Purchases and Cash Disbursements System

SUA Chapter 4
Accountant’s Objectives

1. Record all sales transactions
   - at correct values
   - to correct accounts
   - in the correct period
2. N/A: (Write off uncollectible receivables)
3. N/A: (Make a reasonable estimate for doubtful accounts)
4. Include all material disclosures affecting the accounts in the statements and related footnotes.
## Expenditure Cycle

<table>
<thead>
<tr>
<th>Source Document</th>
<th>Function</th>
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</thead>
<tbody>
<tr>
<td>Purchase requisition</td>
<td>Request that purchasing department order goods.</td>
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<tr>
<td>Purchase order</td>
<td>Request goods from vendors.</td>
</tr>
<tr>
<td>Receiving report</td>
<td>Record receipt of merchandise.</td>
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<tr>
<td>Check</td>
<td>Pay for items.</td>
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Purchases - Actions and Documents

Requisition goods or services
(a written or oral request for goods or services by the client’s personnel)

Purchase requisition
• Goods or services
• Quantity desired
• Date needed

Process purchase order
Purchasing dpt. initiates the order
• Quality, need, price, supplier, delivery date

Purchase order
• Vendor name & address
• Goods or services desired
• Delivery date
Purchases - continued

Receive goods
(Recognize the purchase on the date goods or services received)

Receive invoice from vendor
(shows unit cost, transportation, and the amount due)

Receiving report
• Goods or services
• Quantity received
• Date received

Vendor’s invoice
• Description of goods
• Quantity
• Price, and terms
• Date
Purchases - continued

Record in purchases journal and subs. ledger

Summarize and Post to general ledger

Purchases journal

A/P Subsidiary ledger

Fixed asset subsidiary ledger

General ledger
Cash disbursements

- **Process cash disbursement**
  - vendor inv.
  - receiving rp.
  - purchase or.

- **Record in cash disbursement journal and subs. ledger**

- **Summarize cash disbursement & Post to general ledger**

- **Check**
  - payee
  - amount
  - date

- **Cash disbursement journal**

- **A/P Subsidiary ledger**

- **General ledger**
Purchases Returns and Allowances

Process return or allowance request
(a request by the vendor for authority to return goods or allow.)

Return or allowance request
• return or allowance
• amount of credit granted

Ship goods
(GAAP requires purchase ret. & allow. recognized in the period the goods are returned)

Shipping document
• description of goods
• quantity shipped
• must w/common carrier
• no $ values included

Perpetual inventory record
Receive debit from vendor

Debit memo
• amount and terms of the return and allowance

Record in purchase returns and allowances j. and sub ledger

Purchase R&A journal

A/P subsidiary ledger
Purchase - Actions and Documents - ended

Summarize purchase R&A & post to gen. ledger

General ledger
Prepaids, Accruals, and Depreciation

Determine adjustments for accruals, prepaid, and depreciation

Record in general journal & subsidiary ledger

Post to general ledger

Accrual, prepaid, or depreciation memo

General journal

Subsidiary ledger (fixed assets only)

General ledger
**Trial Balances**

- **Accounts Payable Trial Balance**
  - List of the ending balances in the accounts payable subsidiary ledger at the balance sheet date.

- **Fixed Asset Trial Balance**
  - List of the ending balances in the fixed assets subsidiary ledger at the balance sheet date.
  - Includes:
    - Original cost
    - Accumulated depreciation
    - The net book value
Internal Controls

- Adequate documents and records
  - Pre-numbered & properly designed
- Authorization of transactions, by initialing documents;
  - authorization to order goods or services including quantity,
  - price and terms,
  - authorization to receive the goods
  - authorization for payment, source documents are reviewed and compared at this point and a check is signed.
- Separation of the custody of assets from accounting
Internal Controls - continued

- Independent checks on performance
  - all receiving reports must be accounted for to ensure all the A/P have been recorded.
  - compare prices paid to market prices.
  - check the addition in journals and records,
  - reconcile the control acc. to the related subs. ledgers,
  - prepare a monthly bank reconciliation.
Bank Reconciliation

- Bank balance is usually different than the book balance.
  - deposits in transit
  - outstanding checks
  - service charges
- and sometimes because of errors or fraud such as:
  - errors in recording
  - errors in footing journal columns
  - errors in posting
  - bank errors
  - theft of cash