slide 10: Here we see an assortment of typical petty cash transactions, where writing a check would be impractical and/or too time-consuming. On the next slide, we’ll enter them in the petty cash register (some companies refer to this as ‘petty cash report’ or ‘petty cash record’).

Slide 11: As indicated, the accounts used pertain only to this example/company. Different companies will have different accounts, depending on what petty cash is used for and the accounting system in place).

One of the benefits of using this system is that we can create one summary journal entry to cover all petty cash transactions for the period – in our case, 8 transactions. After all petty cash transactions are entered in the register, and the columns totaled, we can prepare the entry we see in slide 12.

Slide 12: For the $185.89 in petty cash spent, we can see how it is allocated among the six different accounts. Most are accounts we expect to use often; “misc” is used for the plant – we wouldn’t create a “reception desk plant expense” account because it’s not used that often…

Slide 13: It’s possible when dealing with cash that errors can be made. Sometimes, through errors and not fraud, we can be either short of the cash amount indicated on the register or over. We use an account called cash Over & Short to account for these differences.

In this case, of we count the cash and see that we need $187.89 to replenish (rather than the 185.89 reported on the register) we are *cash short*. We see here that cash short is debited – treated like an expense, if you will. No change to our columnar totals.

Slide 14: Suppose that we count the cash and discover we need $183.89 to replenish the petty cash account. In this case, we are cash over. We credit Cash Over & Short in this cash – again, no change to our columnar totals. Cash Over & Short is credited and treated like a revenue item.

This account can play a big part in our internal control / cash control process. If we spot a trend that shows cash being short over several months, we may suspect misappropriation. If we spot cash over several months in a row, we might suspect cashiers are routinely short-changing our customers.

I hope this helps you understand the basic issues involved in cash control.