TVET CERTIFICATE V in FOOD AND BEVERAGE SERVICE

PROCESSING FINANCIAL TRANSACTIONS

FBSFTS501

Financial Transactions Processing

Competence

Credits: 4

Learning hours: 40

Sector: HOSPITALITY AND TOURISM

Sub-sector: Food and Beverage Service

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Purpose statement

This module describes the skills, knowledge and attitudes required for a learner of certificate V, Level V, to process financial transactions. By the end of this module, the learner will be able to record and balance petty cash transactions, to balance all transactions, in hospitality establishments without supervision.

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Learning Unit 1: Record and balance Petty Cash Transactions

LO 1.1 – Ensure that Petty cash vouchers are prepared in accordance with workplace procedures

- Content/Topic 1- Introduction to recording and balancing petty cash transactions

i) Definitions:

- ✓ **A financial transaction**: is an agreement, or communication, carried out between a buyer and a seller to exchange an asset for payment.
- ✓ **Petty cash:** also called **cash on hand,** is a small amount of discretionary funds in the form of cash used for expenditures where it is not sensible to make any disbursement by cheque, because of the inconvenience and costs of writing, signing, and then cashing the cheque.
- ✓ **Petty cash Voucher:** is usually a small form that is used to document a disbursement (payment) from a petty cash fund. Petty cash vouchers are also referred to as petty cash receipts and can be purchased from office supply stores.

ii) Petty cash voucher(PCV) preparation

- ***Why is it prepared***

A petty cash voucher is a standard form used as a receipt whenever cash is withdrawn from a petty cash box.

- ***Advantages of using a petty cash voucher***

The main **advantages** are:

Reduction in numbers of transactions: many expenses of small nature recorded in **petty cash** book, the number of transactions is reduced in the **cash**. Reduction of errors: as head cashier checks the accounts of previous month and gives advance for the coming month, does, errors if any are reduced.

Content/Topic 2- Elements of a PCV

The petty cash voucher should provide space for the following:

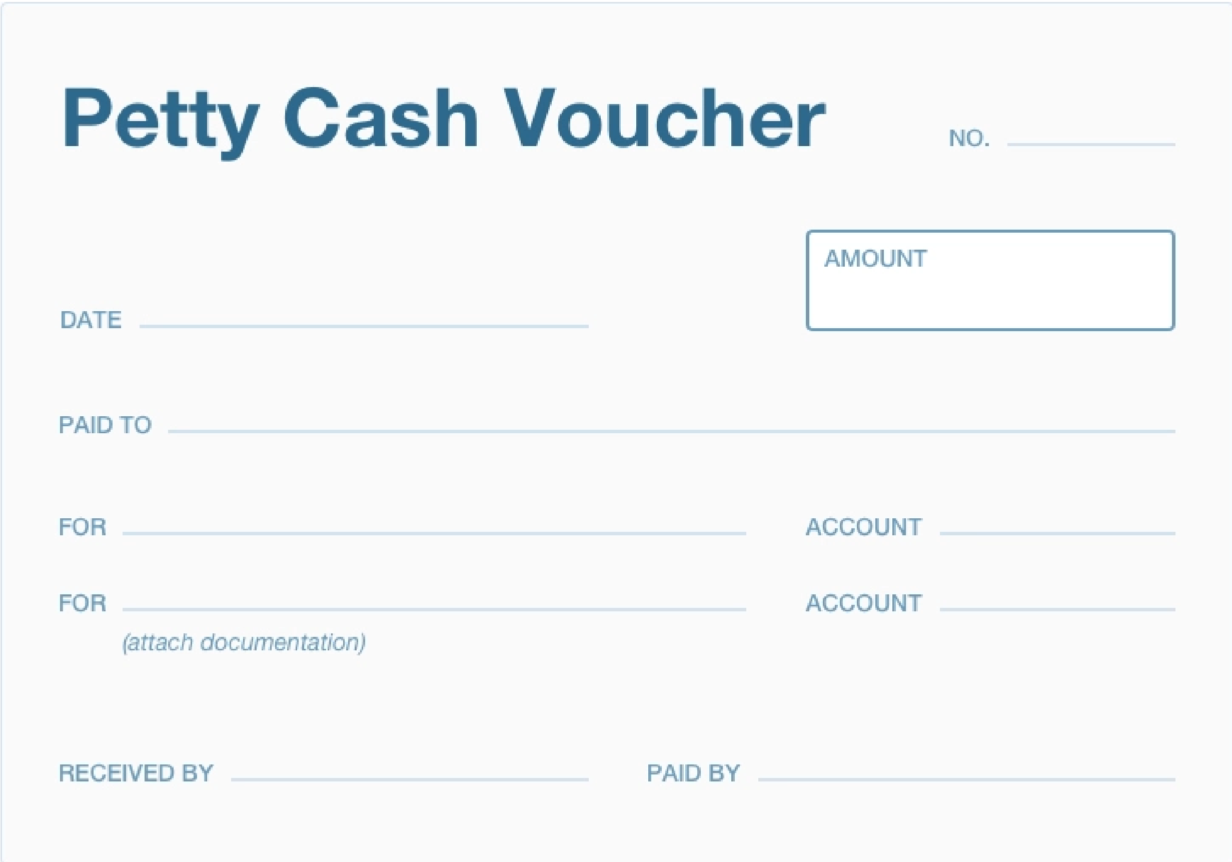
- Date

- Amount disbursed
- Person receiving the money
- Reason for the disbursement
- General ledger account to be charged
- Initials of the person disbursing the money from the petty cash fund

Some petty cash vouchers are prenumbered and sometimes a number is assigned for reference and control. Receipts or other documentation justifying the disbursement should be attached to the petty cash voucher.

When the petty cash fund is replenished, the completed petty cash vouchers provide the documentation for the replenishment check.

- **Example of Petty Cash Voucher**



Petty Cash Voucher

NO. ______

AMOUNT

DATE ______

PAID TO ______

FOR ______ ACCOUNT ______

FOR ______ ACCOUNT ______

(attach documentation)

RECEIVED BY ______ PAID BY ______

In general, a PCV includes the following:

- ✓ The date and dates
- ✓ The purpose/details of the expenditure
- ✓ The amount paid
- ✓ The account number including the use code
- ✓ The signatures of the Claimant and cashier

Content/Topic 3- Accounting and procedures for petty cash

- **Example of accounting for petty cash**

Let's look at an example of how petty cash accounting and procedures are performed at Company ABC. The company decided to create a petty cash fund in amount of $100 at the beginning of February 20X1.

Vicki Smith was named the petty cash custodian; employees John, Kathy, and Amanda will sometimes use petty cash to make small business-related purchases; Eric Doe is the cash manager (*all names are imaginary and do not correspond to real persons*).

At the beginning of the month Eric issued a check for $100 to Vicki to set up the petty cash fund. Vicki cashed the check and placed the $100 into a secure lock box in her office drawer.

During February 20X1 John, Kathy and Amanda made one small purchase each and were reimbursed by Vicki Smith from the petty cash fund. All employees signed the vouchers and presented purchase receipts to Vicki. The purchases were as follows:

- $35.00 for delivery charges on February 12, 20X1 (John)
- $12.40 for postage on February 23, 20X1 (Kathy)
- $27.60 for small travel expenses on February 27, 20X1 (Amanda)

We see now what actions and journal entries were completed in February by the company employees.

i) Establish petty cash fund

To establish the petty cash fund, the following *journal entry* was made after Vicki cashed the check from Eric:

Account Titles	Debit	Credit
Petty Cash	100	
Cash		100

ii) Disburse cash for expenditures

During the month, three employees (John, Kathy, and Amanda) made small business-related purchases. Vicki, the petty cash custodian, reimbursed the employees for the expenses incurred and obtained petty cash vouchers and purchase receipts from the employees. An example of one such voucher is presented below:

iii) Filled out petty cash voucher

Petty Cash Voucher No. _______1_______

Date:	February 12, 20X1
Vendor:	Fast Deliveries, Inc.
For:	Delivery charges for overnight envelop
Expense Account:	Delivery Charges
Amount:	$35.00
Less Change:	$0.00
	(include change returned by employee if any)
Net Amount Spent:	$35.00
Signed by:	John
	(employee who made the purchase)
Approved by:	Manager

Vicki took the vouchers and purchase receipts and placed them in the secure lock box with the remaining petty cash.

Content/Topic 3- Prepare petty cash journal and replenish petty cash fund

Replenishment means getting the total of the currency and coins back to the imprest amount.

At the time the petty cash fund is to be replenished or at the end of a month, whichever comes first, the custodian summarizes all expenditures in a petty cash journal. The amounts entered into the petty cash journal come from the vouchers. An example of a petty cash journal is presented below:

Petty Cash Journal

For the Month or Date Range: ______________________

			Expenses				
Voucher No.	Date	Total	Postage	Supplies	Delivery Charges	Travel Expenses	Other
	Totals:						

Total voucher amount:	________	*(enter Totals from above in column Total)*
Petty cash on hand:	________	*(enter actual petty cash on hand)*
Total:	________	*(sum of Totals and actual petty cash on hand)*
Petty cash fund:	________	*(established petty cash fund amount)*
Cash short / over:	________	*(difference between Total and established petty cash fund)*

Signed by: ______________________ **Date:** ______________
(petty cash custodian)

Approved by: ______________________
(manager)

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The petty cash journal lists all vouchers, their dates, the total amount of spending per voucher, and then individual amounts spent in respective expense account columns. The Total column should agree to the sum of all amounts in expense columns.

Underneath the table, there is a ***reconciliation*** of petty cash and vouchers to the petty cash fund:

- **Total voucher amount** shows the total amount of cash spent during the period. This amount comes from the last row – Totals – in column Total.
- **Petty cash on hand** represents the cash in the secure lock box on the date the petty cash journal is prepared.
- **Total** is the sum of the total voucher amount and petty cash on hand.
- **Petty cash fund** is the amount of the fund established for petty cash. As we noted earlier, this amount usually ranges from $100 to $500.
- **Cash short / over** is the difference between the Total and the Petty cash fund.

- Normally, the *difference should be zero*. However, sometimes the two amounts don't match. This indicates that some errors were made in recording voucher amounts, counting cash on hand, etc. If possible, the errors should be investigated and corrected. In cases when investigation still reveals a difference, it can be recorded as **cash short/ over**. When the petty cash fund amount is higher than the sum of vouchers and petty cash on hand, there is *cash shortage (loss*); and vice versa, if the petty cash fund is lower, then there is *cash overage (gain).*
- After the petty cash journal is prepared and reconciliation is completed, the journal should be signed by appropriate employees as evidence of their work on the journal.
- The petty cash journal serves as the basis for the journal entry to record expenses and to replenish the petty cash fund. The total in each expense column represents a debit entry, and the total of all debits represents the amount of cash to be replenished. Cash shortages or overages either increase or decrease the replenishing amount, respectively. The cash shortage is recorded as an expense, and the cash overage if recorded as an income.

The journal entry looks like this:

Account Titles	Debit	Credit
Postage Expense	000	
Supplies Expense	000	
Delivery Charges	000	
Travel Expenses	000	
Cash Short / Over	000	
Cash		000

The cash manager verifies all vouchers and petty cash on hand and then issues a new check for the amount of all debits (plus any cash shortages and less any cash overages) to the petty cash custodian to replenish the petty cash fund.

As you can see, the petty cash account is only debited once when the petty cash fund is established. Any journal entries after that don't impact the petty cash account. The only exception to this rule is when the petty cash fund amount is decreased or increased. When expenses are recorded, the cash account is impacted, not the petty cash account.

Note that this *petty cash fund* is also sometimes called an **imprest fund** because it is replenished when it becomes low.

iv) Summarize expenditures for the period

At the end of the month, Vicki filled out the petty cash journal using the three vouchers, which she received from John, Kathy, and Amanda. Note that Vicki obtained vouchers for a total of $75 (i.e., $35.00 + $12.40 + $27.60).

A filled out petty cash journal is presented below:

Content/Topic 4- Filled out petty cash journal

Petty Cash Journal

For the Month or Date Range: February 20X1

			Expenses				
Voucher No.	**Date**	**Total**	**Postage**	**Supplies**	**Delivery Charges**	**Travel Expenses**	**Other**
1	12-Feb	$ 35.00			$ 35.00		
2	23-Feb	$ 12.40	$ 12.40				
3	27-Feb	$ 27.60				$ 27.60	
	Totals:	$ 75.00	$ 12.40		$ 35.00	$ 27.60	

Total voucher amount:	$ 75.00	*(enter Totals from above in column Total)*
Petty cash on hand:	$ 24.00	*(enter actual petty cash on hand)*
Total:	**$ 99.00**	*(sum of Totals and actual petty cash on hand)*
Petty cash fund:	$ 100.00	*(established petty cash fund amount)*
Cash short / over:	$ (1.00)	*(difference between Total and established petty cash fund)*

Signed by: Vicki Smith
(petty cash custodian)

Date: February 28, 20X1

Approved by: Eric Doe
(manager)

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As you can see, there was an error in handling cash during the month as the sum of vouchers ($75) and the remaining petty cash on hand ($24) equals $99 while *the petty cash fund* (**imprest fund)** was established at $100. The difference of $1 is a cash shortage.

V) Replenish petty cash fund

The journal entry to post the monthly petty cash activity and related expenses is presented below:

Account Titles	Debit	Credit
Postage Expense	12.40	
Delivery Charges	35.00	
Travel Expenses	27.60	
Cash Short / Over	1.00	
Cash		76.00

When the journal entry is posted, Eric, the cash manager, issued a new check to Vicki, the custodian, for $76 (i.e., $75 expenses plus $1 to cover cash shortage). Vicki cashed the check and put the cash in the secure lock box to be used in the following month.

Those are usual activities and journal entries in accounting for petty cash.

LO 1.2 – Check Petty cash claims and vouchers for accuracy and authenticity before processing

Content/Topic 1- Overview on Petty Cash Claim Form

- **Definitions of petty cash claims and authenticity**

Petty cash claims refer to the demand/request of petty cash by a petty cashier from the organisation. *Authenticity* means the quality of being genuine or not corrupted from the original. So that, cash claims and vouchers should be *authentic*.

- **Types of petty cash claim form**

Petty cash claim forms, also known as **petty cash reimbursement request forms**, are so many and vary from an organisation to another. The following is an example of a petty cash reimbursement request form.

PETTY CASH REIMBURSEMENT REQUEST

Fund Custodian ______________________

Department ______________________

Michigan Tech ID Number (M#) ______________________

RECEIPT DATE	INDEX	ACCOUNT	RECEIPT AMOUNT
		Total Amount of Receipts	$0.00

Comments

____

Fund Custodian Signature ______________________ Date ______________________

- Content/Topic 2 -Petty cash claims Checking methods :

- ✓ **Proofreading**: this means examining your text carefully to find and correct typographical and mistakes in figures, grammar, style, and spelling.
- ✓ **Observation:** you note and record some mistakes/errors found out while proofreading.
- ✓ **Analysis:** you study these mistakes/errors and correct them.
- ✓ **Revision of calculations:** you adjust figures owing to reviewed calculations, then you fill out accurately your cash claim form.

- Content /Topic 3 -Petty cash claims and voucher Checking procedures

i) Petty cash claims checking procedures

The following are procedures of checking petty cash claim:

1. Looking at if application for petty cash fund were made by means of memorandum to the Director of Finance according to organisation policy and procedures before opening a petty cash fund
2. Disbursement: verify if the authorised voucher is presented to the custodian of the petty cash fund
3. Replenishment:

- ✓ Verify if the petty cash claim form is completed before obtaining reimbursement
- ✓ Verify if the completed form with vouchers is sent to the Accounting Office.

4. Restrictions: verify if petty cash is used only for payments of small expenses and small purchases of a company.

ii) Vouchers checking procedures

While vouching the transactions, the auditor should first of all examine the various vouchers keeping the following points in mind:

1. Made in the Name of the Employer: The auditor should see whether the voucher is made in the name of the employer of the concern.
2. Printed Form: He should see whether the voucher is on a printed form.
3. Serial Number: He should see whether all vouchers are consecutively numbered and filed in order of the entries in the various books.

4. Date, Name, Amount, etc.: The auditor should check date, name of the party to whom the voucher is issued, the name of the party issuing the voucher, and the amounts, etc.

5. Cancelled by Stamp: The vouchers, which are inspected by the auditor, should be cancelled by a stamp so that it cannot be produced again.

6. Related to the Firm: The auditor should also see that all the vouchers are related with the business or not and see whether the payments made by the concern relate to the business or not. The auditor should pay special attention to those vouchers, which are in the personal name of one of the partners, directors, manager or officers of the company.

7. Special Mark in case of Detailed Checking: In case of vouchers, which require detailed checking, the auditor should put special mark on them. He should check such vouchers carefully.

8. Passing of Vouchers: The auditor should see that a responsible senior officer of the concern passes every voucher correctly and the rubber stamps are affixed. He should also see whether the responsible official signs them.

9. Stamped: If the amount of voucher exceeds Rs.500 it must be stamped. The auditor should note whether the vouchers are stamped too.

10. Not to take the Help of the Employees: The auditor should not take the help of the employees of the concern while checking the vouchers.

11. Type of Account: The auditor should see whether the payment is made to a capital account or revenue account.

12. Related to the Year under Audit: The auditor should see that the vouchers are related to the year for which the auditing is going on.

13. Amount in Words and Figures: The auditor should also see that the figures and words of the amount in the vouchers are the same.

14. Points Regarding Further Verification: If any transaction requires further verification of any other evidence such as Memorandum of Association, Articles of Association, Prospectus, Partnership Deed, etc. they shall be noted.

15. Not to Accept Invoice as a Voucher: The invoice should not be accepted as voucher because there are a lot of chances of double payment i.e., once in the form of credit purchase and second time in the form of cash purchase.

16. Not to Accept the Mutilated Vouchers as such: In case if any voucher is mutilated or the amount therein is cut then the auditor should not accept such vouchers as such. They should be made signed by any senior responsible officer of the concern before they are accepted.

17. Pad Paper is not Voucher: Pad papers should not be accepted as vouchers because in such case chances of fraud are more.

18. Time of Payment: The vouchers for insurances, rates, and taxes, etc. should be checked by the auditor with reference to the period for which the payment has been made. In case of payments in advance, the auditor should see whether correct adjustments have been made.

Importance of checking petty cash

Checking petty cash is crucial in order to avail cash necessary to make payments of small expenses incurred in any organisation and to pay for small purchases of such organisation.

LO 1.3 – Ensure that Petty cash transactions are recorded

- Content/Topic 1 - Definition and types of Petty cash transactions

Petty cash transactions are transactions which involve small / insignificant amount of cash, hence the name 'petty'.

- **Types of petty cash transactions:**
  - ✓ Cash
  - ✓ credit cards
  - ✓ Cheques
  - ✓ Advance payments
  - ✓ Vouchers
  - ✓ Company charges
  - ✓ Refunds
  - ✓ Traveller's cheques
  - ✓ Foreign currency.
  - ✓ Minor expenses

Content/Topic 2 -People involved in petty cash transactions

Instead, designate one employee to be **responsible** for the **petty cash** fund. That person, generally known as a **petty cash** custodian or **petty** cashier, will determine if an expense is appropriate, hand out the **cash** to employees who need it, and ensure the expense log is kept up-to-date.

Content /Topic 3 - Procedures of petty cash transactions:

- ✓ Assignment of responsibility for the petty cash fund to concerned people

- ✓ Writing of a cheque to the petty cash custodian to establish the fund
- ✓ expenditure of money from the petty cash fund
- ✓ Placement of the receipt from the purchase into the cash box
- ✓ Replenishment of the petty cash fund when it gets low

LO 1.4: Ensure irregularities are noted and referred to nominated person/section in accordance with workplace procedures

- Content /Topic 1 - Possible irregularities in petty cash transactions
  - ✓ Discrepancy between receipts and petty cash: mismatch between the both in terms of amount. In this case, total amount of receipts may be greater/lesser than the amount of cash disbursed.
  - ✓ Missing cash or receipts: cash may be lost or embezzled/stolen or a petty cashier may lose receipt(s).
  - ✓ Omitted transactions: while recording petty cash transactions, a petty cashier may omit/forget some transactions.
  - ✓ Wrongly recorded transactions

- Content /Topic 2 - Procedures of dealing with petty cash transactions irregularities:
  - ✓ Identification of irregularities: you show all irregularities found out.
  - ✓ Notification of irregularities: you make known or declare them to competent authority from Finance Department.
  - ✓ Irregularity references: you show where those irregularities are found out.

Learning Unit 2: Balance all transactions

LO 2.1 – Ensure transactions are presented to nominated person/section for checking in accordance with workplace procedures

- Content/Topic 1 -Presentation Procedures of transactions.

  - ✓ Checking of transactions record: a petty cashier verifies and check whether a transaction was recorded correctly in petty cash book, or in any accounts book.
  - ✓ Explanation of cash transactions: a petty cashier tries to explain the transactions recorded. For instance, payment of postage, stationery, sundry expenses.
  - ✓ Getting feedback from the nominated person/ section: all petty cash transactions made by a petty cashier are presented to accounting department, then a nominated person (main cashier or accountant) checks and gives feed back to what has been done by the petty cashier. If any, errors should be corrected and recommendations and remarks may be given to last one, if any.

LO 2.2 – Ensure invoices payment to creditors are reconciled in accordance with workplace procedures

- Content/Topic 1 –Definitions of key terms
  - ✓ **Invoice:** is a document issued by a seller to the buyer that indicates the quantities and costs of the products or services provided by the seller, and payment terms indicating the maximum amount of time that a buyer has to pay for the goods and/or services that have been purchased from the seller.
  - ✓ **Creditor:** is a party that has a claim on the services of a second party. It is a person or institution to whom money is owed. The first party, in general, has provided some goods or service to the second party under the assumption that the second party will pay those goods or service.

Very simply, a creditor is a person or company to whom money is owing.

- Content/Topic 2 -Invoice reconciliation principles

Invoice reconciliation is the process of matching bank statements to the outgoing and incoming **invoices** to make sure that all accounts are clean (or all invoices have been paid) and every book entry is correctly matched.

- <u>Content/Topic 3 -Invoice reconciliation procedures</u>

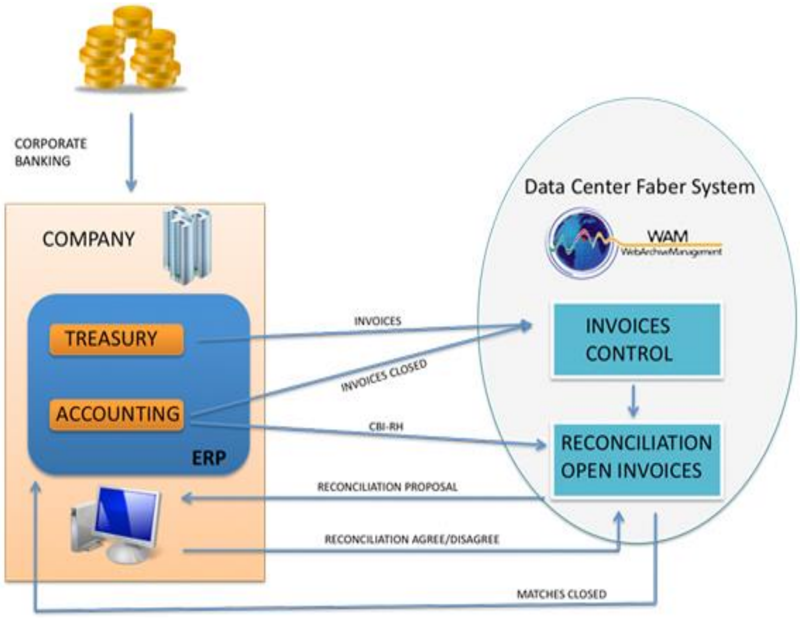

Figure: Invoice reconciliation procedures

- **The role of invoice reconciliation**

Invoice reconciliation is important for keeping your accounting records up to date and avoiding fraud. Matching the information from bank statements to the invoices you have going out or coming in, keeps you on top of who has and hasn't paid you and which bills of yours are outstanding.

LO 2.3 – Ensure discrepancies between invoices and delivery note/service agreements are identified and reported for resolution in accordance with workplace procedures

<u>Content/Topic 1 -Definitions and identification of discrepencies</u>

Definitions:

- ✓ ***Delivery note:*** is a source document (or commercial document) that accompanies the goods dispatched from the supplier to the customer.

Delivery note protects the dispatch driver from harassment on how he comes about the goods and serves as evidence of goods received by the purchaser when it is signed by him.

- ✓ ***Discrepancy:*** difference or mismatch between two figures/amounts.

- **Identification of discrepancies between invoices and delivery notes/service agreements**

The following method is applied to identify discrepancies between invoices and delivery notes/service agreements:

- ✓ Checking specifications on delivery Note: you verify/check all required information written on that document (dispatch date, company address, custom ID, delivery method, etc).
- ✓ Comparison between delivery note and invoice: you compare the amount of delivery note and that of invoice to look at if they are equal or not.
- ✓ Reporting discrepancies: if the comparison done above has shown the discrepancy (ies), you report it (them) to your superior.
- ✓ Description of irregularities between invoice and delivery note: you try to describe the nature and type of each irregularity found out.
- ✓ Reporting systems: choose the way with which you report those irregularities (online or manually).
- ✓ Report submission: you constitute a thorough report and submit it to the competent authority about those irregularities.

LO 2.4 – Ensure that errors in invoice charges are identified and corrective action is undertaken within scope of authority in accordance with workplace procedures

Content/Topic 1 -Identification of errors in invoice charges and its types

While preparing invoices, different types of errors may be committed. An error can be defined as an intentional mistake made when recording transaction(s). The following are common errors committed while charging invoices.

- **Types of errors:**

i) **Overcharge error:** also known as overadd error, happens when you charge more money than the correct amount.

E.g. you charge an invoice by Rwf 11,000 instead of Rwf 10,000

ii) Undercharge: also known as underadd error, happens when you charge little money than the correct amount.

E.g. you charge an invoice by Rwf 10,000 instead of Rwf 11,000

iii) Transposition: when 2 digits are reversed or transposed (interchanged).

E.g. you write 3563 instead of 5363.

iv) Not Itemizing: when an item (product) is not itemized (stated)i.e an item is not enumerated among others on invoice.

v) No Due Dates: when the date of payment of the date is not shown on invoice.

vi) No Logo (or logotype) on your invoice: the missing of the visual symbol or emblem that acts as a trademark or a means of identification of a company or organization.

Vii) Unstated mode/form of payment: when the way/means of payment is not stated.

E.g: payment by cash, by cheque, by money transfer.

Viii) Unstated term of payment: when the condition of payment is not stated.

E.g. EOM(at the End Of the Month), N60 or Net 60(after 60 days invoice date), payement at goods delivery.

- Content/Topic 2 -Errors identification methods

To identify the above errors, you apply the following methods as they have been stated in the precedent unit.

- ✓ Proof reading
- ✓ Observation
- ✓ Analysis
- ✓ Revision of calculations

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