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Cash accounting system according to IAS/IFRS

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CASH ACCOUNTING SYSTEM ACCORDING TO IAS/IFRS

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Abstract

Accounting International standards are mainly oriented towards cash information for enterprise performance evaluation, i.e.:

- Ias n.7 requires cash flow statements according to direct method of cash inflows and cash outflows;
- Ias n.36 requires cash inflow and outflow for cash generating units; as well as FAS 142 requires cash inflow and outflow for reporting units;
- FASB Concepts Statement n.7 “Using cash flow information and present value in accounting measurements”.

Two accounting systems exist around the world: the financial accounting system used in almost all countries and the income accounting system used mainly in Italy and in a few other countries.

In the Italian language specific terms are used to define the two different accounting systems: the “Anglo-Saxon accounting System” and the “Italian accounting system”.

It is important to keep in mind that the Anglo-Saxon accounting system is the evolution of Besta’s accounting system and it can be defined as the accounting system of assets, liabilities and equity; on the contrary the Italian accounting system, belonging to Zappa’s theory, is usually defined as the profit and loss (or income) accounting system.

Nowadays enterprise accounting informative systems are not able to offer a complete bookkeeping system in order to comply with Ias 7 and Ias 36 requirements, therefore an adequate information system is required.

In fact, Italian and Anglo-Saxon accounting systems through their integrated accounting recordings cannot represent an adequate support for cash accounting. The aim is to measure income and capital. These are only two of the three main criteria used for enterprise performance evaluation: so there is no evidence of any cash inflow and outflow records in the accounting system.

It is important to point out, in order to understand the relevance of a cash accounting system, that cash inflow and cash outflow can be respectively investigated in debit and credit sections of cash equivalent accounts, but there is no evidence of cash flow origin.

In this way Ias 7’s requirements cannot be fulfilled, because net cash flow from operating activities must account:

- cash receipts from customers
- cash paid to suppliers
- cash paid to employees
- cash paid for other operating expenses
- interest paid
- income taxes paid.

Italian business economic literature focused mainly on the integration of management and financial accounting, first of all from a theoretical point of view, secondly from an empirical approach thanks to integrated administration information systems evolution (better known as **Enterprise Resource Planning**); therefore only few Italian scholars have paid their attention to and investigated an integrated accounting system for cash flow records.

Now international accounting standards view cash flow as a measure for business performance (both for entities and business units), but enterprises do not have a cash accounting system integrated with financial and management dimensions.

An integrated accounting system is necessary to record cash accounting both for cash flow statements and for cash generating units.

1. Enterprise measures are focusing on financial dimension

Knowledge of business cash flows¹, from an actual and forecasting² point of view, is playing an instrumental role in the wide area of business administration studies in the private and public sector.

As a matter of fact, a new system called SIOPE has been recently introduced in the public sector in order to record and control cash transactions.

At the same time in the private sector cash flows are required in order to:

- determinate cash flow statement;
- determinate cash generating unit value in use;
- investigate recent accounting scandals.

This paper aims to point out why a cash accounting system is required for all entities and how it can be implemented.

2. Cash system in public sector: SIOPE³

For a long time business administration studies considered cash management and control as typical of governments and other public sector entities⁴. In Italy, the accounting system for public sector entities, better known as “financial accounting according to cash bases”, is strongly characterised by legal and authorisation⁵ features in order to control and account⁶ for public money.

The SIOPE⁷ project in the public sector was launched in 2003 and is going to be applied to all public sectors. Once the system⁸ is fully implemented it will be possible to collect

¹ For cash flow definition see M. Massari in “*Finanza aziendale*” by G. Pivato, Franco Angeli 1983, pag. 352.

² A. Amaduzzi “Osservazioni in tema di previsioni economiche e finanziarie” pag. 15 in “Saggi di ragioneria e di economia aziendale. Scritti in onore di Domenico Amodeo” Cedam 1987

³ SIOPE stands for “*Sistema Informativo sulle Operazioni degli Enti Pubblici*” (Information system on the operations of Government bodies). It is the system for the online collection of information on the cash transactions, payments and collections, made by every Public Administration treasury.

The SIOPE project is the result of a collaboration between the State General Accounting Department (Ragioneria Generale dello Stato), the Bank of Italy (Banca d'Italia) and the National Institute of Statistics (Istituto Nazionale di Statistica - ISTAT), in implementation of Article 28 of Law n. 289/2002.

⁴ For cash accounts see C. del Sordo “Il controllo direzionale nelle università” Franco Angeli 2005, pag. 103

⁵ M. Bergamin Barbato “*Principi contabili e sistema informativo-gestionale per le pubbliche amministrazioni*” in Rivista Italiana di Ragioneria e di Economia Aziendale pag. 115 March-April 2006

⁶ See A. Pavan – E. Reginato “*Prospettive di accountability ed efficienza nello Stato Italiano*” pag.75, Giuffrè 2005

⁷ Sorce: Ragioneria Generale dello Stato

⁸ For Siope see also A. Pitzalis “Le amministrazioni pubbliche e l’innovazione delle tecnologie dell’informazione” Giuffrè 2005, pag. 252.

information concerning public administration financial requirements in real time and all information required in order to report, in a timely manner, quarterly national accounting statistics. Thus, it will also be possible to control the implementation of EU legislation regarding “excessive deficit procedure” and “Stability and Growth Pact Commitments”.

According to the system development phases:

- from 1st January 2006 Regions and Universities use Siope reporting system for payments and collections data;
- during the past financial year (2006), the system was applied to all Provinces and Municipalities with a population over 20 thousand inhabitants;
- from the current financial year (2007), the system has been extended to all Local Authorities.

SIOPE application requires each cash disposal to be issued according to a standard code called “management code”.

Specific management codes have been defined for Local Authorities, Universities and other public entities.

According to the Siope system, each document of payment and each collection voucher issued by a public entity must be coded according to a specific management code, in order to identify the nature of cash transactions. Standard codes have been tested during pilot projects, although the system collects much more detailed data in a timely manner, in order to improve the knowledge of the information from the public sector account from a quality and quantity point of view.

Moreover, the specific management codes for the different types of public entities can be introduced without modifying the structure of the accounts and the accounting system.

3. Cash dimension in recent accounting scandals

Moreover, leaving aside the theoretical and doctrinal approach and facing reality, we realize that recent Italian accounting scandals (but also other events outside Italy⁹), involved companies that were considered reliable entities, which attracted but also spent huge capital over a long period.

⁹ G. Bruni, pag. 27 “*Il fondamento storico-evolutivo dei principi contabili generalmente accettati*” in *Contabilità e cultura aziendale*, Vol V, N.2 Rirea 2005

No doubt, artificial financial performances of the collapsed corporate were based on their “creative” accounting and their false published accounts¹⁰.

Investigations have proved the falsification of accounts over a short period, but cash flows origin and destination have proved harder and longer to demonstrate and harder to be found by investigators.

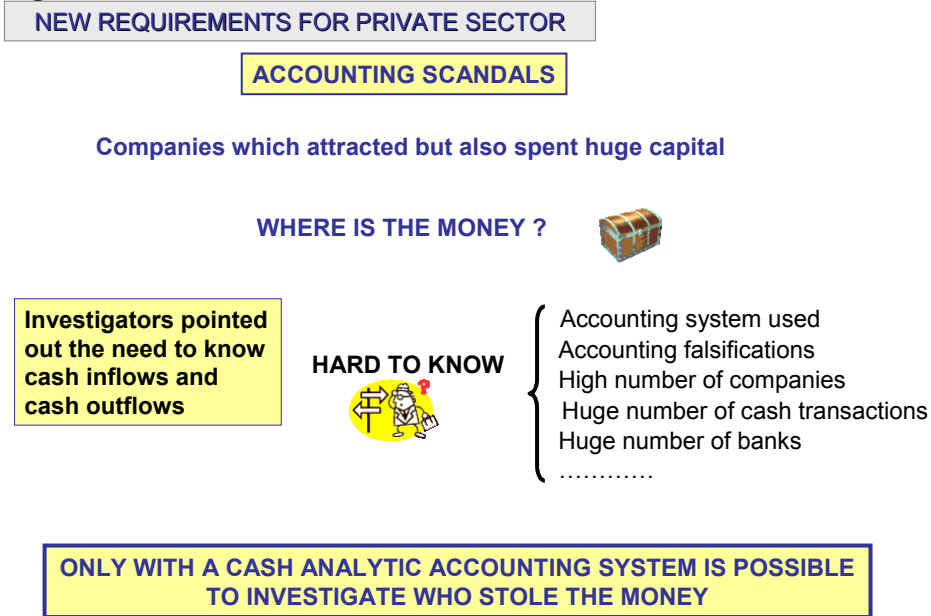
Investigations pointed out the need to know cash inflows and especially cash outflows for the companies involved, but cash flow determination has been hard because of:

- high number of companies involved,
- international relevance of transactions,
- number of banks used by the collapsed companies,
- huge number of bank accounts used,
- huge number and different type of transactions on each bank account,
- frequency and complexity of financial and often speculative transactions.

Court papers and prosecutors’ investigations demonstrate that only the cooperation of people involved in the scandals help to investigate and understand the cash transactions. As a matter of fact the witnesses employed in the collapsed companies knew the financial situation very well even because they kept a black financial accounting aside from the official one, in order to record particular cash transactions (*figure 1*).

¹⁰ See Tiscini in G. Fiori- R.Tiscini “Corporate Governance, regolamentazione contabile e trasparenza dell’informativa aziendale” F.Angeli 2005 pagg. 24, 27.

Figure 1



4. Focus on private sector: cash flow statement and cash generating units' cash flows

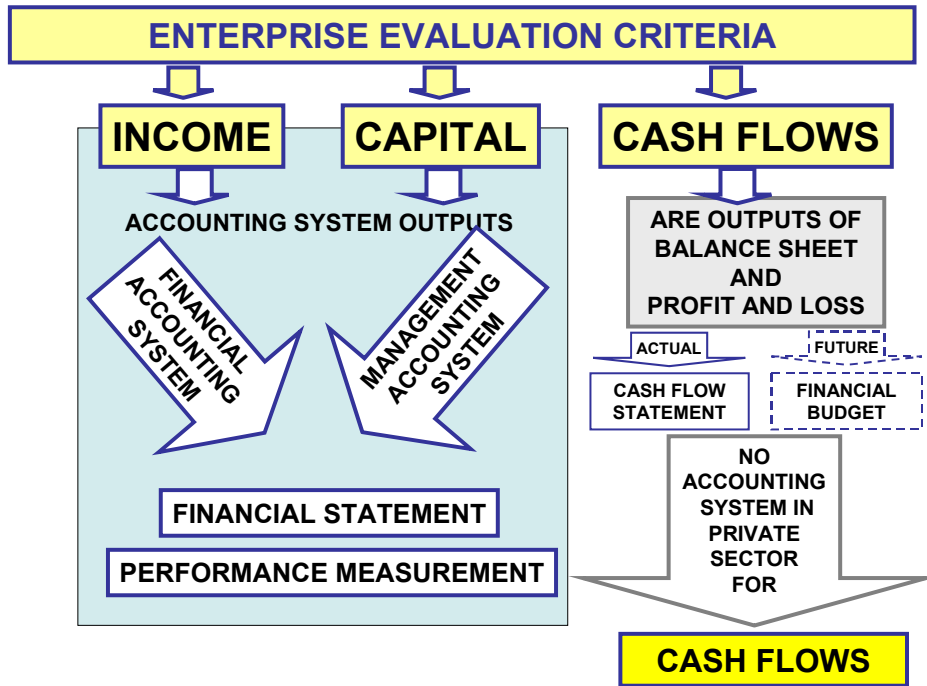
Italian business economic literature focused mainly on the integration¹¹ of management and financial accounting, first of all from a theoretical point of view, secondly from an empirical approach thanks to the integrated administration information systems evolution (better known as **Enterprise Resource Planning**).

Financial accounting, according to the Italian and Anglo-Saxon accounting systems, and management accounting through their integrated accounting recordings, cannot represent an adequate support for cash accounting.

The aim is to measure income and capital, which are only two of the three main criteria used for enterprise performance evaluation: so there is no evidence of any cash inflow and outflow records in the accounting system (*figure 2*).

¹¹ M. Saita “Analisi comparative dei sistemi amministrativi nella dottrina italiana e nord Americana ed evoluzione in Italia” in Scritti in onore di Carlo Masini, Tomo III “Contabilità, bilancio e controllo” Egea 1993, pag. 761.

Figure 2



Only few Italian scholars paid their attention to and investigated an integrated accounting system for cash flow records.

Today theories proposed by only a few scholars can find a wide practical application, not only thanks to the presence of specific and tested software, but also because of the cultural revolution that is running through corporate and stakeholders, that is the importance and necessity of monetary dimension quantification in company evaluation.

Cash¹² management and control capability, current and future enterprise capability of creating positive cash flows have always been considered basic features in corporate appraisal for sell off operations, for merger and acquisition processes and more in general for extraordinary events.

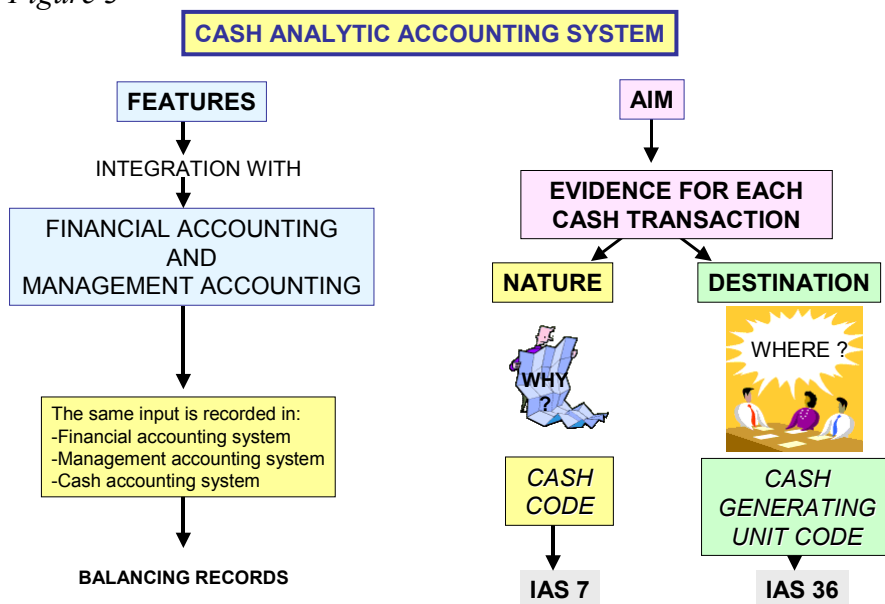
International accounting standards require frequent evaluation of specific assets and liabilities for financial statement disclosure according to the cash flow method. Therefore an appraisal process based on the cash flow method can be correctly applied to assets and liabilities only if corporate can support the evaluation process with suitable information.

¹² S.D. Slater "The strategy of cash" John Wiley & Son 1974, pag. 4.

Cash accountability¹³ and cash control are necessary for listed companies¹⁴ and for all companies issuing financial instruments in order to attract savings (figure 3).

As a matter of fact listed companies and companies publishing audit accounts prepare for external¹⁵ information cash flow statement.

Figure 3



4.1 Cash flow statement

Italian accounting literature¹⁶ proposes three kinds of flow statements¹⁷:

- Funds flow statement;
- Working capital statement;
- Cash flow statement.

These three reports analyse different types of funds¹⁸.

¹³ For accountability definition see A. Pavan – E. Reginato “*Prospettive di accountability ed efficienza nello Stato Italiano*” pag.11, Giuffrè 2005

¹⁴ A. Quagli “Comunicare il futuro. L’informativa economico-finanziaria di tipo revisionale delle società quotate italiane” Franco Angeli 2004, pag. 83

¹⁵ Although it is not mandatory.

¹⁶ Funds flow application to business administration is reported by Torcivia according to different authors at pag. 299 S. Torcivia “*I prospetti dei flussi dei fondi quali strumenti di analisi della dinamica finanziaria d’impresa*” Giuffrè 1990.

¹⁷ A. Ardemani in “L’impresa. L’economia delle imprese” II Ed. Giuffrè 1986, pag. 170, underlines that funds flow statement is useful only for external users

¹⁸ See pag. 4, P. Mella “Analisi delle fonti e degli impieghi dei mezzi monetari di impresa” Isedi 1977; pag 287; G. Ferrero, F.Dezzani, P.Pisoni, L. Puddu “Le analisi di bilancio. Indici e flussi”, II ed. Giuffrè 1998.

Based on how cash flow from operating activities is obtained, the report can be prepared using either a direct¹⁹ method or an indirect²⁰ method.

As a matter of fact the Italian literature²¹ (although from a theoretical point of view has developed the two different methods), has always favoured the application of the indirect method especially for cash flow statements, because of the technical complexity and the lack of information necessary to calculate cash flow according to direct²² method (separate inflows and outflows for operating activities).

Cash flow statements, according to indirect method cannot represent a useful instrument of information from a qualitative point of view:

- it is affected by a deep accounting technicality in calculating cash arising from operating activities, therefore it is not easily and immediately understood by users;
 - cash flow from operating activities does not disclose separate inflows and outflows;
 - it does not disclose promptly how cash flow originates from operation activities.
- For example, a positive operating cash flow may be caused by the efficiency of enterprise economical and financial cycle²³ in the period, or it may be caused by pending collections coming from previous period.

Framework and Ias 1 point out the importance of supplying financial information through cash flow in financial reporting²⁴ so that accounting external users are able to establish

¹⁹ The direct method shows in particular cash receipts from customers, cash payments to suppliers and cash payments to and on behalf on employees; the direct method gives information on operating cash receipts and payments that may be useful in assessing future cash flows.

²⁰ According to the indirect method for the cash flow statement, operating cash flow can be calculated starting from net income (or loss) and:

- adding no cash costs (accruals, depreciation, etc.)
- deducting no cash revenues (revaluation, provision, etc.)
- adding increase of operating payables, decrease of operating receivables and of inventory, etc.
- deducting decrease of operating payables, increase of operating receivables and of inventory, etc.
- adjusting for all other items (from profit and loss statement) for which the cash effects are investing or financing cash flows.

²¹ M. Cattaneo “Analisi finanziaria e di bilancio” Etas 1973; L. Potito “Il rendiconto finanziario nelle imprese”, Giannini 1980; G. Catturi “*La teoria dei flussi e degli stock e la metodologia contabile*” in ‘Bilancio di esercizio e amministrazione delle imprese. Studi in onore di Pietro Onida’, Giuffrè, 1981 pag. 756; V.Coda “*Sui criteri di analisi della struttura patrimoniale*” ‘Bilancio di esercizio e amministrazione delle imprese. Studi in onore di Pietro Onida’, Giuffrè, 1981 pag. 782; C. Caramiello “Il rendiconto finanziario”, Giuffrè 1993; C. Vergara “Le rielaborazioni del bilancio di esercizio per le analisi economico-finanziarie” Giuffrè 1993

²² P.Pisoni - L. Puddu “Analisi di bilancio. Casi ed esercizi” Giappichelli 1992, pag. 222

²³ A. Ardemani “L’impresa. L’economia delle imprese” II Ed. Giuffrè 1986, pag. 48

²⁴ Ias 1

present²⁵ and future enterprise capability to generate cash flow so that external users are aware of their economic decisions²⁶.

For this reason the cash flow statement is, according to international accounting standard, a component of the financial statement as important as the balance sheet, profit and loss, statement of changes in equity and notes (including a summary of accounting policies and other explanatory notes).

Ias 7 requires:

- all enterprises to present a cash flow statement, regardless of the enterprise activities;
- all information which may be useful in order to evaluate historical changes in cash of an enterprise;
- to classify cash flows during the period according to operating, investing and financing activities.

According to Ias 7, cash flow from operating activities can be reported using either the direct method or the indirect method, but standards encourage each entity to use the direct method, that is the method where the major classes of gross cash receipts and gross cash payments are disclosed.

Information for cash flows from operating activities can be obtained from the accounting records of the enterprise. Therefore an accounting information system²⁷ is necessary in order to record each single cash transaction according to the origin of the event.

Another way to obtain this type of information is represented by adjusting sales, cost of sales and other items in the income statement for:

- changes in inventories and operating receivables and payables,
- other non-cash items,
- other items for which the cash effect are connected with investing and financing activities.

It is important to point out, in order to understand the relevance of a cash accounting system, that cash inflow and cash outflow can be respectively investigated in the debit and credit section of cash equivalent accounts, but there is no evidence of cash flow origin.

²⁵ See U. Sostero- F: Buttignon “Il modello economico finanziario” Giuffrè 2001, pag. 195

²⁶ Historical cash flow information give an indication of the relationship between profitability and cash generating ability, and thus for the quality of the profits earned.

²⁷ A first, but incomplete, technical solution to comply accounting information systems to requirements deriving from cash flow statement according to Ias 7 is offered by A. Devalle in “Il sistema informativo aziendale ed il passaggio agli Ias/Ifrs” (Giuffrè 2006) pag. 178.

In this way Ias 7's requirements cannot be fulfilled, because net cash flow from operating activities must account for:

- cash receipts from customers,
- cash paid to suppliers,
- cash paid to employees,
- cash paid for other operating expenses,
- interest paid,
- income taxes paid.

Ias 7 highlights the fact that the direct method provides much more useful information especially concerning future cash flow estimation, even if in order to report the above mentioned information, it is required to record specific cash inflows and outflows that present accounting systems cannot record. Therefore companies often record cash transactions outside accounting information systems.

Bruni²⁸ correctly sets the analysis of financial performance to a *“specific ‘analytic’ accounting necessary for operating control and its purposes are completely different from the balance sheet and income statement purpose²⁹”*.

In particular, we consider cash analytic accounting according to Saita's³⁰ approach, where a “cash code” has to be set in order to recognize the type of inflow (cash receipt for sales, cash receipt from sales of property, cash proceeds from issuing bonds, etc..) and the type of outflow (cash payment to supplier of goods and service, cash payment to employees, cash payment to acquire property, etc..).

Therefore, in order to publish cash flow statements based on Ias' direct method, we can set out an evolution in corporate accounting information system. Thus, at last, a cash analytic accounting system for cash inflows and outflows will be implemented beside the traditional financial accounting (“Income system”), the management accounting (according to the “Anglo-Saxon system”).

²⁸ G. Bruni “Note sulla rappresentazione della ‘situazione finanziaria’ e sulla sua iscrivibilità nel bilancio di esercizio” pag. 105, in “Economia e Finanza Aziendale. Scritti in onore di Edoardo Ardemani” Giuffrè, Milano 1997.

²⁹ Bruni wrote: *“apposita contabilità ‘analitica’ preordinata per fini propri (del controllo operativo), che sono diversi da quelli (del rendiconto amministrativo) rispetto ai quali si caratterizza il bilancio di esercizio”*.

³⁰ M. Saita “La contabilità analitica finanziaria” pag. 372, in “Economia e Finanza Aziendale. Scritti in onore di Edoardo Ardemani” Giuffrè, Milano 1997.

4.2 Ias 36 Impairment of assets

Ias application requires more cash information than the one necessary for cash flow statements; so we can prospect a wider application of the proposed cash analytic accounting system.

Ias 36 “Impairment of assets” requires that assets are carried out at no more than their recoverable³¹ amount; therefore entities are required to proceed with a test in order to verify assets value.

Asset’s recoverable amount is the higher between its fair value (less cost to sell) and its value in use; the same definition can be applied to cash generating units³².

“A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets³³”.

Asset’s and cash generating unit’s value in use³⁴ is calculated estimating the present value of future cash inflows and outflows deriving from its use and its disposal; cash flows have to be estimated considering, directly or indirectly:

- *“expectations about possible variations in amount or time of those future cash flows;*
- *the time value of money, represented by the current market risk free rate of interest;*
- *the price for bearing the uncertainty in the assets;*
- *other factors, such as illiquidity, that market participations would reflect in pricing the future cash flows the entity expects from the asset”.*

As a matter of fact, *“estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows”³⁵* is Ias 36’s basic principle in order to estimate cash generating units’ value in use.

Ias 36³⁶ stresses the fact that estimating future cash flows does not include:

- *“cash inflows or outflows from financing activities,*
- *income tax receipts or payments”.*

³¹ Ias 36 par. 1 “Objective”

³² Ias 36 par. 18 “Measuring recoverable amount”

³³ Ias 36 par.6 “Definitions”, according to Reg. 2236/2004 (IFRS 5)

³⁴ Ias 36 par. 30 “Value in use”

³⁵ Ias 36 par. 31

³⁶ Ias 36 par. 50

This study aims to underline cash flow information requirements emerging from the international accounting standards application.

Ias 36 points out the necessity of forecasting cash flows according to reasonable assumptions and that “assumptions on which current cash flow projections are based are consistent with past actual outcomes³⁷”; this, according to Ias 36 implies that entities have to record systematically cash inflows and outflows not only at entity level³⁸, but even at asset and cash generating units level.

In fact assets and cash generating units cash flows cannot be forecasted if there is no accounting evidence of their past actual inflows and outflows; once again a specific information system is required and we can identify the cash analytic accounting system as the correct one, according to Saita³⁹'s theory.

Now international accounting standards remark cash flow as a measure for business performance (both for entities and for business units), but Italian enterprises are not ready. They do not have a cash accounting system integrated with financial and management dimensions.

5. Emerging accounting system for corporate: implementation of the cash analytic accounting system

The cash analytic accounting system is needed considering the following requirements:

- cash control⁴⁰ for corporate cash management⁴¹; actually practical experience points out that private companies have implemented advanced cash management systems for a long time;
- involved with Ias 7's application;
- involved with Ias 36's application.

Methodology of cash flow recordings, concerning cash receipts and cash payments, can be realized through traditional cash accounting systems, but the system has to be integrated

³⁷ Ias 36, par. 34.

³⁸ As Massari describes in M. Massari “Finanza aziendale” by G. Pivato, Franco Angeli 1983, pag. 427

³⁹ M.Saita, *op.cit.*

⁴⁰ More correctly, we should talk about of value control in a strategic approach.

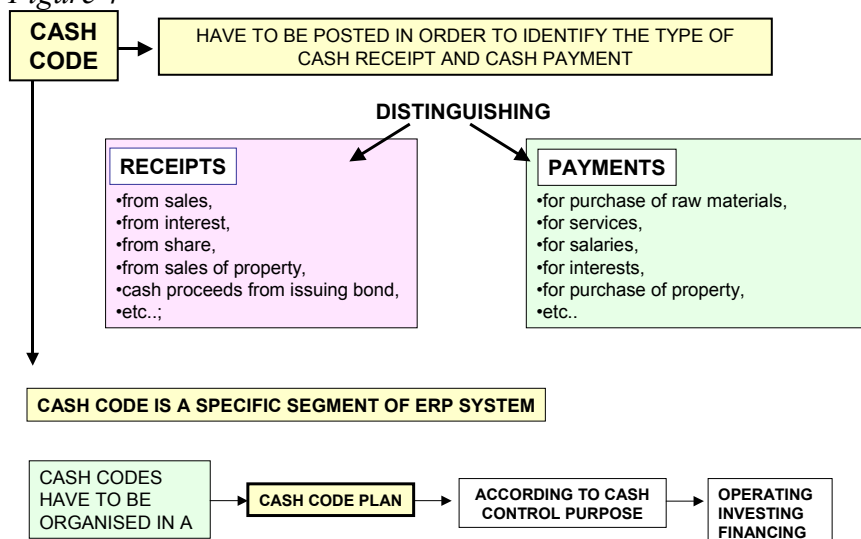
⁴¹ M.C. Driscoll “Cash management. Corporate strategies for profit”, John Wiley & Son 1983, pag. 6

with financial accounting and management accounting, so that an organic integrated⁴² accounting system can be realised.

Cash accounting can be integrated with financial and management accounting by using Erp functions; Erp systems introduce specific segments⁴³ in each accounting entry, and the segments can be used to record, not only for traditional and already tested control destinations (such as cost centre, activity, business, ecc.), but also for:

- cash codes (*figure 4*) in order to identify the type of cash receipt and the type of cash payment, moreover cash codes can be organised in a cash codes plan;
- asset codes or/and cash generating unit codes in order to identify the asset or the cash generating unit bringing about cash transactions; asset and cash generating unit have to be identified according to Ias/Ifrs definition.

Figure 4



Cash codes and asset/cash generating unit codes have to be set in accounting entries; according to this structure, the integrated accounting system shall set specific data in each

⁴² Several authors have already proposed integrated accounting systems in public entities, demonstrating that control methodology of private entities have already been transferred into the public sector. Herewith instead we propose the opposite: the introduction of control methodology of public entities into private sector.

⁴³ The segment is the object of the basic means of analysis of the event; every single economic operation can be characterised by several controlling segments as each segment reflects a different purpose of analysis.

For example segments can be:

- account, i.e. the natural account of the event;
- centre (including the different type of cost centre, expense centre, profit centre, etc.) i.e. the segment of organization;
- product or output
- channel, for sales channels control
- market, for market control.

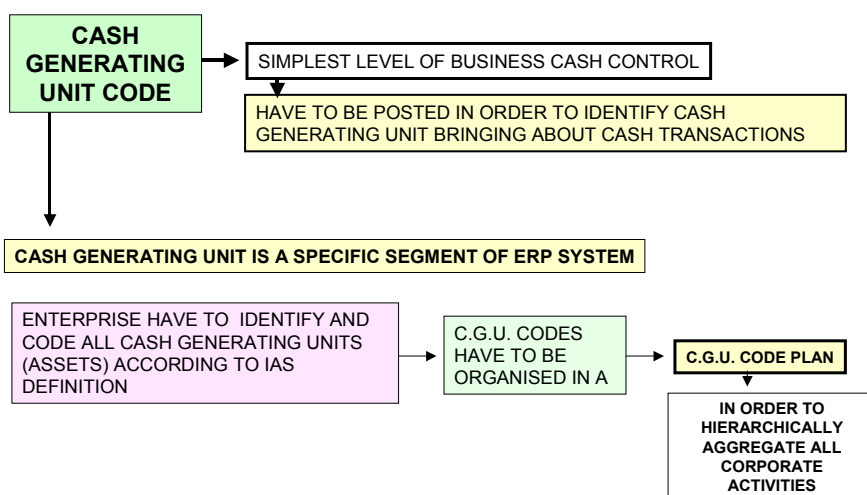
M. Saita, di F. Preti, P. Saracino “Configurable Enterprise Accounting”, Giuffrè Editore 1996.

segment in order to report information not only for centre, market, product, project, activity, but also for asset/cash generating unit and cash transaction.

Asset/cash generating unit code (*figure 5*) is the simplest level of business cash control according to Ias 36; for this reason the cash analytic information system has to be set with a specific segment for asset/cash generating units in order to account information that are completely different from information collected in the other segments (such as responsibility centre, product, market, etc.).

For this segment all assets and cash generating units codes have to be set; all the codes have to be organised in a plan in order to hierarchically aggregate all corporate activities. Obviously asset and cash generating unit code definition and its plan must be in accordance with corporate business.

Figure 5



Cash codes are required in order to point out the nature of cash transactions, according to this requirement specific codes have to be set for:

- receipts, distinguishing receipts from sales, from interest, from share, from sales of property, cash proceeds from issuing bond, etc..;
- payments, distinguishing payments for purchase of raw materials, for services, for salaries, for interests, for purchase of property, etc.

Cash codes have to be organised in a detailed plan as required by cash control.

Therefore using an Erp system, it is possible to define several segments⁴⁴ for accounting entries in order to record all information required for:

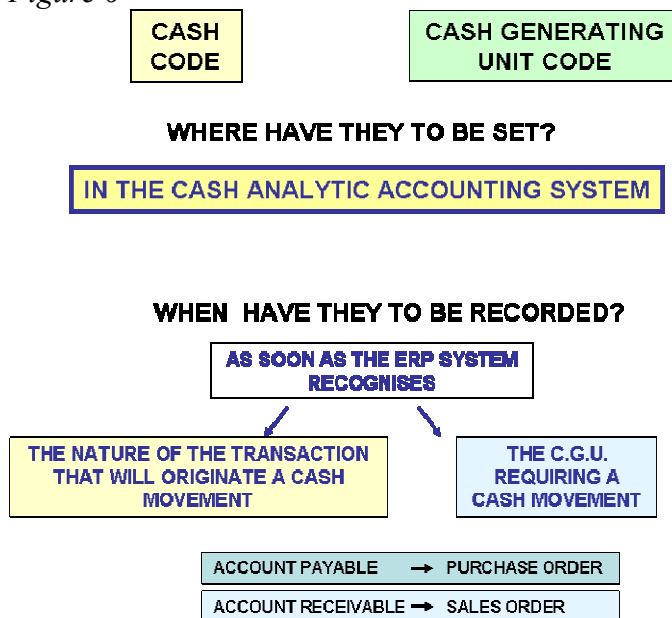
⁴⁴ Segment combination, defining different type and level of event control, is named “key flexfield”, “account block”, “coding block”, “special ledger”, chart of account” according to the different Erp.

- cash control and management,
- financial accounting,
- management accounting.

Information concerning cash code and cash generating unit code have to be set (*figure 6*) in the accounting system as soon as the system recognises each one of the following events:

- the nature of the transaction that will originate at the end a movement in cash or in a bank account (cash receipt or payment);
- the asset or the cash generating unit requiring a cash receipt or a payment.

Figure 6



We can identify the correct time for setting such information in the account payable subsystem and in the account receivable subsystem.

In the account payable subsystem when the purchase order is entered, cash code and cash generating unite code have to be set in; the same information have to be set when the sales order is set in the account receivable subsystem.

Therefore at the beginning of sale or purchase process, that according to the workflow process happens when the order is entered in the system (both for purchase or sale order), the cash code and cash generating unit/asset code have to be set. Only by doing so at the end of the process will it be possible to automatically identify the nature of cash transactions (cash receipt or cash payment), and the cash generating unit (or asset) originating cash transaction.

In the following phase when the invoice is processed (sales or purchase invoice), cash code and cash generating unit code will be captured by the order and they will be automatically set in the segments completing accounting entry where the financial accounts (account receivable or account payable) are posted.

At the end of the process when a payment (or a receipt) is made and the financial account is closed (account receivable or account payable), the cash code and the cash generating unit/asset code (existing on the account payable or account receivable), are automatically stored in the segments completing bank/cash account entry.

In this way transactions involving bank or cash accounts are always completed with cash code and cash generating unit/asset code. In the cash analytic accounting system the nature and allocation of cash resources can be investigated.

All monetary items in bank or cash accounts have to be completed with cash code and cash generating units/asset code; the codes come from subsystems (account payable, account receivable, fixed asset, human resources, etc..) where the events originated. Obviously the same rule is valid for the bank subsystem where specific events originate.

Specific cash codes have to be set according to the events originated in bank subsystem; the following are examples of cash codes for the bank subsystem:

- bank transfer
- cash withdrawal (from bank account)
- bank deposit (from cash account)
- interest payment
- interest collection
- share redemption
- bond redemption
- loan redemption
- write off for bank transaction
- etc..

Moreover accounting entries coming from the bank subsystem will use all special accounts necessary in order to comply with cash management requirements (such as temporary bank accounts), for temporary differences between value date and value in account or for reconciliation of bank accounts.

Cash analytic accounting system can be implemented with single entry or with double entry. If the double entry is used, it is necessary to link cash codes with specific accounts

(sales, purchase of raw materials, services, property, interest, etc.), in order to feed the cash analytic accounting system.

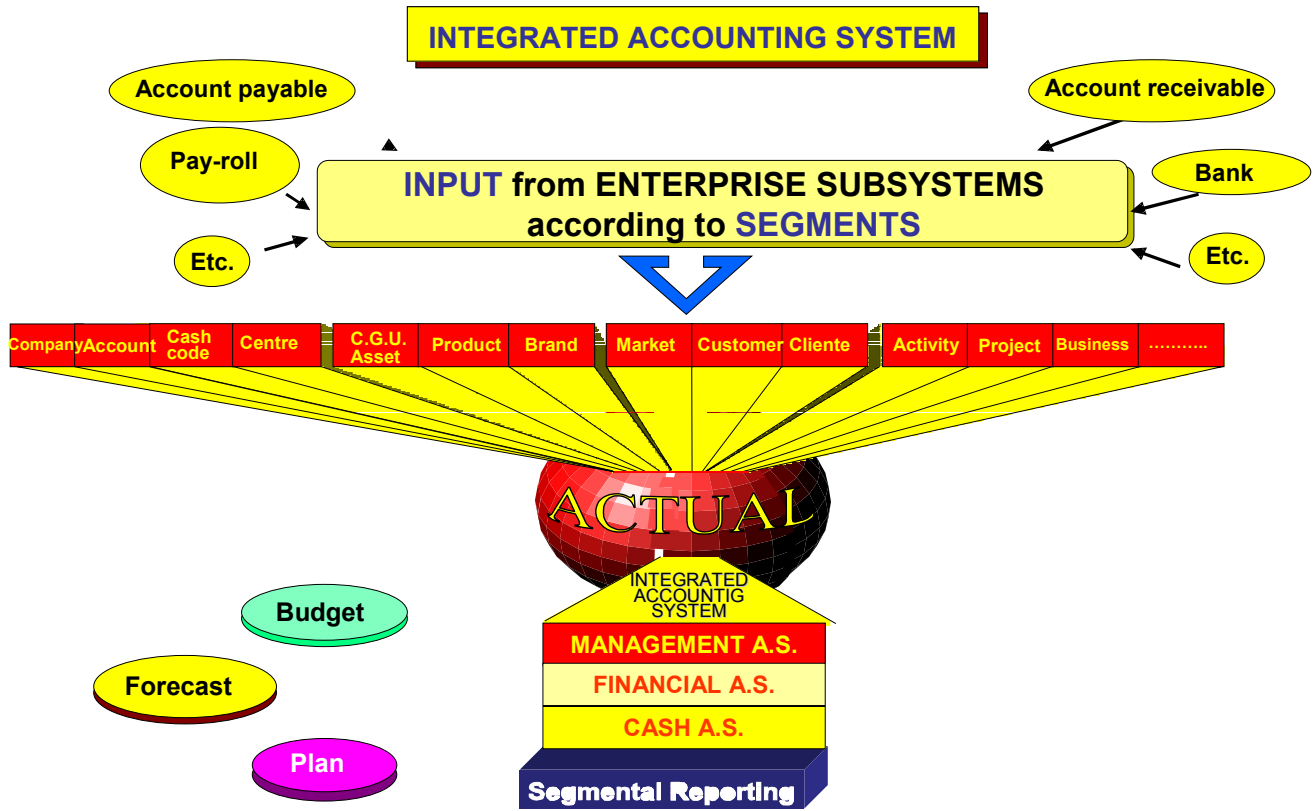
The cash analytic accounting system with single entry or double entry can be enquired with a multi-dimension reporting system in order to obtain all combinations of information regarding:

- time (month, quarter, year),
- single bank account (or consolidated bank accounts),
- cash code in order to identify the nature of payment/receipt,
- cash generating unit/asset producing the cash item.

The implementation of the cash analytic accounting system (both with single or double entry) will allow corporate to comply with Ias/Ifirs requirements for cash flow statements and for the determination of cash generating units value in use.

Moreover it will allow corporate to have an accounting system balanced with a financial and management accounting system (*figure 7*).

Figure 7



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