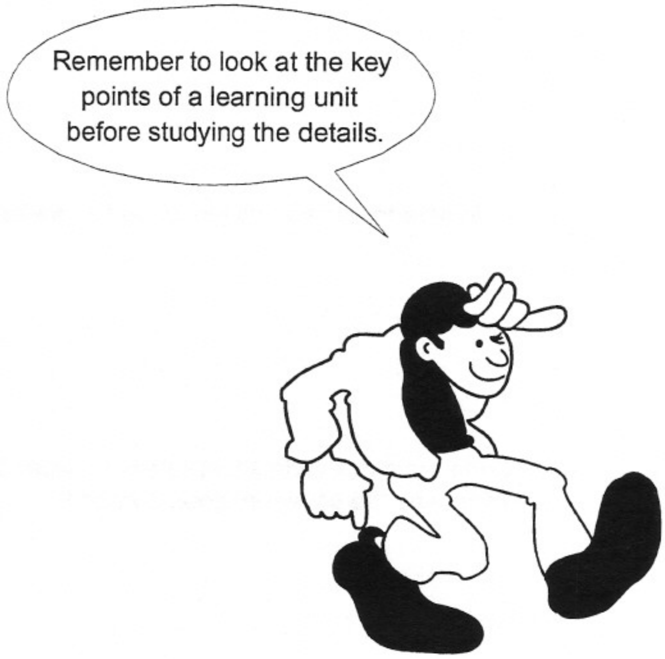
Part II Accounting for Assets

Unit 7 Cash and Short-Term Investments



Accounting for Cash

A. When a number of employees become responsible for the purchasing process, it is appropriate to introduce a voucher system and other financial controls.
B. These controls protect resources from waste and fraud, insure the accuracy and reliability of accounting reports, and enhance compliance with company policy.

A Voucher System

A. A voucher system requires written authorization and documentary proof for business activities involving cash.
B. This documentation provides materials required by auditors when verifying the appropriateness of cash expenditures.
C. Voucher system documentation
   1. Purchase requisition-approval to purchase
   2. Purchase order-sent to vendors
   3. Invoice-from vendor describing shipment
   4. Receiving report-warehouse documentation
   5. Invoice approval-approved for payment
   6. Voucher issued-order to pay

Internal Control Procedures

A. Establish responsibilities clearly
B. Bond employees, insure assets
C. Maintain adequate records
D. Separate record keeping and custody of assets
E. Separate related transactions
   (receiving cash, storing cash, depositing cash)
F. Require internal and external audits

Cash Equivalents

A. Excess cash may be temporarily invested for short periods to earn interest.
B. Called **cash equivalents**, these highly liquid debt instruments mature within 90 days.
C. Cash equivalents carry little risk.
   1. Their short maturity results in little loss in values should interest rates increase.
   2. Should the company need cash, they can easily be sold.
D. Examples of cash equivalents include:
   1. Short-term U.S. treasury bills
   2. Short-term commercial paper (corporate notes payable)
   3. Money market funds

Short-Term Investments

A. **Short-term investments** are highly liquid, temporary investments that mature in 3 to 12 months.
B. These investments provide the same functions as cash equivalents.
C. They may be equity securities (stock) or debt securities (corporate or government debt).
D. Unlike cash equivalents, the maturity value of short-term investments may be substantially affected by market conditions. As a result, they carry more risk.
E. Short-term investments must be reported on the balance sheet at the lower of cost or market.
   1. This means their value is lowered when their market value decreases.
   2. Once lowered, increases in market value up to original cost are reported.