

# TREASURER'S DIRECTIONS

## ACCOUNTING – ASSETS

### Section A2.6 : Cash

#### STATEMENT OF INTENT

*Cash assets are received and paid by an Agency as part of operating, financing and investing activities. This Section explains what cash assets are, when cash assets should be recognised, and how they should be managed.*

#### MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

##### Cash Assets

- Cash assets include cash on hand (including cash in transit and petty cash), cash at bank and cash equivalents.

##### Recognition of Cash Assets

- Cash assets are to be recognised by an Agency on receipt unless they are received on behalf of the Territory.

##### Classification of Cash Assets

- Cash assets are to be classified as current assets and under the cash asset classes provided in the Standard Classifications.

##### Management of Cash Assets

- Agency cash assets are to be subject to appropriate management, accountability and control arrangements.

For authoritative instruction and guidance, reference should be made to related Treasurer's Directions and associated commentary, relevant Australian accounting standards and other authoritative interpretations.

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## AUTHORITIES

*Financial Management Act*

## REFERENCES

AAS 29 Financial Reporting by Government Departments

AASB 107 Cash Flow Statements

*Related Treasurer's Directions:*

F2.2 Framework – *Working for Outcomes* : Central Holding Authority

A2.1 Accounting – Assets : Overview

A2.7 Accounting – Assets : Receivables

C1.1 Cash Management – Introduction : Overview

C2.2 Cash Management – Banking : Bank Accounts

C3.1 Cash Management – Transaction Management : Receipting

G2.6 Governance – Accountability : *Financial Management Act* Approvals – Write-offs, Postponements and Waivers

WHAT ARE CASH ASSETS ?

A2.6.1

Cash assets include cash on hand (including cash in transit and petty cash), cash at bank and cash equivalents.

- (i) Cash on hand refers to notes, coins or negotiable instruments held by an Agency and not yet paid into an official bank account. Cash on hand includes:
  - cash in transit (for example, cash being transported from a regional or divisional unit to, but not yet received by, head office);
  - petty cash; and
  - cash floats.
- (ii) Cash at bank refers to deposits held by a financial institution and is represented by amounts held in Agency official bank accounts. The reconciled cash at bank balance is used for reporting cash at bank and is determined by adjusting the bank account balance for unpresented cheques, outstanding deposits and any other appropriate adjustments. Treasurer's Directions Section C2.2 provides further instruction and guidance on bank accounts and the reconciliation of bank accounts.
- (iii) Cash equivalents are highly liquid investments with short periods to maturity which are readily convertible to cash. Such liquid investments would be subject to an insignificant risk of changes in value in the short term. An example of a cash equivalent asset is a short term deposit with a fixed interest rate.
- (iv) Cash assets held by an Agency form part of the public money of the Territory. This Treasurer's Directions Section and Treasurer's Directions Section C1.1 provide further instruction and guidance in relation to the management and safeguarding of cash assets.
- (v) Cash held in trust is held for the benefit of another person or entity and may be held on behalf of that person or entity by an Agency. To facilitate appropriate accountability and management, monies held in trust are recorded in Agency Accountable Officer's Trust Accounts (AOTA). Although AOTA monies form part of Agency cash assets, these monies will ultimately be payable to the beneficial owner, and as such a corresponding liability is recognised in Agency financial statements.

## RECOGNITION OF CASH ASSETS

A2.6.2

Cash assets are to be recognised and recorded in the books of an Agency when:

- the asset has been received; and
- the asset is not recorded in the Central Holding Authority.

- (i) Cash, whether it is cash on hand, cash at bank or a cash equivalent, is not recognised as an asset until an Agency has control of the future economic benefits associated with the asset. Control of the future economic benefits for a cash asset is usually obtained when cash is received or is held by an Agency. The right to receive a cash asset at some point in the future does not create a cash asset, but may create a receivable or other asset. Treasurer's Directions Section A2.7 provides further instruction and guidance on receivables.
- (ii) Some Agencies may receive cash assets on behalf of the Territory such as taxation receipts and regulatory fees. Cash assets received by an Agency on behalf of the Territory will be recorded in the Central Holding Authority rather than being recorded by the Agency. Treasurer's Directions Section F2.2 elaborates on the concept of the Central Holding Authority and items recorded in it.

## CLASSIFICATION OF CASH ASSETS

A2.6.3

Cash assets are to be recorded as current assets and under the cash asset classes provided by the Standard Classifications.

- (i) Cash assets have a highly liquid nature and as such are classified as current assets in the Balance Sheet.
- (ii) Assets that have some cash characteristics but are restricted in use beyond 12 months of the reporting date are usually categorised as investments and classified as non-current assets. Agencies will rarely hold investments.

## MANAGEMENT OF CASH ASSETS

A2.6.4

Agency Cash Assets are to be subject to appropriate management, accountability and control arrangements.

- (i) As items of public property, all assets, including cash assets should be subject to appropriate management, accountability and control arrangements. The highly liquid and portable nature of cash assets makes the implementation of effective management, accountability and control arrangements particularly important.

## Section A2.6 : Assets – Cash

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- (ii) Management, accountability and control arrangements that are relevant for cash assets include, but are not limited to:
- appropriate segregation of duties (for example, the separation of duties for the collection or receipting of cash from the reconciliation of bank accounts);
  - ensuring cash collections are recorded completely and accurately in a prompt manner;
  - undertaking regular bank deposits;
  - performing regular physical counts of cash on hand;
  - maintaining appropriate storage facilities for cash on hand;
  - conducting regular reconciliations of bank accounts and AOTAs;
  - clearly identifying procedures to be followed where cash assets are lost or misappropriated; and
  - ensuring staff have adequate training and knowledge of accountability and control requirements.

Additional instruction and guidance in relation to cash management including the receipting of cash and reconciliation of bank accounts may be found in the Cash Management Series of Treasurers Directions.

### A2.6.5

**Any loss of actual cash assets, against the amount recognised is to be written off in accordance with the requirements contained in the *Financial Management Act* and related Treasurer's Directions.**

- (i) Where an Agency determines that there is a discrepancy in its actual cash assets against its accounting records, a write-off may be appropriate.
- (ii) Before applying for a write-off the Agency should endeavour to determine the cause of the discrepancy. This could be either a breakdown or flaw in the system of internal controls adopted by the Agency or the intentional misappropriation of funds (for example, theft).
- (iii) If the loss stems from an error, the Agency should review its internal control systems to ensure that the situation will not arise again. Where there has been misappropriation or potential misappropriation of funds that may or may not be a criminal act, the Northern Territory Police need to be consulted. An Agency's procedures should clearly identify the necessary steps in such instances.
- (iv) Treasurer's Directions Section G2.6 provides further instruction and guidance in relation to write-offs.