Petty cash — cheat card

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CH. 8 CHEAT CARD — THE PETTY CASH FUND

1 · ESTABLISH THE FUND

Jan 1

	Dr	Cr	
Petty Cash	250		new asset ↑
Cash		250	set-up

the only time you touch Petty Cash

PETTY CASH FUND
$250

2 · MAKE PAYMENTS

NO ENTRY

just a signed receipt each time

cash + receipts always = the fund

3 · REPLENISH — Cash = fund − cash on hand · Cash Over & Short = the PLUG

EXACT

$ 70 on hand → Cash = 250 − 70 = 180

	Dr	Cr
Expenses	180	
Cash		180

ties exactly — no plug

SHORT

$ 66 on hand → Cash = 250 − 66 = 184

	Dr	Cr	
Expenses	180		
Cash Over & Short	4		PLUG
Cash		184	

short → plug is a DEBIT

OVER

$ 73 on hand → Cash = 250 − 73 = 177

	Dr	Cr	
Expenses	180		
Cash		177	
Cash Over & Short		3	PLUG

over → plug is a CREDIT

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Bank reconciliation — cheat card

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CH. 8 CHEAT CARD — BANK RECONCILIATION

two columns · adjust each side · make them tie

BALANCE PER BANK		BALANCE PER BOOKS	
Start	balance per statement	**Start**	balance per ledger
+	Deposits in transit	+	Bank collections (net)
−	Outstanding checks	−	Service charges
±	Bank errors	−	NSF checks
		±	Company errors
=	ADJUSTED balance	=	ADJUSTED balance

⚠ THE CHECK

adjusted bank = adjusted books · ONLY the books side gets journal entries

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What counts as cash — cheat card

CH. 8 CHEAT CARD — WHAT COUNTS AS CASH

the one test: spendable today · full value · no strings

CASH ✓

- petty cash · coins
- paper currency
- checking · savings
- undeposited checks
- unmailed checks
- unrestricted comp. bal.

CASH EQUIVALENT ✓

low risk · ≤ 3-mo maturity from purchase

- T-bills
- commercial paper
- money market funds
- bond bought < 3 mo

NOT CASH ✗

- CDs · restricted cash
- sinking fund
- NSF · postdated checks
- IOUs
- bond ORIGINAL maturity > 3 mo

report CASH + CASH EQUIVALENTS as ONE line at the top of current assets

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Fraud & internal control — cheat card

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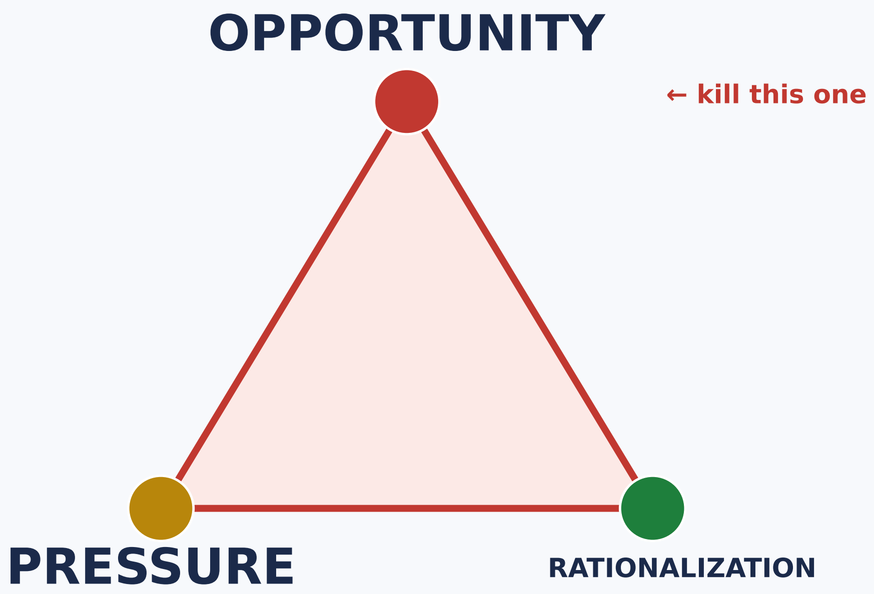
CH. 8 CHEAT CARD — FRAUD & INTERNAL CONTROL

kill the OPPORTUNITY corner — that's the whole job of controls

THE FRAUD TRIANGLE



fraud = trust + a gap · beware COLLUSION

THE 6 CONTROLS

1 Establishment of responsibility

2 Segregation of duties

3 Documentation procedures

4 Physical controls

5 Independent verification

6 Human resource controls

INTERNAL CONTROL = 5 BLOCKS: environment · risk assessment · CONTROL ACTIVITIES · info & communication · monitoring

THE 6 CONTROLS (block #3): one owner · split duties · prenumber · lock it · verify · screen people

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Internal control over cash — cheat card

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CH. 8 CHEAT CARD — INTERNAL CONTROL OVER CASH

separate the CASH from the RECORDS — every time

CASH COMING IN

flow: clerk → supervisor → cashier → accounting

- only cashiers handle receipts
- take cash ≠ record cash
- register tape / remittance slip
- supervisor counts; match to bank
- mail: 2 clerks + 'For Deposit Only'

CASH GOING OUT

- pay by CHECK or EFT (never cash)
- prenumber checks · stamp 'PAID'
- approve ≠ sign ≠ record
- blank checks in a safe
- match check to invoice · reconcile
- voucher system for big firms

CASH OVER & SHORT: count > tape = OVER (gain) · count < tape = SHORT (expense)

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CH. 8 CHEAT CARD — CASH, THE BANK, AND THE CONTROLS

1 PETTY CASH — three steps, and the entry for each

① ESTABLISH · once

Petty Cash	200	
Cash		200

the ONLY time you touch Petty Cash

② PAY OUT · every time

NO JOURNAL ENTRY

cash in drawer + receipts = the fund

a receipt and two signatures — that is all

③ REPLENISH · at period end

each Expense	xx	
Cash Over and Short	xx	
Cash		xx

Cr Cash = FUND − cash counted

CASH OVER AND SHORT: drawer SHORT → DEBIT (an expense — it cuts net income) · drawer OVER → CREDIT (a revenue — it adds to it)

2 BANK RECONCILIATION — fix each side for what only the OTHER side knew

BALANCE PER BANK

balance per the bank statement

\+ deposits in transit

− outstanding checks

± any BANK error

= **ADJUSTED BALANCE** *both sides land here*

BALANCE PER BOOKS

balance per your own ledger

\+ collections, net of the fee

− service charges − NSF checks

± any error of YOUR OWN

= **ADJUSTED BALANCE** *both sides land here*

THE TWO ADJUSTED BALANCES MUST BE EQUAL · and ONLY the BOOK side gets journal entries

collection → Dr Cash / Cr Notes Receivable + Cr Interest Revenue · NSF → Dr Accounts Receivable / Cr Cash — NOT an expense

3 WHAT COUNTS AS CASH — and the six controls that protect it

CASH = spendable TODAY · at FULL value · with NO strings + equivalents with ORIGINAL maturity ≤ 3 months from YOUR purchase date

THE SIX CONTROLS: responsibility · segregation · documentation · physical · verification · people — every one aims at OPPORTUNITY