

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.**



Common Source Documents and Functions

Expenditure Cycle

Source Document

Function

Purchase requisition

Request that purchasing department order goods.

Purchase order

Request goods from vendors.

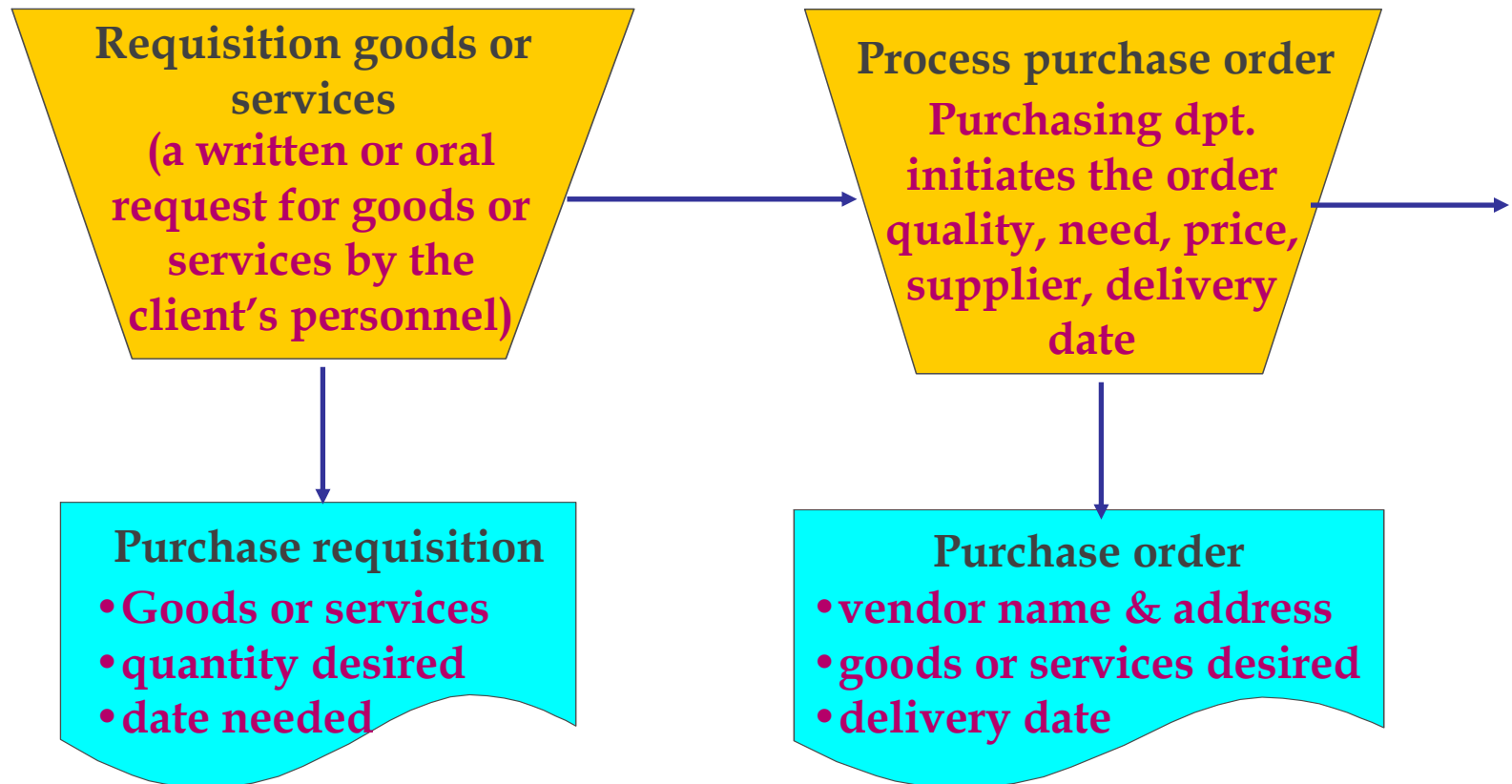
Receiving report

Record receipt of merchandise.

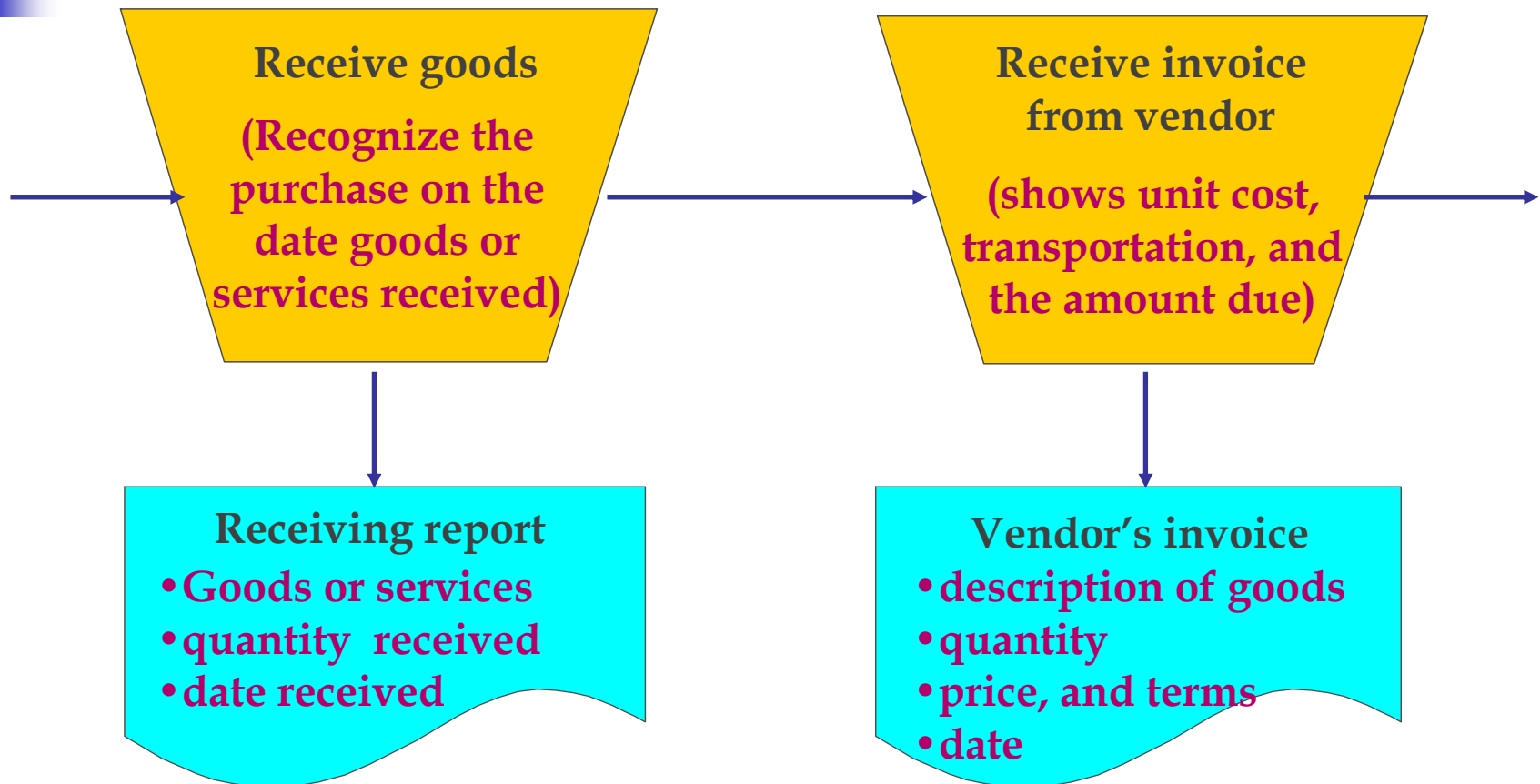
Check

Pay for items.

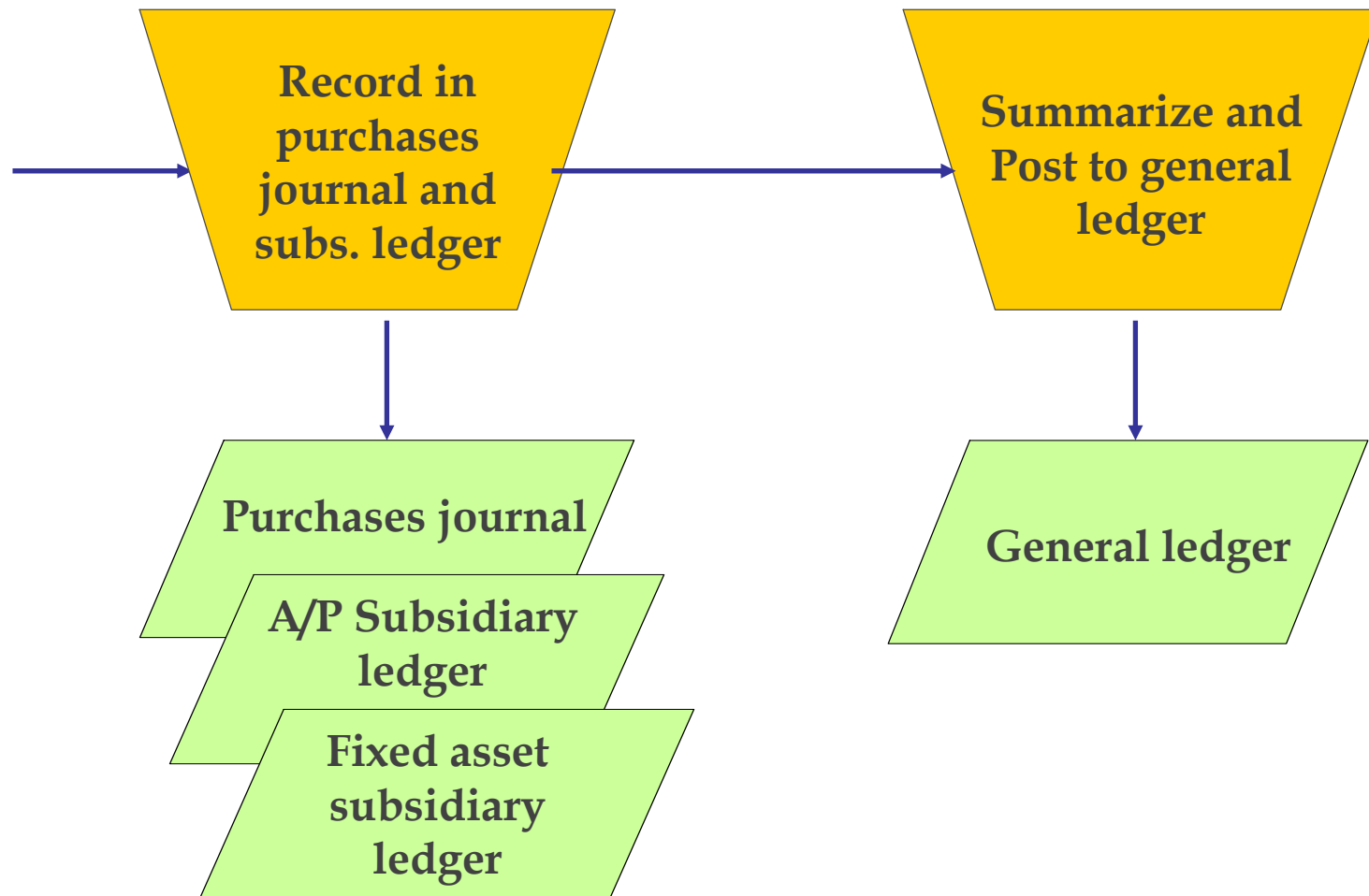
Purchases - Actions and Documents



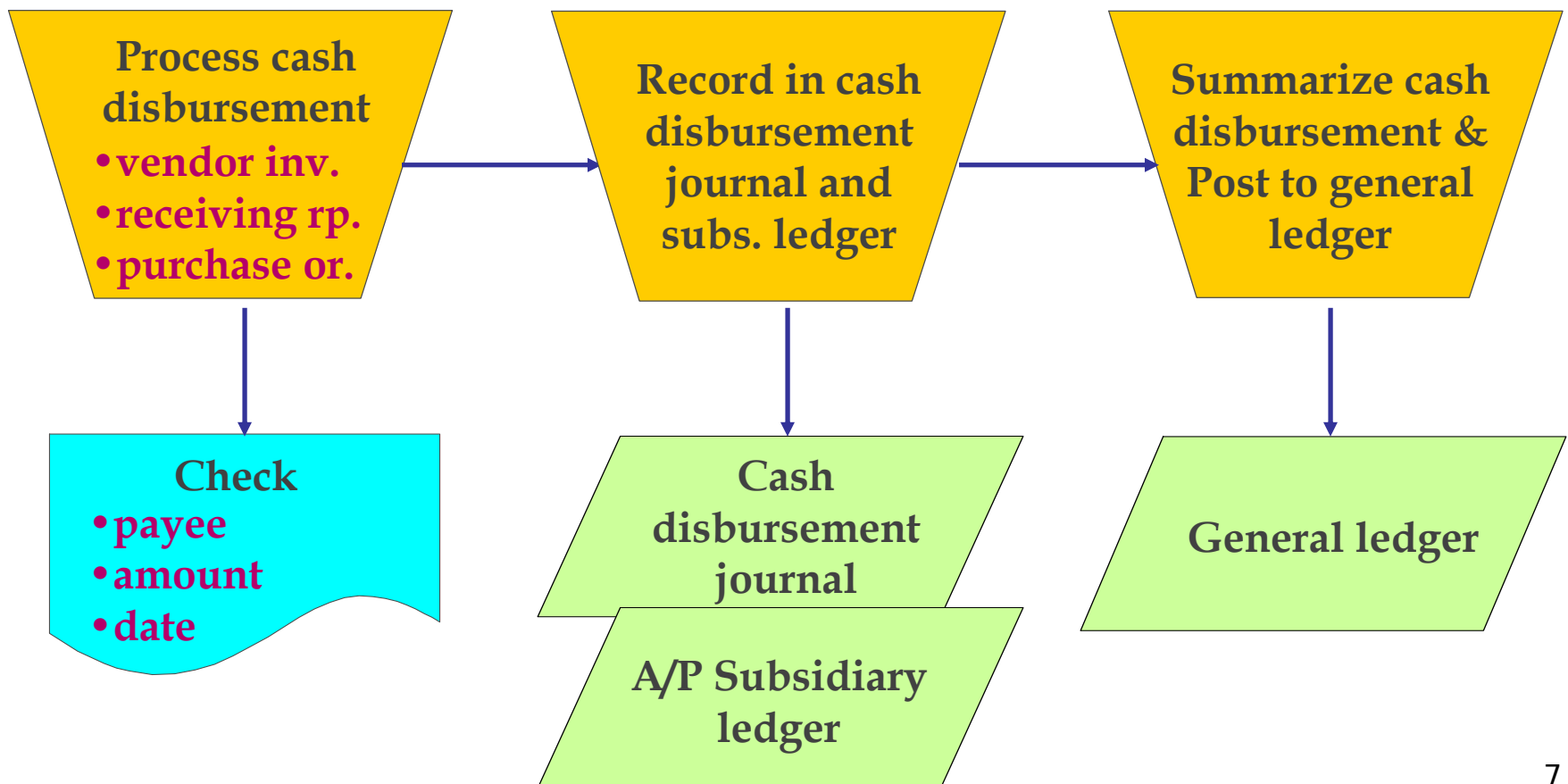
Purchases - continued



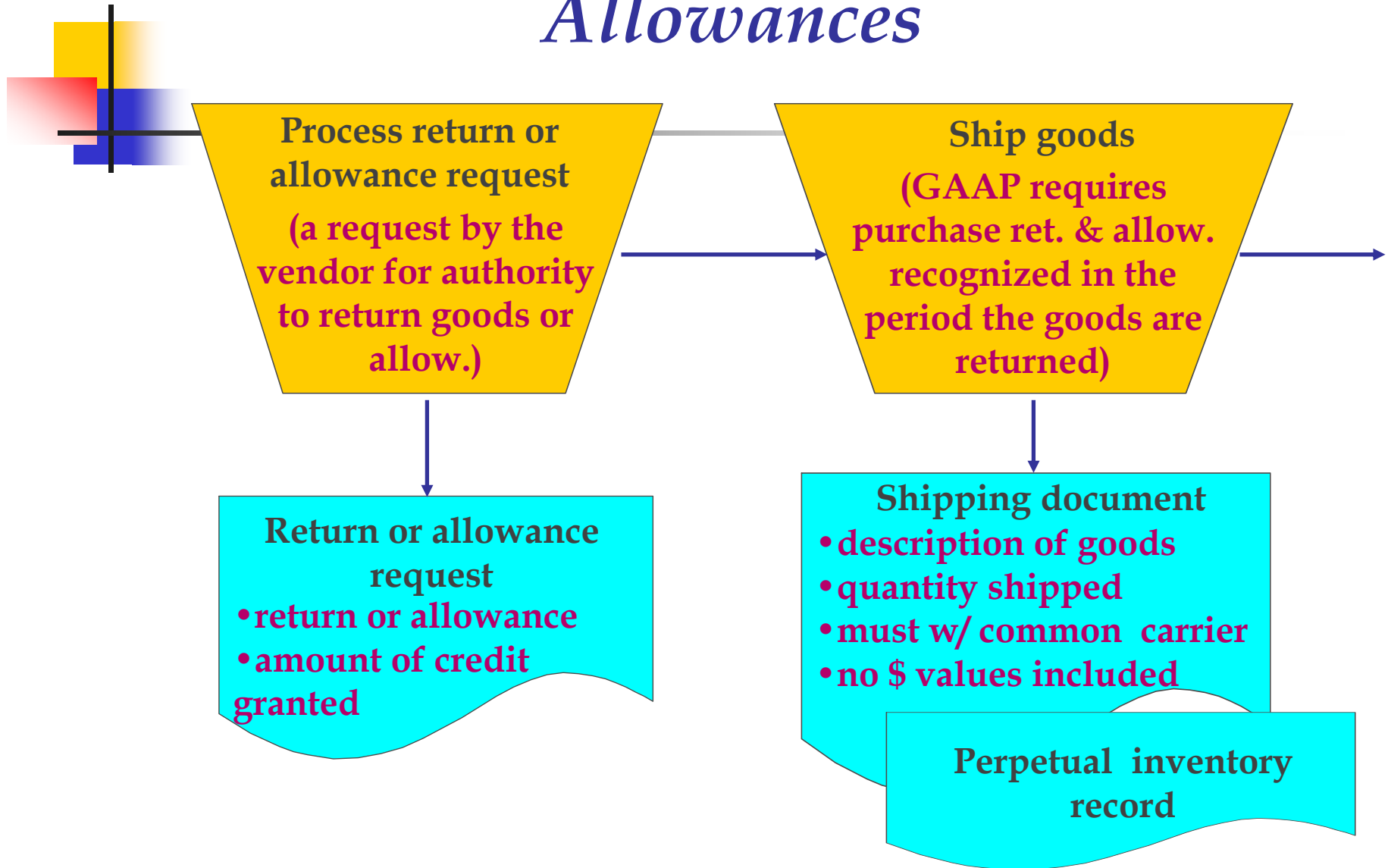
Purchases - continued



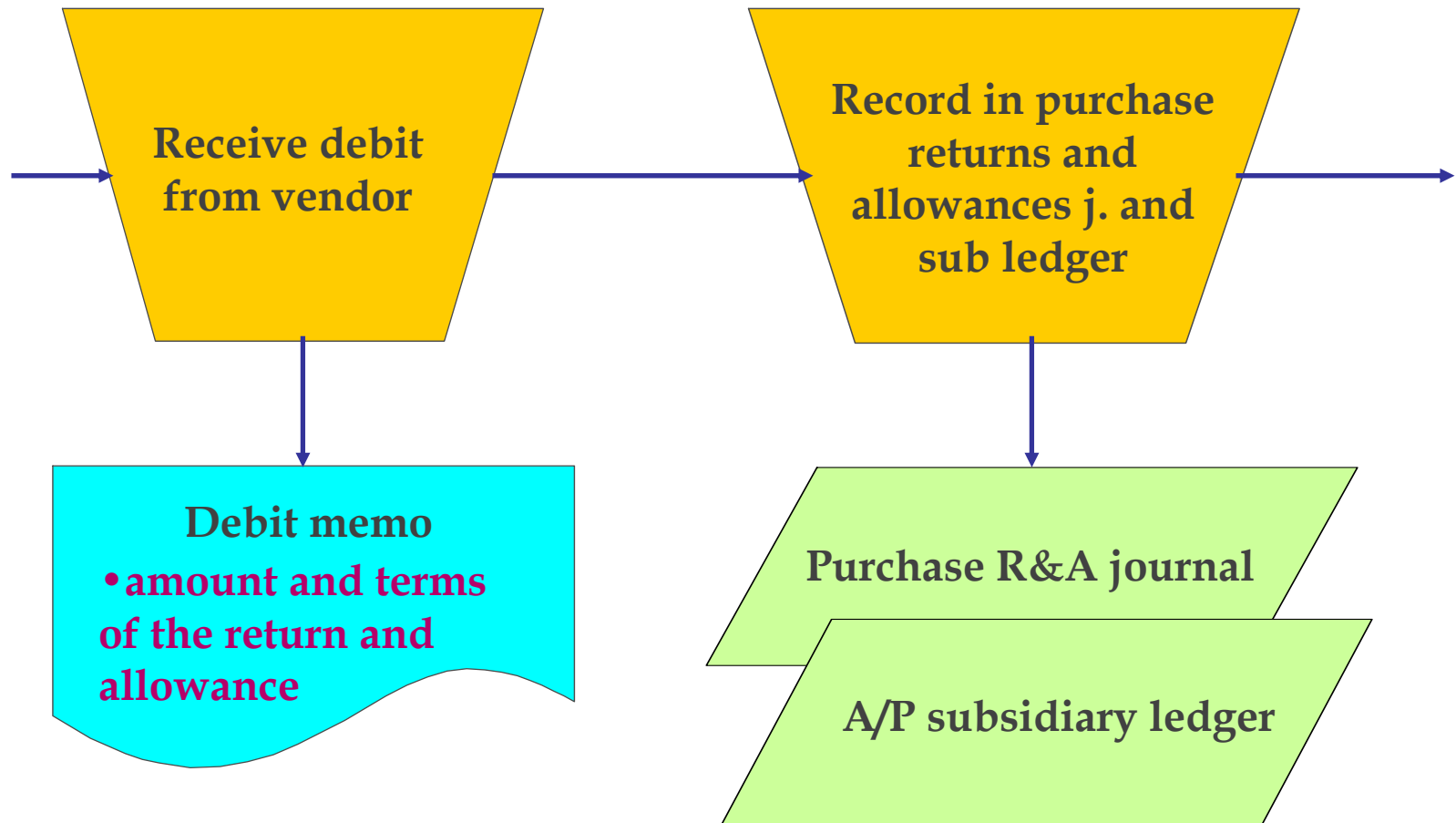
Cash disbursements



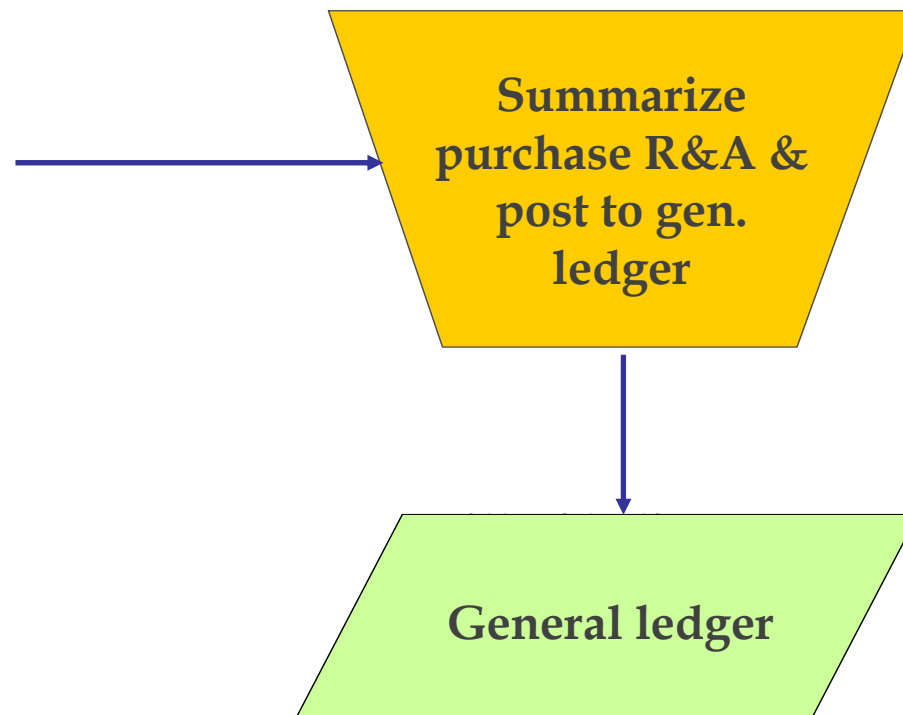
Purchases Returns and Allowances



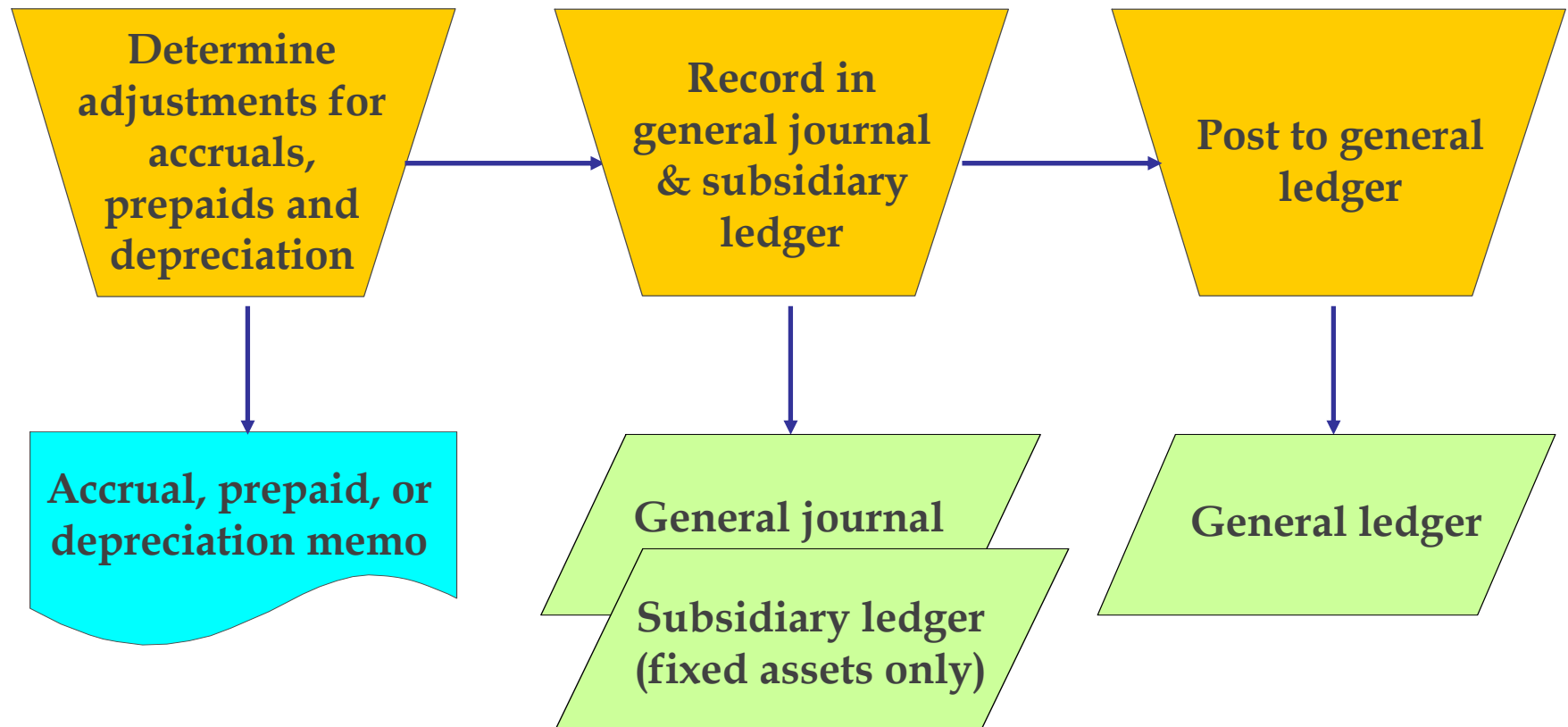
Purchase - Actions and Documents - continued



Purchase - Actions and Documents - ended



Prepays, Accruals, and Depreciation





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