



General Conference  
Auditing Service  
*Delivering Excellence!*



*noun*  
**in·sight**

| a deeper understanding of  
financial reporting matters



Treasurers' Advisory **2019**  
Trans-European Division





# our·resources





# Accounting Update - aim

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- Cash and cash equivalent (C & CE)
- Agency cash (AC)
- Internal control (IC) of cash
- Related party disclosures (RPD)





# Cash - definition – *question 1*

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□ Question:

- How do you define cash?
- What are some examples?





## Cash - definition

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□ **Cash** “comprises cash on hand and demand deposits”.  
(IAS 7)





## Cash - examples

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- Cash is money in the form of currency.
- Currency includes currency notes and coins.
- Demand deposit – any account from which funds can be withdrawn at anytime without informing the depository institution, **examples** - most checking and saving accounts.





# Cash equivalents – definition

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- ❑ **Cash equivalents** are investments that can be readily converted to **cash**.
- ❑ **Cash equivalents** “are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value”.





## Cash equivalents – question 2

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### Question 2 -

What are some common examples of cash equivalents?





## Cash Equivalents – examples : answer 2

Common **examples** of **cash equivalents** include:-

- commercial paper
- treasury bills
- short term government bonds
- marketable securities
- money market holdings. ... If they mature in more than three months, classify them as other investments.





# Cash equivalents – criteria –question 3

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## Question 3

Identify the criteria (principle),  
for an instrument to qualify as cash  
equivalent?





## Cash equivalents – criteria – answer 3 (1 of 2)

**Criteria** to qualify for cash equivalent –

- Investment should be short term.
  
- Mature in less than three months.
  
- If they mature in more than three months they can be classified as other investments.
  
- Highly liquid. (Easily sold in the market and buyers of these investments readily available.)





# Cash equivalents – criteria – answer 3 (2 of 2)

**Criteria** to qualify for cash equivalent -

- Convertible to known amounts of cash. (Market price available and not subject to fluctuations)
- Low risk and market price not subject to significant fluctuations. (Equity shares cannot be classified as cash equivalents. But preferred shares purchased shortly before the redemption date can be classified as cash equivalents.)





# Cash equivalents – (current vs non current)

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## EXAMPLE OF TIMELINE – money market funds

- ❑ A 3-year instrument acquired in a trading market when it has only three months remaining to maturity would meet the definition of a cash equivalent.
- ❑ A 3-year instrument obtained at its original issue would not become a cash equivalent simply by the passage of time, when there was only three months left to its maturity.





# Cash equivalents - accounting options –

Times when cash and cash equivalents may be classified other than as current short term assets.

**For example**, an organisation may choose to classify all money market mutual funds as investments, even if they qualify to be treated as cash and cash equivalents.

Each organisation should establish a policy to indicate which highly liquid investments that qualify to be treated as cash and cash equivalents will be chosen for this presentation.





# Cash equivalents – footnote disclosure

- Disclose the organisation's policy in the notes to the financial statements.
- Consistently follow that policy each year.
- Changes in operating cash and equivalents is reported in the **statement of cash flows** as an increase or decrease in cash
- Restate prior year's data if policy changes and comparative statements are presented.





# Petty cash – imprest system

- ❑ Petty cash refers to a small amount of currency and coins that a company uses to pay small amounts without writing a cheque or making a bank withdrawal.
- ❑ A petty cash custodian disburses small amounts and uses a petty cash receipt to document these payments.
- ❑ The petty cash is usually held and operated under the Imprest System. This means the general ledger account Petty Cash will remain dormant at a constant amount.

KEY: at any point in time, the total cash in hand plus receipts must equal the original petty cash amount.





## Agency Cash ....definition

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**Agency cash** are monies held for and on behalf of a 'donor'/provider who retains the right to control, and to direct the use of these funds.





## Agency Cash ... accounting – question 1

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### **QUESTION :**

... is it good practice to to  
comingle agency cash with  
other cash?





## Agency Cash ... accounting – answer 1

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**Answer :**

....best practice is to maintain separate account for each provider or depositor of funds (similar to accounts payable).





## Agency Cash ... accounting – question 2

### QUESTION :

How is agency cash shown (classified) in the financial statement?





## Agency Cash ... accounting – answer 2

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### **Answer:**

Show in FS as both asset and liability.

- Cash held for Agency Funds
- Offerings & Agency Funds

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## Agency Cash - guide to classify (1 of 4)

1. Does the resource provider reserve the right to revoke the transfer, redirect the use of the resources to a different beneficiary, or demand a refund of the resources at any time?
  - a. If yes, classify and record the resources as an **agency liability**.
  - b. If no, go to question #2.





## Agency Cash - guide to classify (2 of 4)

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2. If the resource provider specified a beneficiary (programme or an organisation), does the recipient of the funds exercise control over that beneficiary, either directly or indirectly?
  - a. If **yes**, classify and record the resources as contribution revenue.
  - b. If **no**, go to question #3.





## Agency Cash - guide to classify (3 of 4)

3. Are the recipient and the ultimate beneficiary financially interrelated organisations?

(interrelated as one entity having both (a) the ability to influence decisions of the other entity and (b) An ongoing economic interest in the other entity.)

a. If yes, classify and record the resources as **contribution revenue**.

b. If no, go to question #4.





## Agency Cash - guide to classify (4 of 4)

4. Does the resource provider explicitly grant the recipient the variance power to redirect the use of the resources to a different beneficiary without obtaining approval from the provider?

If yes, classify and record the resources as **contribution revenue.**





# Agency Cash - examples (1 of 3)

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If a provider says, here is \$10,000 to use for books or anything else you need for your classroom!

Consider **the question**, does the resource provider explicitly grant the recipient the variance power to redirect the use of the resources to a different beneficiary without obtaining approval from the provider?

**The answer** is 'yes' therefore, contribution revenue.





## Agency Cash - examples (2 of 3)

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If a provider says here is \$10,000, please use it for my grandchild's music trip, but not for anyone else's trip, the answer to this question would be no. The school should acknowledge that they are holding the provider's money, but the receipt given to the provider should not in any way indicate that it is a deductible contribution.

If the child did not go on the trip, the school would refund the money to the provider, or use it for an alternate purpose as directed by the provider.

**The answer** to this question is **no!** Record as agency cash.





## Agency Cash - examples (3 of 3)

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- World Mission offerings (e.g., Sabbath School)
- Other offerings not intended for the entity (e.g., ADRA)
- Local Church funds deposited with the entity
- Retirement funds (where there is no separate pension entity)
- Deposits at the disposition of others

For all these accounts, disclosure of movements should be made.



### Appendix 9A - Operating versus Agency Cash

Cash and cash equivalents are defined by the denomination as only the portion of cash that is available for operating purposes. Cash equivalents should not include unrestricted cash necessary to offset agency liabilities or fiduciary obligations. This is illustrated in the following table. (Fund accounting has no impact on this concept.)

- ◆ All cash specifically identified as agency-related should be reported as cash held for agency. This is still a current asset, but it is not included with "cash equivalents" available for operating purposes.
- ◆ If agency-specific cash is less than the agency liability, and the net amount of all unrestricted cash is **positive**, then cash is reclassified to the extent necessary to cover the agency liability.
- ◆ If agency-specific cash is less than the agency liability, and the net amount of all unrestricted cash is **negative**, then the net unrestricted cash amount should be reported as overdrawn cash, a liability.

<b>Assumptions:</b>	Example 1	Example 2	Example 3	Example 4	Example 5
Operating Petty Cash	500	1,000	1,000	500	750
Operating Bank Account #1	5,000	16,500	6,500	(3,000)	(18,500)
Operating Bank Account #2	6,000	20,000	20,000	9,500	3,250
Net Unrestricted Cash Available	11,500	37,500	27,500	7,000	(14,500)
Agency-specific Bank Account	33,500	0	0	25,000	17,500
Plant-specific Bank Account	15,000	15,000	15,000	15,000	15,000
Total Agency Liability	33,500	33,500	33,500	33,500	33,500

#### Statement of Financial Position

##### Assets

Cash Held for Operating	11,500	4,000	0	0	0
Accounts Receivable	116,300	116,300	116,300	116,300	116,300
Cash Held for Agency	33,500	33,500	27,500	32,000	17,500
Current Assets	161,300	153,800	143,800	148,300	133,800
Land, Buildings, & Equipment, Net	750,900	750,900	750,900	750,900	750,900
Cash Held for Unexpended Plant	15,000	15,000	15,000	15,000	15,000
Total Assets	927,200	919,700	909,700	914,200	899,700

##### Liabilities

Overdrawn Cash	0	0	0	0	14,500
Accounts Payable	18,950	18,950	18,950	18,950	18,950
Agency Liability	33,500	33,500	33,500	33,500	33,500
Long-term Debt, Current Portion	10,000	10,000	10,000	10,000	10,000
Current Liabilities	62,450	62,450	62,450	62,450	76,950
Long-term Debt, Noncurrent Portion	65,000	65,000	65,000	65,000	65,000
Total Liabilities	127,450	127,450	127,450	127,450	141,950

##### Net Assets

Unallocated Operating	23,850	16,350	6,350	10,850	(8,150)
Allocated Operating	10,000	10,000	10,000	10,000	0
Unexpended Plant	15,000	15,000	15,000	15,000	15,000
Invested in Plant	750,900	750,900	750,900	750,900	750,900



# Internal Controls over Cash -definition

An internal control is a procedure or policy put in place by management to:-

- safeguard assets,**
- promote accountability,**
- increase efficiency, and**
- stop fraudulent behavior.**





# Internal Controls – control activities

- ❑ Control activities can be grouped into these areas:-
  1. Authorisation
  2. Segregation of duties
  3. Physical custody of assets
  4. Independent reviews





# Internal Controls over Cash - authorisation (1 of 5)

## Review authorised signors.

- Your authorised signors (authorisation of the transaction), should not have access to the blank cheques (custody of the asset) nor the ability to enter the transaction into the accounting system (recording of the transaction).
- Use of a signature stamp, although efficient, may be problematic, you must have separate controls to ensure that the stamp is not readily available for inappropriate use.





# Internal Controls over Cash - authorisation (2 of 5)

## Consider requiring dual signatures.

- Use dual signatures as further internal control for cash disbursements.
  - A dual signature policy includes establishing a currency threshold over which cheques require two signatures.
  - the establishment of a dollar threshold over which checks require two signatures. The utilisation of dual signatures establishes an element of segregation of duties for disbursements over a specified threshold in that these disbursements require more than one individual to authorize the transaction.





# Internal Controls over Cash - authorisation (3 of 5)

## Changing Signatories.

- The appropriate committee should approve additions and removals of individuals who are authorised to sign on any bank account.
- The committee should update this action any time the authorised individual changes, whether from job reassignment or employment termination.





# Internal Controls over Cash - authorisation : temporary accounts (4 of 5)

## Special Accounts.

- Committee authorisation is necessary for temporary, special, or small accounts as for primary accounts.
- For example**, a temporary bank account opened for a special one-time project, such as the annual camp meeting or a conference/mission-sponsored general evangelistic meeting. Each of these accounts should be authorised by specific committee action.





# Internal Controls over Cash - authorisation : opening and closing accounts (5 of 5)

## Opening and Closing Accounts.

- Authorisation, must be secured for the opening of **each** separate bank or savings account, even though the governing committee may have voted blanket authorisation for the transfer of temporarily idle funds from operating accounts to savings accounts.
  
- Likewise committee action is needed to close bank accounts.





# Internal Controls over Cash - segregation of duties (1 of 2)

## Segregate.

- Separate duties so that one individual cannot complete a transaction from start to finish.

Separate duties of:

- authorisation (signing a cheque or releasing a wire transfer)
- custody (having access to the blank cheques or the ability to establish a wire transfer)
- recordkeeping (ability to record the transaction in the accounting system)





# Internal Controls over Cash - segregation of duties (2 of 2)

## Wire transfers.

- Segregate the responsibilities for establishing a wire transfer from the responsibility of releasing the wire transfer.
- If this segregation is not possible, consider using a **call-back procedure**. (The financial institution will call a specified individual when a wire transfer is initiated.) The call back cannot go to any individual who is able to initiate a wire transfer.





## Internal Controls over Cash - physical custody (1 of 4)

- Keep account passbooks, certificates and electronic bank keys, securely locked away, keep key in a vault or a safety deposit box.
  
- Under no circumstances should unauthorised individuals have access to such documents.





# Internal Controls over Cash - physical custody (2 of 4)

## Control Over Blank Receipts and Cheques.

- If using pre-printed pre-numbered receipt and disbursement forms – the users should not have access to the entire stock of unused forms.
- Keep the bulk stock in locked storage in the custody of an individual who does not have responsibility for their use.
- Issue smaller blocks of such forms from this bulk stock, and require the user to sign and be responsible for the numbers issued.





# Internal Controls over Cash - physical custody (3 of 4)

## Control Over Computer-generated Documents.

- Accounting software products designed to print original receipts and cheques directly onto plain paper auto generate sequential receipt and cheque numbers. This eliminates the need for pre-printed prenumbered stock of such forms. (Use of computerised programmes to print prenumbered documents raises internal control issues).
- Restrict access to receipt and cheque writing, wire transfers, electronic banking passwords and keys: by job description and by passwords to only authorised individuals.





# Internal Controls over Cash - physical custody (4 of 4)

## Control Over Computer-generated Documents.

- ❑ A different person, should periodically review the cash receipt reports:- compare them to bank deposits,
  - and the disbursement reports,
  - review them for reasonableness, number sequence, valid vendors,
  - and credit to the appropriate bank account(s).





# Internal Controls over Cash - independent reviews

## **Reconcile bank accounts in a timely manner.**

- Complete the bank reconciliation regularly.
- Complete by someone independent of the cash disbursement process.
- During bank reconciliation - review the bank statement and the cheque images that are returned with the bank statement for unusual transactions. (Investigate and evaluate unusual items).





## Related Party ... definition – question 1

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**Question:**

Define related party  
and give examples?





## Related Party ... definition – answer (1 of 2)

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### **Related party test:**

- Control exercised
- Significant influence exists.
- Member of key management personnel
- Benefits - Post-employment benefit plan





## Related Party ... definition – answer (2 of 2)

**A party is related to the reporting entity if:**

- it directly, or indirectly through one or more intermediaries, exercises **common control**, and is able to exercise **significant influence**, and the party is a member of the **key management personnel** of the reporting entity or its parent (example - executive officers, vice-presidents, and members of the entity's governing committee).





# Related Party ... GAAP required disclosures (1 of 2)

- The nature of the relationship between the party and the reporting entity
- The balance of any account or loan receivable or payable between the party and the reporting entity including terms and conditions for repayment and whether the balance is secured
- The expense recognised during the reporting period for uncollectibility of any outstanding balances
- The total for transactions, by type, between the party and the reporting entity





# Related Party ... GAAP required disclosures (2 of 2)

- The contributions made to an organisation by its governing committee members, officers, or employees need not be separately disclosed if the contributors receive no reciprocal economic benefit.), and
- The key management personnel as a group, the amount of their total compensation apart from that of all other employees.





# Related Party ... disclosure note – sample (1 of 2)

## Note 1 - Organisation Structure

The xyz Entity of Seventh-Day Adventists (Organisation) is an administrative unit of the world-wide Seventh-day Adventist Church. It supports the operations of local affiliated Seventh-day Adventist congregations in the xyz Country, comprising the xyz church congregations in the territory. Many of the xyz Entity's financial activities consist of transactions with other denominational entities, such as: Trans-European Division (the supporting higher organisation). It also holds properties in the name of The Seventh-day Adventist Church in xyz company limited. The assets, liabilities and transactions of that entity are combined into these financial statements (see Note xx).





# Related Party ... disclosure note – sample (2 of 2)

## Compensation of Administrative Personnel

- Total employee compensation is reported in the Statement of Financial Activity at EUR xx,xxx and EUR xx,xxx for the years 2017 and 2016 respectively. Included in those totals are amounts for **administrative officers**, vice-presidents, and members of the governing committee who are employees, and for their close relatives, which as a group totalled EUR xx,xxx and EUR xx,xxx respectively. (See note 7 for amounts due to this group.)
- Compensation includes salaries, allowances, accommodation and education.
- **Close relatives** are those who could exert influence over the administrators/committee members, including their spouses and children.





# Accounting Update - achieve

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- Cash and cash equivalent (C & CE)
- Agency cash (AC)
- Internal control (IC) of cash
- Related party disclosures (RPD)

