

Why bank reconciliation element shouldn't be ignored

[Literature](#), [Russian Literature](#)



Chapter summary

Cash is a critical asset of the company as it makes it easy for the organization to carry out its business, and thus the need to protect and safeguard this asset is paramount. This chapter sheds light to some of the terms and documents used during the accounting process. Also, it highlights the appropriate control methods to ensure the protection of the assets of the company. It stretches further to demonstrate on various ways capital can be raised to support the growth of the business, and finally the importance of segregation of duties within an organization as a method of internal control.

Question 1: How much of the businesses revenue is collected as cash and what are the controls in place to protect this asset?

Business owner/Manager's: Answer 1

The amount of business revenue received as payment is dependent on the income from sales of goods and services. The controls of protecting assets of the organization include but not limited to delegation of related duties to different employees and ensuring proper scrutiny of the company's bank reconciliation statements. Bank reconciliations allow for proper examination of the bank-debit records and hence easy to detect the unusual withdrawals.

Business owner/Manager's answer converted to textbook language

The amount of cash collected as revenue is determined by the company's sales of goods and services. Organizations have adopted control policies to protect cash flows from probable fraudulence. Bank reconciliation has been encouraged as it assists in the detection of irregularities in financial records

and thus making the relevant adjustments. Additionally, extra check on supporting financial documents, before authorization of any transactions has been encouraged to minimize possible fraud.

Recommendation/Explanation

There is the need for the company to adopt appropriate policies to minimize the probable fraud of the financial documents. A bank reconciliation should be encouraged to help identify unusual withdrawals. Also, there is the need to protect and secure blank checks and signature stamps of the company in a safe place to avoid abuse of the valuables.

Question 2: How is cash generated to support this business?

Business owner/Manager's Answer 2:

A business owner can raise capital by either acquiring a loan from a local bank or contacting venture capitalists to give a hand in raising money. Additionally, cash can be generated through contributions from friends and relatives and partnerships with private investors.

Business owner/Manager's answer converted to textbook language.

A business owner can raise cash by partnering with investors who will offer the moral and financial support. Additionally, capital to support a business can be raised through loans

from banks, entrepreneurship supporting institutions and venture capitalism.

Recommendation/Explanation

Entrepreneurship institutions offer loans provided the credit rating, and history of a business owner is good. Before providing a loan, the system determines the feasibility of the business venture and the projected revenues and expenses. However, once the loan has been provided, the entrepreneur is required to repay it back with interest.

Question 3: What are the percentage of Cash transactions, Credit card operations, and Accounts Receivable transactions? How are receivables managed for this business?

Business owner/Manager's Answer 3:

The percentage of cash transactions, credit card operations and accounts receivable transaction is dependent on the amount of sale of goods and services. A business owner can manage the account receivable of the business by evaluating the financial and credit history of the firm. Before doing any business transaction, the manager needs to do the background check on the financial and credit history of the firm. Accounts receivables can also be managed by having clear payment terms. Clarity of the payment terms enhances proper management of accounts receivable.

Business owner/Manager's answer converted to textbook language.

The percentage of cash transactions, credit card operations and accounts receivable transaction is dependent on the amount of sale of goods and services. Accounts receivables can be managed through proper evaluation of the business's financial and credit history before carrying out any business with the company. Provision of multiple payment methods, electronic

invoicing and setting clarity in payments between the organization and the clients will help in proper management of the receivables.

Recommendation/Conclusion:

The company's accounts receivables need to manage efficiently to ensure proper payment of goods and services provided. Some of the practices to ensure the proper management of receivables includes the clarity in payment methods, electronic invoicing and the evaluation the company's financial and credit history before carrying out any business transactions.

Question 4: How are the duties of receiving cash and cash disbursements segregated? Name the individual positions held to manage this process.

Business owner/Manager's Answer 4

Segregation of duties applies the following principles which include the establishment of the employee's responsibilities on who to handle cash, giving a mandate to different individuals to receive and record the transaction. There are also the documentation procedures where the cash transactions are documented and the independent internal verification personnel to verify the transactions.

Business owner/Manager's answer converted to textbook language.

The first principle of the segregation of duties is the establishment of responsibility. This position is held by the cashier who is the only person authorized in handling cash receipts. Its followed by the second principle that ensures different individual handle cash transactions. After that, there are the documentation procedures which ensure that all the cash transactions be

documented. The fifth principle ensures the financial records be stored in physical and electronic forms. Finally, there is the independent internal verification which allows the supervisors to verify the total receipts in comparison with the bank deposits.

Recommendation/Explanation.

Segregation of duties is necessary for the sense that it minimizes potential inefficiency that is likely to occur during the accounting process.

Organizations should consider segregating duties to its staff in receiving of cash and cash disbursement to enhance the accuracy and the reliability of the financial records.

Question 5: What type of checks and balances do you have in place when cash has to be counted, recorded and deposited into the bank?

Business owner/Manager's Answer 5:

The checks and balances within the company include computer checks, wallet checks, and three-to-a-page checks. Wallet checks help in maintaining the records of business transactions of the company for financial purposes.

There-to-a-page checks ensure the functionality for the business by guaranteeing the accuracy of the records of business purchases. Finally, computer checks record cash transactions of high volume payments.

Business owner/Manager's answer converted to textbook language.

Wallet checks help the company records payments transactions and all the financial records for tax. On the other hand, computer checks are used to record payments made for an operation that involves a huge volume of cash.

The information regarding the purchases is recorded on three-to-a-page checks for accuracy purposes.

Recommendation/Explanation

The checks and balances of the organizations play a vital role in ensuring easy reference and retrieval of the financial information if need be.

Therefore, companies need to emphasis on the use of checks to enhance the efficiency and reliability all business transactions.

Question 6: Who estimated your Accounts Payable Contracts and what type of terms are negotiated? How is this relationship maintained and improved?

Business owner/Manager's Answer 6:

Accounts payable contracts are estimated by the head of the department of procurement and contracts within the organization. The types of terms and conditions negotiated includes payment methods and procedures and the processing of the invoices. This relationship is maintained and improved by regular and efficient communication and an in-depth understanding of the contractual obligations between the parties involved.

Business owner/Manager's answer converted to textbook language.

The head of the department in procurement and contracts within the organization has the mandate to ensure proper estimation of the accounts payable contracts of the company. He/she negotiates the contractual terms which include the payment methods and procedure and the processing of the invoices. The contractual relationship is maintained and improved

through constant communication by the parties involved and understanding the role and duties of each party with regards to the contract.

Recommendation/Conclusion

Accounts payable contracts are quite common within the organization.

Therefore, the company needs to ensure proper negotiation of the contractual terms and conditions. Additionally, there is need to maintain and improve the contractual relationship between the parties involved to ensure the smooth running of the business activities, and hence a win-win situation for both sides.

Question 7: Importance of bank reconciliation in cash and cash control policy

Business owner/Manager's Answer 7:

Being a critical aspect of the internal control structure within the organization, bank reconciliation helps in the identification of accounting errors, fraudulent financial statements, and thus enabling the necessary adjustments with regards to its cash-account balances. Also, bank reconciliation allows the company have its cash flows and other financial records scrutinized by an independent and external institution and thus enhancing its efficiency.

Business owner/Manager's answer converted to textbook language.

Bank reconciliation provides an excellent opportunity where the bank examines the company's financial records to identifying irregularities, errors and fraud if any, and consequently making any necessary adjustments. This facilitates the verification of the cash flows of the company. The use of the

independent and external source of financial records safeguards the integrity of the process and thus making it easier in the identification of discrepancies in cash flows.

Recommendation/Conclusion.

As evident above, the importance of bank reconciliation element within the organization cannot be ignored. This is because of its vital role in ensuring the efficiency of the internal control of the business. Bank reconciliation provides an opportunity where comparisons are made between the company's cash flows with the bank-recorded debits and hence allowing an extra check on possible fraud and errors in its financial records.