



# Ethiopian TVET-System



## customer contact works support LEVEL-II

Based on August 2012GC Occupational standard

### Module Title: Maintaining Daily Financial/Business Records

**TTLM Code: EIS CCS2M10 TTLM0919v1**

**This module includes the following Learning  
Guides**

***LG30: Preparing and processing invoices for payment to  
creditors and for debtors***

LG Code: EIS CCS2M10 LO1-LG-30

***LG31: Preparing and processing banking documents and  
petty cash documents***

LG Code: EIS CCS2M10 LO2-LG-31

***LG32: Processing petty cash transactions***

LG Code: EIS CCS2M10 LO3-LG-32

***LG33: Processing financial forms and applications***

LG Code: EIS CCS2M10 LO4-LG-33

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This guide will also assist you to attain the learning outcome stated in the cover page.

**LEARNING OUTCOMES**

At the end of this module the Trainees will be able to:

*LO1. Preparing and processing invoices for payment to creditors and for debtors*

*LO2. Preparing and processing banking documents and petty cash documents*

*LO3. Processing petty cash transactions*

*LO4. Processing financial forms and applications*

**Learning Instructions:**

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described
3. Read the information written in the “Information Sheet”. Try to understand what are being discussed. Ask you teacher for assistance if you have hard time understanding them.
4. Accomplish the “Self-checks” .
5. Ask from your teacher the key to correction (key answers) or you can request your teacher to correct your work. (You are to get the key answer only after you finished answering the Self-check).
6. Submit your accomplished Self-check. This will form part of your training portfolio.



## 1: Identifying, checking and recording Information from documents

### 1.1. Information

Workplaces rely on large amounts of information from many different sources to operate effectively. Most of that information is recorded either manually (on paper) or electronically (on computer). Work schedules, product catalogues, orders and receipts, and memos are all examples of written

information, or records, found in most workplaces.

Workplaces rely on the exchange of information to carry out their daily business. Dealing effectively with information and records is a necessary and important task for all employees. Common types of workplace information include messages, correspondence, computer files, sales records, product information, forms, computer databases, accounts records, personnel records, minutes of meetings, library collection, promotional material and printed products. Information sources may include colleagues, computer networks, individual computers,, electronic storage, and paper filing systems, newspapers, magazines and journals.

The main sources of information for preparing invoice for payment are the invoice itself and the purchase order.

Invoice is a commercial document that itemizes a transaction between a buyer and a seller. An invoice will usually include the quantity of purchase, price of goods and/or services, date, parties involved, unique invoice number, and tax information. If goods or services were purchased on credit, the invoice will usually specify the terms of the deal, and provide information on the available methods of payment. The term invoice may also be known as a "bill" or "sales invoice". Source of the above definition: <http://www.investopedia.com/terms/i/invoice.asp>

When preparing an invoice for payment, see if the invoice has valid signature and get information about the name & address of the creditor, the amount of money, dates of payment, the creditor's account number/card number. Accessing these information makes the process of payment easier and faster. These important information may be obtained from the purchase order.

#### Verify Invoice Information:

Before paying the invoice, see if the invoice matches with the purchase order following these verification Questions:

- ❖ Have items or services ordered been invoiced?
- ❖ Do the quantities ordered match those invoiced?
- ❖ Are the prices consistent with the Purchase Order?
- ❖ Are the calculations and totals on the invoice correct?



❖ Is the invoice date valid?

Note: Departmental approval of invoices that normally require receipt acknowledgement is sufficient for A/P to release payment. Such an approval is expected to signify that receipt of goods has been verified.

**Any Cheque** may include the following application information's

- Names of the applicant person
- Addresses of the applicant person
- amounts of money/figure
- the application dates
- account numbers/card numbers/cheque numbers

## 1.2: Undertaking All work

### Understanding Debits and Credits

In a simpler way it can be explained as when an amount is entered on the left side of an account, it is a debit and the account is said to be debited. When an account is entered on the right side, it is a credit, and the account is said to be credited. Here are basic debit & credit rule: -

<u>Assets &amp; Expenses</u>	
Dr	Cr
(Increases)	(Decreases)

<u>Liabilities, Capital and Income</u>	
Dr	Cr
(Decreases)	(Increases)

An account has a debit balance when the sum of its debits exceeds the sum of its credits: it has a credit balance when the sum of the credits is the greater. In double entry accounting, which is in almost universal use, there are equal debit and credit entries for every transaction. Where only two accounts are affected, the debit and credit amounts are equal. If more than two accounts are affected, the total of the debit entries must equal the total of the credit entries.

### Debits and Credits

Double-entry bookkeeping is governed by the accounting equation. If revenue equals expenses, the following basic equation must be true:

**Assets = liabilities + equity**

At any point in time, revenue may not equal expenses. If so the equation can be further expanded, so that the (extended) equation becomes:

**Assets = liabilities + equity + (revenue – expenses)**



## Examples of debits and credits

Purchase of a Computer

- **Debit** Computer account (Fixed asset account) is increased
- **Credit** Creditors account (Liability account) is increased

Paying supplier for the Computer

- **Debit** Creditors account (Liability account) is reduced.
- **Credit** Bank account (Asset account) is reduced.

### Creditor

A person or organisation owed money for the provision of goods or services on credit. Creditor's owed money is also known as Accounts Payable.

### Credit note

An Adjustment note which can be redeemed or goods to the stated value

There are a number of parties from whom the Trader buys goods on credit basis. For each one of them, an Account is opened in the Ledger. As in the case of Debtors,

- A List of Creditors with the balances due to them is prepared
- In the Trial Balance, instead of writing the individual names of Creditors, the total of the balances of the creditors is written under heading Creditors
- If the Trial Balance agrees, it is an indication that the accounts are correctly written up

### Format:

S.No.	Name of Account	Debit Balance		Credit Balance	
		Rs.	P	Rs.	P

The total amount of debit balances should be equal to the total amount of credit balances. This method is uniformly followed by all.

### Debtor

A person or organization which purchases goods or services on credit; money is owed to another business which may refer to debtors as Accounts Receivable.

When a trader sells on credit basis, The Buyer's Account in the Ledger is debited. For each buyer, there is one Ledger a/c. Some of the buyer accounts may be automatically balanced. But it is quite natural that many of these Customer's Accounts have a debit balances.

When we bring these balances to the Trial Balance, if we are going to write all individual names of customers, then the Trial balance will be too lengthy. Therefore, first a list of Debtors with their individual debit balances are prepared and totaled. Instead of writing the individual names of Debtors, the total is written under the heading "Sundry Debtors" which appears in the Trial Balance.

## 1.3: Processing and recording documents

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Describes the functions involved in preparing and processing routine financial documents preparing journal entries; posting journals to ledgers; preparing, banking and reconciling financial receipts; and extracting a trial balance and short-term reports.

The main processes that require documenting are:

- Sales
- Purchasing
- Recording daily transactions
- Banking
- Accounting.

**Sales** - A sale is a transfer of property for money or credit. Revenue is earned when goods are delivered or services are rendered. In double-entry bookkeeping, a sale of merchandise is recorded in the general journal as a debit to cash or accounts receivable and a credit to the sales [account](#).

**Purchase transactions** results in a decrease in the finances of the purchaser and an increase in the benefits of the sellers. Purchases can be made by [cash](#) or credit. As credit purchases are made, accounts payable will increase.

**Receipts** refer to a business getting paid by another business for delivering goods or services. This transaction results in a decrease in receivable and an increase in cash/ cash or equivalents.

**Payments** refer to a business paying to another business for receiving goods or services. This transaction results in a decrease in accounts payable and decrease in cash/ cash or equivalents.

In every organization, there are a number of different documents and forms used daily. Depending on your role, you need to process these documents and forms according to workplace procedures.

Each form contains information relevant to its purpose. For a form to be useful, it must contain accurate and complete information. Your part in this process is to develop skills so you can:

- Record and read information effectively for a wide variety of forms
- Check that the information is correct
- Transfer information to computer systems or other documents according to organizational procedures, government legislation and industry regulations.



Self-Check -1

Written Test

**OPERATION SHEET 1: Identifying, checking and recording Information from Documents**

**Directions:** Answer all the questions listed below. Use the Answer sheet provided in the

Next page

**Part I: Answer the following questions:**

1. Demonstrate the correct equation formula of asset

\_\_\_\_\_

2: \_\_\_\_\_ refer to a business getting paid by another business for delivering goods or

Services. This transaction results in a decrease in receivable and an increase in cash/ cash or Equivalents.

3. Describe the different between credits and debit (2 point)

\_\_\_\_\_

4: list the main information's contains or include in one cheque (3 point )

**Note: Satisfactory rating - 3 and 5 points      Unsatisfactory - below 3 and 5 points**

You can ask you teacher for the copy of the correct answers.

**Answer Sheet**

Score = _____
Rating: _____

Name: \_\_\_\_\_

Date: \_\_\_\_\_



## LG31. Prepare and process banking documents and petty cash documents

<b>Information sheet -2</b>	<b>LO2. Prepare and process banking documents and petty cash documents</b>
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### 2: Completing Documentation with banking guidelines

One of the key elements to success in business is to manage the money – both incoming and outgoing. All businesses operate a *business cheque* account and rarely pay for goods or services with cash – the exception is when purchasing low cost items (eg tea and coffee for the staff, courier fees and stationery items) payment for which comes from the *Petty Cash fund*. Larger amounts for payment of trade goods and expenses incurred in the day to day operation of the organisation will be paid with cheques, , internet banking,

Sales and services result in collection of monies commonly in the form of:

- Cash (notes and coin)

#### Example of Manual receipt

<b>Smith &amp; Brown Incorporated</b>	Receipt No 56987
Received from _____ M Student _____	Date: <u>2/2/XX</u>
For _____ 10 X blue biros & 2 X red biros _____	
The sum of <u>Thirteen dollars and 22 cents</u>	
Signed _____ Ben Brown _____	Cash/Cheque \$ <u>13.20</u>
GST inclusive	

- Debit/Credit card payments (Visa, Master Card)
- Internet banking
- EFTPOS (Electronic funds transfer at point of sale)

Cash, Cheques, manual Debit/Credit card vouchers, and money orders are taken to the bank and deposited. These items are usually banked daily. Daily banking minimises the risk of theft and fraud.

Internet banking and electronic funds transfer using Debit/Credit cards or savings/cheque account cards will be processed directly by the bank and are therefore not recorded in the bank deposit book.

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Organisations will have policies and procedures (written or practiced) for receiving and receipting money, balancing cash register drawers and forwarding funds for banking.

Receipts contain the following information:

- ❖ Date of the transaction.
- ❖ The receipt number – all receipts are accountable forms and are numbered sequentially.
- ❖ The amount in figures.
- ❖ The amount in words (on a manual receipt).
- ❖ The amount of discount given (if applicable).
- ❖ The amount of GST included in the cost.
- ❖ A description of what the payment is for.

*Example of Cash register receipt*

<b>TAX INVOICE</b>		
<b>Smith &amp; Brown Incorporated</b>		
<b>ABN 1234 567 8910</b>		
BIR0987		
Biro – Red Fine Tip		
2	1.10	2.20
BIB5623		
Biro – Blue Med Tip		
10	1.10	11.00
	Total	13.20
	Pay Only	13.20
	Cash tendered	15.00
	Change	1.80
GST inclusive		
Please keep receipt for		
return or exchange		
50 Mann St Gosford		
Ph 4344 5566		
2/2/XX	10.15 am	452378

Preparing accurate bank deposits involves entering and balancing all the different types of payments received. When preparing money for banking you will need a calculator, pen, cash analysis form, elastic bands, cash bags and the bank deposit form.



## 2.2 Checking Cheques and card vouchers for validity

A **Cheque** is an unconditional order in writing addressed to a bank, requiring the bank to pay on demand a certain sum in money. However checks are not **legal tender** in the way that cash is. This means that you can refuse to accept checks payment and insist on cash if you wish. Businesses can decide whether they will accept checks from their customers. If you have ever tried to use a personal check in a shop you will know that many retailers do not accept them, preferring cash or credit cards where payment is guaranteed.

There are three parties to Checks:

**Drawer** : the person who writes the check

**Drawee** : the bank holding the drawer’s bank account

**Payee**: the person (or organization) the **Checks** is written out to

All checks received by your organization should be checked prior to banking to ensure they are accurate and valid and will not be dishonored (returned unpaid) by the bank as follows:

- The date is not postdated (dated ahead of today’s date).
- The check is not stale (dated more than 15 months ago).
- The check is signed.
- The payee is correct. If another name appears next to ‘Pay’, there should be an endorsement on the back of the check, signing the checks over to the organization.
- The amount in words and the amount in figures agree.
- Any alterations are initialed by the drawer of the checks.

There is an instance when the bank will accept a check with discrepancies, this is: When the amount in words is different to the amount in figures resulting in the bank paying on the lesser of the two amounts. In this case the lesser amount should be shown on the deposit slip.

### Crossing checks

For security purposes the words ‘NOT NEGOTIABLE’ written across a cheque ensures that only the Payee can receive the money.

Checks that are to be deposited in the organization’s account should have ‘Not Negotiable’ either written or stamped across them before depositing. This may be done by another member of staff upon opening the mail and finding checks for payment of accounts that have not been ‘crossed’.

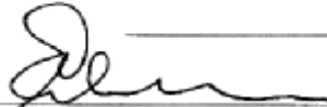
Checks made out to CASH should not have ‘Not Negotiable’ written across them as this will prevent them being cashed. Generally most check books for organizations have ‘Not Negotiable’


preprinted on them. In this case the signatory of the check can turn the check over and write on the back of the check ‘Please pay cash’ and sign this.

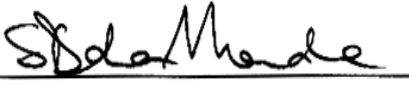
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Examples – 3 *Checks* for deposit on 23<sup>th</sup> April 2XXX

*Australasian Bank*  
 Brisbane QLD 23-4-2xxx  
 Pay *Brambles of Katoomba*  
 The sum of *Four hundred and ninety three dollars 25c* \$ 493-25  
  
 Surf & Sun Hotel **2157 KCM53732 1248975**  
 Not Negotiable

*Macquary Bank*  
 Beverly Hills NSW 20 April 2xxx  
 Pay *BRAMBLES OF KATOOMBA*  
 The sum of *ONE THOUSAND EIGHT HUNDRED* \$ 1800-00  
*DOLLARS*  
  
 Pre Loved Wares **2214 TYR967896 145786**  
 Not Negotiable

*SouthEastern Banking Corporation*  
 Beverly Hills NSW 21 April xx  
 Pay *Brambles of Katoomba*  
 The sum of *Fifty six dollars* \$ 56-00  
 \_\_\_\_\_  
 2214 145967854 854755   
 Steven De La Monde  
 Not Negotiable

**Basic Features of the Voucher System**

A *voucher system* is a set of procedures for authorizing and recording liabilities and cash payments. A voucher system normally uses

- 1) Vouchers,



- (2) A file for unpaid vouchers, and
- (3) A file for paid vouchers. Generally, a voucher is any document that serves as proof of authority to pay cash. For example, an invoice properly approved for payment could be considered a voucher. In many businesses, however, a **voucher** is a special form for recording relevant data about a liability and the details of its payment

Each voucher includes the creditor’s invoice number and the amount and terms of the invoice. The accounts used in recording the purchases (or transaction) are listed in the *account distribution*. For example, when a voucher is prepared for the purchase of goods, the voucher should be supported by the supplier’s invoice, a purchase order, and a receiving report. In preparing the voucher, an accounts payable clerk verifies the quantity, price, and mathematical accuracy of the supporting documents

### Example of Voucher

This provides assurance that the payment is for goods that were properly ordered and received.

(face)
(back)

<p style="text-align: right; font-weight: bold; margin-right: 10px;">VOUCHER</p> <p>① Date <u>July 1, 2007</u> Voucher No. <u>451</u></p> <p>② Payee <u>Allied Manufacturing Company</u>  <u>683 Fairmont Road</u>  <u>Chicago, IL 60630-3168</u></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #e0e0e0;"> <th style="width: 15%;">Date</th> <th style="width: 65%;">Details</th> <th style="width: 20%;">Amount</th> </tr> </thead> <tbody> <tr> <td>③ June 28, 2007</td> <td>Invoice No. 4693-C, \$1,800.00, FOB Chicago, 2/10, n/30</td> <td style="text-align: right;">1,500.00</td> </tr> </tbody> </table> <p style="text-align: center; margin-top: 20px; font-weight: bold;">Attach Supporting Documents</p>	Date	Details	Amount	③ June 28, 2007	Invoice No. 4693-C, \$1,800.00, FOB Chicago, 2/10, n/30	1,500.00	<p>④ ACCOUNT DISTRIBUTION</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #e0e0e0;"> <th style="width: 60%;">DEBIT</th> <th style="width: 40%;">AMOUNT</th> </tr> </thead> <tbody> <tr> <td>MERCHANDISE INVENTORY</td> <td style="text-align: right;">1500 00</td> </tr> <tr> <td>SUPPLIES</td> <td></td> </tr> <tr> <td>ADVERTISING EXPENSE</td> <td></td> </tr> <tr> <td>DELIVERY EXPENSE</td> <td></td> </tr> <tr> <td>MISC. SELLING EXPENSE</td> <td></td> </tr> <tr> <td>MISC. ADMIN. EXPENSE</td> <td></td> </tr> <tr> <td colspan="2" style="padding-top: 20px;">CREDIT ACCOUNTS PAYABLE</td> </tr> <tr> <td></td> <td style="text-align: right;">1500 00</td> </tr> </tbody> </table> <p style="margin-top: 10px;">DISTRIBUTION APPROVED <u>L. Donnelly</u></p>	DEBIT	AMOUNT	MERCHANDISE INVENTORY	1500 00	SUPPLIES		ADVERTISING EXPENSE		DELIVERY EXPENSE		MISC. SELLING EXPENSE		MISC. ADMIN. EXPENSE		CREDIT ACCOUNTS PAYABLE			1500 00	<p style="text-align: right;">NO. <u>451</u></p> <p>DATE <u>7/1/07</u> DUE <u>7/8/07</u></p> <p style="text-align: center; font-weight: bold;">PAYEE</p> <p><u>Allied Manufacturing Company</u>  <u>683 Fairmont Road</u>  <u>Chicago, IL 60630-3168</u></p> <p style="text-align: center; font-weight: bold;">VOUCHER SUMMARY</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">AMOUNT</td> <td style="text-align: right;">1500 00</td> </tr> <tr> <td>ADJUSTMENT</td> <td></td> </tr> <tr> <td>DISCOUNT</td> <td style="text-align: right;">30 00</td> </tr> <tr> <td>NET</td> <td style="text-align: right;">1470 00</td> </tr> </table> <p>APPROVED <u>M.C. Leshen</u> CONTROLLER  RECORDED <u>WB</u></p> <p style="text-align: center; font-weight: bold;">PAYMENT SUMMARY</p> <p>DATE <u>7/8/07</u>  AMOUNT <u>1470.00</u>  CHECK NO. <u>883</u>  APPROVED <u>Chris Clark</u>  RECORDED <u>L.K.R.</u> <u>A.S.</u></p>	AMOUNT	1500 00	ADJUSTMENT		DISCOUNT	30 00	NET	1470 00
Date	Details	Amount																																
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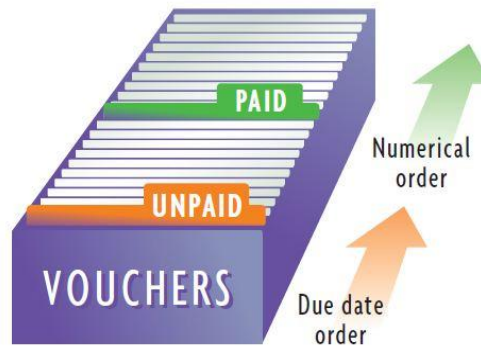
- ① Date the voucher was prepared
- ② Name and address of the creditor
- ③ Description of the supporting documents

- ④ Accounts used to record the purchase or transaction
- ⑤ Details of payment
- ⑥ Spaces for signature or initials of approving employees

After a voucher is prepared, the voucher and its supporting documents are given to the proper official for approval. After it has been approved, the voucher is returned to the Accounting



Department, where it is recorded in the accounts. It is then filed in an unpaid voucher file by its due date so that all available purchase discounts are taken.



On its due date, the voucher is removed from the unpaid voucher file. The date, the number, and the amount of the check written in payment are listed on the back of the voucher. The payment of the voucher is recorded in the same manner as the payment of an account payable.

After payment, vouchers are marked “Paid” and are usually filed in numerical order in a paid voucher file. They are then readily available for examination by employees needing information about past payments.

A voucher system may be either manual or computerized.

In a computerized system, properly approved supporting documents (such as purchase orders and receiving reports)

### 2.3: Reconciling Banking documentation

The bank and the company maintain independent records of the checking account. The two balances are seldom the same because of:

**Time lags** that prevent one of the parties from recording the transaction in the same period.

- Days elapse between the time a check is written and dated and the date it is paid by the bank.
- A day may pass between the time receipts are recorded by the company and the time they are recorded by the bank.
- A time lag may occur when the bank mails a debit or credit memo to the company.

**Errors** by either party in recording transactions. The incidence of errors depends on the effectiveness of internal controls maintained by the company and the bank. Bank errors are infrequent.

**Reconciliation procedure** – In reconciling the bank account, it is customary to reconcile the balance per books and balance per bank to their adjusted (correct or true) cash balances. To obtain maximum benefit from a bank reconciliation, the reconciliation should be prepared by an employee who has no other responsibilities related to cash.



The reconciliation schedule is divided into two sections – balance per bank and balance per books. The following steps should reveal all the reconciling items causing the difference between the two balances:

1. Compare the individual deposits on the bank statement with the deposits in transit from the preceding bank reconciliation and with the deposits per company records or copies of duplicate deposit slips. Deposits recorded by the depositor that have not been recorded by the bank represent **deposits in transit** and are added to the balance per bank.
2. Compare the paid checks shown on the bank statement or the paid checks returned with the bank statement with (a) checks outstanding from the preceding bank reconciliation and (b) checks issued by the company as recorded in the cash payments journal. Issued checks recorded by the company that have not been paid by the bank represent **outstanding checks** that are deducted from the balance per bank.
3. Note any **errors** discovered in the foregoing steps and list them in the appropriate section of the reconciliation schedule. All errors made by the depositor are reconciling items in determining the adjusted cash balance per books. In contrast, all errors made by the bank are reconciling items in determining the adjusted cash balance per bank.
4. Trace **bank memoranda** to the depositor’s records. Any unrecorded memoranda should be listed in the appropriate section of the reconciliation schedule.

**Entries from Bank Reconciliation** – Each reconciling item used in determining **adjusted cash balance per books** should be recorded by the depositor. If these items are not journalized and posted, the Cash account will not show the correct balance.

**Electronic Funds Transfer (EFT) System**

A new approach developed to transfer funds among parties without the use of paper (deposit tickets, checks, etc.). The approach, called **electronic funds transfers (EFT)**, uses wire, telephone, telegraph, or computer to transfer cash from one location to another.

**Cash in safe box** includes: notes and coins held in manual cash handling devices

**Terminal** includes: a range of manual or electronic equipment used for the deposit and withdrawal of cash and non-cash documents

**2.4: Entering and balancing Deposits and withdrawals**

When making out your budget, plan for savings first. You can grow richer each month if you pay yourself first. Here's an idea you might want to try. Before paying any bills, decide on an amount, to pay yourself first--say five or ten percent--or whatever you decide-- of your paycheck. Then, deposit the amount into a savings account before paying any bills. When you do this at the beginning of the month, your entire paycheck will not slip through your fingers. If you wait until the end of the month, there may be nothing left to save.

These guidelines will assure you of a money management plan to fit YOUR special needs. If you follow each step, It will also save you a complicated job of bookkeeping. This guide won't be able to work miracles for you but will help show you the way to get the most out of your money.

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For a workable plan, four steps are necessary:

1. Add up your total income, including any funds you receive in addition to your earnings.
2. Figure out your total fixed expenses such as rent or mortgage, insurance premiums or car payments.
3. Provide for a savings fund adequate to meet emergencies and achieve special goals.
4. Estimate how much you need for day to day living expenses.

While these steps are listed in sequence, it's likely you will arrive at your final estimates by considering them as a group. You may need to do some adjusting of the amount in each step until you have what you feel is a satisfactory plan. After going through each step and filling out the worksheet, you will have a better idea of where your money is going and how much you have left over to work with.



**Self-Check -2**

**Written Test**

**OPERATION SHEET 2:** Preparing and processing banking documents and petty cash documents

**Directions:** Answer all the questions listed below. Use the Answer sheet provided in the next page:

**Part I: Answer the following questions:**

1: List the main Information contain in one receipts (5 pints).

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2: Define Cheques (2 points)

---



---

3: List the three parties Cheques (3 point)

---



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**Note: Satisfactory rating - 3 and 5 points      Unsatisfactory - below 3 and 5 points**

You can ask you teacher for the copy of the correct answers.

**Answer Sheet**

Score = \_\_\_\_\_

Rating: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_



# LG32: Process petty cash transaction

Information sheet three

LO3. Process petty cash transaction

## 3. Referring regularities

### What is Petty Cash?

As in your own day-to-day life, it is usually not practical for a business to write checks to pay small amounts, such as postage. Yet, these small payments may occur often enough to add up to a significant total amount. Thus, it is desirable to control such payments. For this purpose, a special cash fund, called a *petty cash fund*, is used.

A petty cash fund is established by first estimating the amount of cash needed for payments from the fund during a period, such as a week or a month. After necessary

Approvals, a check is written and cashed for this amount. The money obtained from cashing the check is then given to an employee, called the petty cash custodian, who is authorized to disburse monies from the fund. For control purposes, the company may place restrictions on the maximum amount and the types of payments that can be made from the fund.

The petty cash fund is normally replenished at periodic intervals, or when it is depleted or reaches a minimum amount. When a petty cash fund is replenished, the accounts debited are determined by summarizing the petty cash receipts. A check is then written for this amount, payable to the petty cash custodian.

### Petty Cash Receipt

PETTY CASH RECEIPT			
No. <u>121</u>	Date <u>August 1, 2006</u>		
Paid to <u>Metropolitan Times</u>	Amount		
For <u>Daily newspaper</u>	<table border="1"> <tr> <td>3</td> <td>00</td> </tr> </table>	3	00
3	00		
Charge to <u>Miscellaneous Administrative Expense</u>			
Payment received:			
<u>S.O. Hall</u>	Approved by <u>N.E.R.</u>		





### 3.1 Checking, processing & recording Petty cash claims and vouchers

At the end of August, the petty cash receipts indicate expenditures for the following items: office supplies, \$28; postage (office supplies), \$22; store supplies, \$35; and daily newspapers



(miscellaneous administrative expense), \$3. The entry to replenish the petty cash fund on August 31 is as follows:

Aug. 31	Office Supplies	5 0 00							
	Store Supplies	3 5 00							
	Miscellaneous Administrative Expense	3 00							
	Cash						8 8 00		
	Replenished petty cash fund.								

### 3.3 Balancing petty cash book

Replenishing the petty cash fund restores it to its original amount of \$100. You should note that there is no entry in Petty Cash when the fund is replenished. Petty Cash is debited only when the fund is initially set up or when the amount of the fund is increased at a later time. Petty Cash is credited if it is being decreased.

To illustrate normal petty cash fund entries, assume that a petty cash fund of \$100 is established on Aug The entry to record this transaction is as follows:

Aug. 1	Petty Cash	1 0 0 00							
	Cash						1 0 0 00		
	Established petty cash fund.								





Self-Check -3

Written Test

**OPERATION SHEET 3: Processing petty cash transactions**

**Directions:** Answer all the questions listed below. Use the Answer sheet  
Provided in the next page

**Part I: fill in the correct answer in the following questions:**

- 1: The \_\_\_\_\_ cash fund is normally replenished at periodic intervals, or when it is depleted or reaches a minimum amount. (2 point)
- 2: Replenishing the petty cash fund restores it to its original amount of \$120.00 You should note that there is no entry in Petty Cash when the fund is replenished. Petty Cash is debited only when the fund is initially set up or when the amount of the fund is increased at a later time. Petty Cash is credited if it is being decreased.

To illustrate normal petty cash fund entries, assume that a petty cash fund of \$120.00 is established on June The entry to record this transaction correctly (8 point)

**Note: Satisfactory rating – 10 and 5 points Unsatisfactory - below 3 and 5 points**

You can ask you teacher for the copy of the correct answers.

**Answer Sheet**

Score = _____
Rating: _____

Name: \_\_\_\_\_

Date: \_\_\_\_\_



# LG33. Process financial forms and applications

<i>Information sheet four</i>	<i>LO4. Process financial forms and applications</i>
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## 4.1. Filing Invoices and documents for auditing purposes

When preparing financial documents, your organization may have a policy requiring separation of duties. This means that a single employee should not perform a series of flow-on tasks such as receiving cash, issuing receipts and preparation of banking.

By separating duties (sharing them between several employees), an organization can reduce the likelihood of theft or fraud.

Another important way to protect an organization’s physical resources is to maintain a detailed and up-to-date asset register (register of equipment owned).

## 4.2 Checking Invoices against source documents

An organization must comply with its bank’s policies and procedures, which are agreed to when an organization’s account is established

### *Important of Invoices*

- An **individual** should be responsible for its security at all times. If responsibility moves from one person to another, the invoice should be counted, verified correct, and signed .
- **Bank daily** the cash received on that day (or the previous day, depending on the type of business and its proximity to the bank). Businesses operating over the weekend and on public holidays should make separate deposits for each day’s trading when the bank reopens.
- **Bank intact:** that is, the whole of the invoice received without any payments or expenses being taken out of it. This leaves a clear audit trail that proves the honesty of those handling the invoice.

Regardless of whether an organisation is large or small, a complete record must be made of all monies received. Each transaction must be acknowledged by at least one of the following:

- a receipt
- a cash register docket
- a credit card sales voucher

A receipt may be prepared electronically by a computer program such as Quicken, a cash register or manually by using a carbonised receipt book.

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### Practice task 1

Read the case study. Write down, or tell your supervisor, the answers to the questions.

#### Case study

Bernadette works as a customer service advisor at a public library. Her duties include assisting clients with queries about where to find library resources, processing resources being borrowed or returned, filing, and relocating returned resources. She is also responsible for issuing penalty notices for overdue resources and for collecting and processing money paid for overdue, damaged or lost resources.

The library policy for borrowing states, 'A client may borrow a maximum of five books for a period of four weeks and a maximum of four audio visual resources for two weeks'. The library policy for lost or damaged books states, 'The cost of resources which are lost or returned in such poor condition that they must be immediately replaced, is to be incurred by the borrower. The price is the replacement cost of the resource'.

Alby is a client of the library who approaches Bernadette. He would like to borrow eight books and five DVDs. He is going away for a month and would like to take them with him. Bernadette looks on the computer and sees that Alby has not returned two books which he borrowed three months ago. He tells her that he cannot find them. He has also returned a DVD which is badly damaged and can no longer be played. It was not damaged at the time when he borrowed it.

1. What should Bernadette advise Alby regarding the number of books and DVDs he can borrow?
2. What should Bernadette advise Alby about the lost books and the damaged DVD?
3. How will Bernadette calculate the penalty for the lost books and damaged DVD?
4. What should Bernadette advise Alby regarding the period of time he can borrow the resources for?

### 4.3 Identifying, rectifying and referring errors

There will be times when you are checking or processing financial transactions in your organization and you identify an error or discrepancy which needs to be rectified (corrected.) You may be able to do this yourself. If you are unable to do this because you don't know how, or you are not authorized to do so, you will need to refer the discrepancy to an authorized work

Discrepancies may occur for a variety of reasons, including:

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- **Mis - keyed data;** for example, making a mistake when entering information such as an item code, price or quantity;
- **Arithmetic Errors;** for example, adding amounts together instead of subtracting
- **counting errors;** for example, incorrectly counting cash in a till
- **Accounting errors;** for example, entering debit amounts as credits.

Correcting Invoice Errors and Discrepancies:

If a mistake is found, do not change the invoice in any manner. (See Exception below \*) Depending upon the type of error, contact either the vendor or a Purchasing Department buyer to have the invoice corrected. However, if sales tax was billed inappropriately, cross out the sales tax amount, subtract from the invoice amount, and note the correct net amount on the invoice. Consult the table below for a list of typical errors that can occur in billing, and whom to contact.

Error Type	Contact
<ul style="list-style-type: none"> <li>• mathematical error on the invoice</li> <li>• short shipment of items</li> <li>• unauthorized substitution of goods</li> </ul>	<ul style="list-style-type: none"> <li>• vendor</li> </ul>
<ul style="list-style-type: none"> <li>• the invoice is correct but a mistake was found on the purchase order</li> </ul>	<ul style="list-style-type: none"> <li>• the appropriate Purchasing Department buyer</li> </ul>

#### 4.4 Preparing Invoices

Definition: a document sent to a buyer that specifies the amount and cost of products or services that have been provided by a seller.

An invoice indicates what must be paid by the buyer according to the payment terms of the seller. Payment terms usually specify the period of time that a buyer has to send payment to the seller for the goods and/or services that they have purchased.

All organizations purchase goods and services as well as sell goods and/or services. Invoices and credit notes are generated as a result of both types of transactions.

**These include:**

- Purchase invoices
- Purchase credit notes
- Sales invoices
- Sales credit notes.

#### Purchase invoices

A purchase invoice is created within an organization as a result of an order being raised and a tax invoice being received from a supplier. A purchase invoice (or purchase order) is the invoice that a supplier sends when they ship the items. It is generated from a computerized accounting system.



Here is an example of a purchase invoice raised in response to an order by Aqua Aquarium to Tibbals Pet Supplies.

Example				
Tibbals Pet Supplies 173 Grange Street Ascot Hills 3974 ABN: 32 865 123 567			Phone: 03 9248 3657 Fax: 03 9248 6941	
PURCHASE INVOICE				
Date: 25 August, 2008 0096			Tax Invoice No:	
Aqua Aquarium Shop 9/18 Waterford Street Oceanview, 3485				
Your order No: 634				
Item Code	Qty	Description	Unit Price	Total
PL31	40kg	Coloured pebbles	\$21.00	\$840.00
FIL98	16	Small filters – 20cm	\$12.50	\$200.00
FOO34	12kg	Fine flakes	\$34.00	\$408.00
			Goods Total	\$1448.00
			+ GST 10%	\$144.80
			+ Freight	\$46.00
Total amount owing				\$1638.80
Terms: 5% discount for payment within 7 days				

### Purchase credit notes

A purchase credit note is a financial document created within an organization as a consequence of a credit being issued by a supplier. It is raised within the accounting department of the purchasing organization.

Purchase credit notes may be raised when:

- Goods have been returned to the supplier (for example, they are faulty or no longer needed)
- The supplier has charged the wrong amount
- The supplier hasn't supplied the correct goods.

A purchase credit note will show:

- Contact details of both the supplier and the client
- A credit note number
- Date of issue





Self-Check -4	Written Test
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**OPERATION SHEET 4:** Processing financial forms and applications

**Directions:** Answer all the questions listed below. Use the Answer sheet provided in the next page:

**Part I: Answer the following questions**

1: list the four type of errors that occurred to application one invoice (3 point)

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2: write the important of invoice ( 5 point )

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3: \_\_\_\_\_ is a financial document created within an organization as a consequence of a credit being issued by a supplier (2 point )

**Note: Satisfactory rating - 3 and 5 points      Unsatisfactory - below 3 and 5 points**

You can ask you teacher for the copy of the correct answers.

**Answer Sheet**

Score = _____
Rating: _____

Name: \_\_\_\_\_

Date: \_\_\_\_\_