1928

Cash disbursements by branches

Charles Ralph Olin

Recommended Citation
Haskins & Sells Bulletin, Vol. 11, no. 01 (1928 January), p. 2-5

Cash Disbursements by Branches

By C. R. Olin, Jr. (*Supervising Accountant, Cincinnati Office*)

A LARGE manufacturing company, through its thirty sales branches, efficiently makes and adequately controls annual cash disbursements of about five million dollars. It is done out of a fund of $15,000.00. Less than two years ago its branches numbered only twelve; its annual disbursements through these branches aggregated but one million dollars or less; and the fund amounted to $30,000.00 or more—indicating that the present volume of business under the old methods would have required a fund of at least $150,000.00.

The present plan affords a number of features which are interesting and desirable both to public accountants and to any institutions whose business transactions and form of organization require that disbursements be made by employes located in widespread and distant points. One of the more important is the absolute control and check by the home office. This is of particular interest at present in view of the unusual attention which is being given to the cash situation by accountants and executives.

The plan can be better appreciated by having in mind the methods it has superseded. These old methods, in this case, were very similar to those which have been and are being widely used by others. A comparison of the old and the new will make obvious many of the advantages gained and it is to be hoped that it will suggest beneficial adoption, either in part or as a whole, of the new plan by others. The outline of the old methods is brief and confined to the essentials.

Formerly each branch was supplied with an imprest fund. These funds varied from $100.00 to $5,000.00, depending upon the size and location of the branch. The amount was expected to be sufficient to cover their requirements for a reasonable length of time. Actual practice showed that seasonal requirements necessitated temporary increases in these funds. It was, of course, intended that such temporary increases would be returned when the emergency passed. However, they more often became permanent ones or were retained by the branch for a period considerably longer than necessary. It is a human trait, it seems, to like to control more money than actual needs dictate. Naturally such excess funds were unprofitably idle.

At most branches a large part of the imprest fund was carried as cash in hand. Purchases and expenses of varied size and character were paid for out of it both in cash and by check. Supporting vouchers of various sorts were taken. These were sent in to the home office for reimbursement when the fund became diminished. Geographical distance from the home office necessitated larger balances at the more remote branches to care for their needs while the reimbursement checks were in transit.

Audit and control of the branch funds were more or less ineffective. When bank accounts were maintained for part of the funds these accounts could, of course, be checked and audited with some degree of satisfaction and safety. But when all of the fund was in hand, or when part was in hand and part on deposit, it can be seen readily that proper control and simultaneous audit (with other funds of the company) were not only difficult but perhaps expensive, especially if made by the company's own traveling auditors.

The new plan has all the advantages of the old and few, if any, of the disadvantages. Some of the requirements of the system for handling the general cash are here outlined as they partially furnish the control over the branch disbursements and link them up with the general cash account.

The company maintains a general bank account in the city in which the home office is located. This account is used largely for local and other disbursements where exchange is not a factor. A general bank account in a New York City bank provides the facilities used for all other general disbursements made by check. Withdrawals from these accounts are made only by officials at the home office.

Most of the payments from customers and other collections are received directly from remitters by the home office and deposited in the local general bank account. Although customers and others are urged to remit to the home office there are many collections made by the branches—either because customers intentionally pay there or for other good and unavoidable reasons. Certain branch employes are designated to receive these remittances and deposit them in a local bank to the credit of the home office. They are thereafter subject only to the order of the home office officials. As customers' accounts and statements are handled entirely in the home office these collections are effectively controlled. Branches must report daily on all collections.

Special bank accounts, subject to check by the home office officials, are kept in the home office city and in New York City to provide for payment of salary and labor pay-rolls.

The bank accounts just described cannot be made to function conveniently in paying for the certain expenses and purchases which are incurred by or through the branches. Such expenses and purchases exist in nearly every medium or large-sized enterprise having employes scattered over a large territory. Consequently, a special bank account in New York City is used to take care of them. It is called "Branch Contingent Fund." The name is not important and is selected principally to distinguish this account from other bank accounts.

As mentioned in the first paragraph the constant imprest balance in the branch contingent fund is $15,000.00. Certain employes at each branch are authorized to sign checks on this account. Usually the checks are signed by the branch manager and countersigned by the chief clerk. They are not permitted to withdraw on one check more than three hundred dollars. In emergency cases (where a branch must make a disbursement for an item in excess of three hundred dollars) a $300.00 check and a smaller one, which together are sufficient to pay the total bill, must be prepared. This permits the bank to rigidly enforce the maximum rule and reject all checks over $300.00. Branches must furnish proper explanations for the necessity of large disbursements when they pay them from this fund instead of following the policy of sending all large bills in to the home office for payment.

The bank is thoroughly informed as to the manner in which the fund is intended to be operated. It is, of course, furnished with all authorized signatures and changes thereof. All parties who are authorized to sign checks are bonded. They are not permitted to sign checks payable to themselves; their salary checks coming from the home office.

Almost without exception, branch disbursements are made by check through this fund. To provide for the very few small expenditures that must be made with cash a small imprest fund is furnished each branch. Most of these are $50.00 or less (one or two at the very large branches are for $100.00—none is larger). These are reimbursed by drawing a check on the branch contingent fund except at the very small branches which are reimbursed from the home office. This is necessary because of the rule that employes may not sign checks payable to themselves and because the small branches quite frequently combine and give the duties of cashier and chief clerk to one person. From this it will be seen that only about $1,500.00 is required to supply the branches with the cash in hand funds and that in nearly every case they can be conveniently and immediately replenished by the branches themselves.

Disbursements from the branch contingent fund are made on a voucher check supplied by the home office. All are of uniform size and color. They are serially numbered (only one series being used). Each branch is charged with the checks sent to it and must account for all of them either by their being paid through the bank or by the prompt return to the home office of those spoiled, voided, or unused for any other reason.

Each branch is assigned a number which is used for reference throughout all accounts. This number is stamped on the upper right-hand corner of the voucher checks before they are sent to the branches. This number facilitates sorting the checks by branches when they are returned from the bank.

As the voucher checks are prepared by the branches three carbons on vari-colored light paper are made. The check is delivered to the payee, the branch keeps the first copy on file for reference, and the remaining two copies with all supporting data properly approved are sent in to the home office daily. The home office runs an adding machine total for each branch and for all (each day). A chronological record is made therefrom and a continuous control on the total disbursements of each branch is built up. One set of copies is then filed in numerical order on post binders—one binder for each branch. These serve as a detailed record against which to compare the paid and canceled checks when reconciling. The procedure followed in reconciling will be more fully described in subsequent paragraphs.

The remaining copy and all the supporting data furnish the material for the home office accounts payable entry (or voucher if such a system is used). The individual credit is in favor of "Branch Contingent Fund—****************** Bank, New York City." The debit distribution is summarized and entered by charging the proper accounts. All supporting data are properly audited and then placed on file. The bank is reimbursed by the home office out of its general bank account for the total of the branch contingent fund disbursements each day, thus keeping the fund at its established amount.

At the end of the month—or more often if the number of disbursements makes it desirable from the standpoint of ease in sorting and reconciling returned checks—the bank mails or ships the bank statement and canceled checks to the home office. These are used to prepare the customary reconciliation and are inspected as to regularity. The checks are sorted numerically by branches and compared with the post binder file copy mentioned above. The file copies for which the checks have been returned are lifted from the post binders and placed in a permanent file. Those representing outstanding checks are left on the current post binder for comparison with the checks as they may be returned at the time of future reconcilements. This file of outstandings is also used for reference in following up the older outstanding checks.

It is found in actual practice that the monthly reconciliation discloses a few checks paid by the bank on the last day or two of the month for which the home office has not received the vouchers from the branches. These can be promptly called to the attention of the branches, and proper supervision and instruction will keep the number thereof to a very negligible minimum.

Summing up the chief advantages of the branch contingent fund as here described it is found that:

(a) A small fund in one bank account can be made to take care of a large number of disbursements which aggregate a pretentious sum.

(b) Branch disbursements are largely made by the most convenient and safe method—a check which will be endorsed and returned to the home office as a receipt.

(c) Each branch constructively has the entire fund at its command and yet is properly restricted, audited, and controlled so as to safeguard the company.

(d) Disbursements can be promptly made—thus gaining many discounts that might be lost, as well as the credit standing advantages that accompany prompt payments. Commission, salaries of discharged employes, and the like can be paid without waiting for checks from the home office.

(e) Cash in hand at branches is reduced to an amount so small that very little capital is idle, if any. The small amount in hand also makes it unprofitable, and consequently improbable, for employes to be dishonest with it.

(f) In actual practice (when interest is received on the daily bank balance) it is found that the average daily bank balance usually amounts to more than the established fund due to the outstanding checks. The company benefits by the interest thereon.

(g) Audit of all but the relatively small branch imprest funds can be accomplished at the home office simultaneously with all other cash there.

(Editorial Note: The above article was written by a staff accountant from observations made while on an engagement. This suggests the hope that other accountants will write articles, for use in the Bulletin, based upon their observations and experience in the field, so that other members of the staff may profit by such experience.)

Fraud and Internal Control

DESPITE the efforts of legislators, government and corporation officials, and accountants, fraud and embezzlement schemes continue to grow and even to flourish in infinite variety. The increase in number has been accompanied by more ingenious and diabolical methods of effecting and concealing the misappropriations. It is obvious that the business world must establish every possible safeguard to protect itself against these nefarious schemes. Public accountants can do much to curb these manipulations. However, to control fraud most effectively, the business man must help protect himself by using a good system of internal control for his organization, and having public accountants determine at frequent intervals whether the system is effectual.

Most embezzlements within a business organization have been committed by an employe who has had access to the company's cash. Consequently, systems of internal control within some companies have been designed to give particular attention to the employes connected with the cash situation, but have failed to take other employes and their duties into consideration. Recently, however, a case has come to light in which an employe who had no access to cash was able to defraud the company of about $70,000 through a scheme, crafty and daring in its completeness.

The company's warehouse was in a different city from that in which the purchasing department and general offices were situated. The purchasing depart-