

Client Info

Proper Cash
Management



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Increased requirements for cash management systems
as of January 1, 2017



Information for Clients

Proper Cash Management

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1. Introduction

Due to constantly growing requirements, proper cash management has become an increasingly difficult task.

This is particularly important when cash transactions represent a significant proportion of business.

For this reason, it is important to be familiar with the principles for proper bookkeeping and storage of books, records, and documents in electronic form as well as for data access (as required by the regulations to the GoBD) and to apply these in a legally compliant manner. Furthermore, new requirements for cash register systems will come into effect on January 1, 2017. The relief previously granted in a letter from the BMF dated January 9, 1996, will expire on December 31, 2016, meaning that all “cash register data (individual records)” must be recorded in an uncompressed and unchangeable electronic format and archived for the entire storage period so that they can be read digitally at any time, with effect from January 1, 2017.

Furthermore, draft legislation in place since July 2016 calls for additional stricter measures with effect from January 1, 2020. For example, electronic record systems will have to include certified security technology from January 1, 2020. The technical requirements for this security system still need to be defined: at present there are no POS systems that meet the requirements of the planned certification process.

The more stringent requirements coming into effect on January 1, 2017, apply regardless of the draft legislation. If an entrepreneur procures a new cash register due to the more stringent requirements coming into effect on January 1, 2017, and for design reasons this equipment cannot be upgraded to include the required certified security technology as of January 1, 2020, the cash register may not be used after December 31, 2022.

Taxpayers should definitely discuss the organization of their cash management system and the nature of their records with their tax consultants. This includes in particular the storage of cash register data when using electronic POS systems.

2. Basic Requirements

A bookkeeping entry or record is only deemed to be proper when a transaction is recorded completely, correctly, and in a timely, orderly fashion. It must be possible to trace and verify all records, and these must be protected against changes that cannot be traced (immutability).

Note

In the context of recording cash receipts and cash payments, “timely” means daily records (see article 146, section 1, clause 2 of the Fiscal Code of Germany). Only in exceptional cases for operational reasons (e.g. a record on the same day cannot be reasonably expected) is it permissible to catch up on the following day. As a general rule, the delayed creation of records is not allowed.

Daily records must be created in such a way that cash registers can be checked at any time and the amount of cash that is actually present (current balance) can be compared against the amount of cash according to the records (target balance).

The nature of records kept must make it apparent that entrepreneurs have compared current and target values when cashing out for the day. An end-of-day balance must therefore be determined each day.

Some additional principles must be observed:

The requirement to keep individual records also applies to cash management as a rule. In addition to the amount, it is necessary to include the nature of the transaction, the name of the contractual partner and, if reasonable, a sufficient identification of the transaction. If, however, a retail store uses a permissible PC cash register with no customer details, for instance, it is not necessary to record the customer's name for a cash transaction.

For reasons of practicality and reasonableness, the requirement to maintain individual records may be waived for retailers and comparable professional groups. This may (only) be the case for a large number of low-value transactions, for example, and/or when goods are sold "over the counter" to unknown individuals for cash. However, if data is individually recorded in electronic format in such cases, these records are also subject to record retention requirements.

A third party must be able to read, understand, and verify all records. It is not permitted to write over these records, to use correction fluid, or to stick anything on top. Receipts and payments must be recorded in their actual chronological order, and the accompanying documents must also be stored in order.

Note

All movements of money to and from the cash register must be recorded (otherwise the current and actual balances will not match). Any documents associated with cash movements must be retained.

Withdrawals for private use and deposits from personal sources must be recorded in the same manner as money transfers (e.g. cash movements to and from the company's bank account).

It is often asked whether EC cash receipts, direct debits, and credit card transactions also have to be recorded in the register. While there is no fundamental obligation to record such transactions as part of the "cash register," they are often included in practice so that all transactions are documented as they arise in line with requirements. These sales are automatically accrued in the company's bank account and are therefore documented.

Any documents subject to record retention requirements must be allocated to the respective cash records so that transactions can always be traced from the document to the record and vice versa.

Furthermore, of course, the date must be noted on each daily cash report together with the company name or the trading name.

Daily records of any kind should always end with the name and signature of the cash manager or comparable documentation with authorization.

Note

If several cash registers are in use, separate records must be kept for each cash register. This requirement exists because it must be possible to check each cash register at any time, as mentioned above.

3. Cash Ledger, Cash Report and Electronic Systems

3.1 General information

How are the theoretical principles described above put into practice? Basically, records can be done manually (“pen and paper”), electronically or created in an interim solution using electronic cash registers. There are different versions of electronic systems (→*section 3.4.1*)

The use of manual and partially manual cash management is explained in →*sections 3.2* and *3.3*. General information about electronic systems, including electronic cash registers used for partially manual cash management can be found in →*section 3.4*.

The storage and retention of cash register data is of major significance for the proper use of electronic cash registers (and systems) (→*section 3.4.2*).

The decision to opt for a cash ledger or a cash report as part of a manual or partially manual solution essentially depends on the manner in which an entrepreneur identifies and records sales – individually or cumulatively.

In any case, it is always important to observe the principle that all data subject to record retention requirements once available in electronic format, shall be kept in an electronic format and can be submitted to an auditor.

With respect to the requirement to keep individual records, it is important to note that any single transaction resulting in a receipt of EUR 15,000 or more must always be recorded individually. The name and address of the purchaser must be documented.

3.2 Cash ledger

The cash ledger must contain the sum of individual records, such as digital records of revenue from the electronic cash register. The current cash balance must be detailed next to each movement. The calculated balance must match the actual cash funds at all times.

The DATEV online cash ledger meets all the requirements for the proper maintenance of records as described.

Cash ledgers have a progressive structure, and they can be used to calculate the daily cash balance:

Cash on hand at the start of the business day

- + Cash receipts (determined from individual records or Z receipts)
- + Private deposits
- + Other income (e.g. money transfer: bank → cash register)
- ./ Goods purchases and expenses
- ./ Business expenses
- ./ Private withdrawals
- ./ Other payments (e.g. money transfer: cash register → bank)

= Cash balance (calculated)

This form of record keeping requires each individual sale to be recorded with each individual customer. Alternatively, the total daily turnover can be entered from manual records (sales lists, billing pads, etc.) or from the Z receipt of an electronic cash register. In these cases, however, the manual records or Z receipts must always be retained as original documentation.

What is a Z receipt?

When balancing the cash register at the end of the day, the system issues a so-called Z receipt (end-of-day total) with a sequential number. Cash registers that do not store individual data reset the sales memory to zero when a Z receipt is issued.

A Z receipt must contain at least the following information:

- Print date
- Company name or trading name
- Sequential Z receipt number
- Gross daily revenue
- Cancellations
- Details of separate tariffs (generally 7 % or 19 %)

Z receipts must always be supplemented with electronic cash register records that detail individual sales (cash registers slips = journal rolls).

The requirement to store printed cash register slips may be waived if the cash management system can guarantee the storage of all individual transactions and certain other conditions (→sections 3.4.1 and 3.4.2) or it is an old system that may be used for a transitional period under certain conditions (→section 3.4.3).

Note

It is important to observe the requirement to retain invoices that have been issued. Please consult your tax advisor for further details.

3.3 Cash report

The cash report is significantly different from the cash ledger. In this report, sales are the final entry on the report sheet and are only calculated mathematically at the end of the day. Based on the actual cash balance after cashing out, a calculation of all cash movements occurs in retrospect until the daily sales figure remains as a final figure.

In practice it has been found that many incorrect daily reports are used that calculate the amount at the end of the day rather than daily sales. Such a form of reporting is not proper. Record management in the form of a cash report is appropriate for points of sale that do not document individual sales or lack the additional aid of cash registers. The classic example is a restaurateur who collects sales receipts in a cash drawer.

A basic requirement for the exclusive use of a daily cash report is that the entrepreneur sells low-value goods to a large number of unknown people.

The daily cash report must be structured as follows:

Counted end-of-day amount

+ Operating cash expenses

+ Cash withdrawals paid into the company's bank account

./. Cash deposits from the company's bank account

+ Private cash withdrawals

./. Private cash deposits

./. Cash balance of the previous day

= Daily cash sales

3.4 Electronic systems – changes as of 01/01/2017

3.4.1 Basics

Electronic systems include electronic cash registers, PC cash registers, and other computer-supported systems.

Note

Systems of this kind must meet the same basic requirements as manual records. In particular, it must not be possible to alter any data that has been entered. Transactions that have taken place may only be corrected through a clear cancellation.

When cashing out, the system in use must issue a daily printout in the form of a Z receipt for partially manual cash management (→sections 3.2 and 3.3), while for fully electronic management the record must clearly show the daily sales, business expenses, and other movements of money (transfers, deposits, and withdrawals). In particular, cashless transactions (EC, direct debit, credit card, etc.) must be shown separately.

The storage of cash register data must be guaranteed. In particular, it is necessary to ensure that stored information can be issued for audits in a certain data format at any time.

As a rule, it is advisable to use cash register systems whose compliance with legislation has been certified.

A specific record must be kept of when and where each device was in use, and these records must be retained. Furthermore, it is necessary to retain any organizational documents that accompany the device, in particular the user guide, programming manual, and any additional instructions on how to program the device.

Key date: January 1, 2017

The deadline for ensuring the automated processability of individual data obtained from the cash register system (GoBD) is January 1, 2017.

According to the decree from the tax authorities, cash register systems must be able to store transactions permanently with effect from January 1, 2017. Information may be stored on either the POS system itself or an external device.

Important note!

It is important to seek clarification from cash register manufacturers as soon as possible whether this is possible with the equipment in use, be it a cash register that supports printing with an interface function or a PC cash register. The use of electronic cash registers without an interface function is no longer permitted because these do not allow automated processing.

Cash drawers may continue to be used without any changes after January 1, 2017.

3.4.2 Storage of digital documents

When electronic systems are used, the question arises as to what information must now be retained. For cash registers (and scales with a cash register function), the same legal requirements and principles apply as in other areas of bookkeeping. Specifically, all individual data that are relevant for tax must be stored in their entirety and in a format that cannot be modified together with any statements created by the cash register. Compressed storage is not permitted. The data must be available at all times during the retention period in a format that is immediately legible and that can be processed automatically.

It is not sufficient for data to be available in printed form only.

The requirement to retain documents concerns in particular:

- Journal data
- Evaluation data
- Programming data
- Master data changes

If it is not possible to store data internally on the device, this information must be stored on an external device in a format that cannot be modified but can be processed automatically. If an archive system is used, this must provide the same evaluations as a cash register.

Note

For cash register systems with cloud data storage outside of Germany, the taxpayer is required to provide the relevant tax authorities with a written request for approval that electronic books and other necessary electronic records or sections thereof may be managed and stored there. Discuss this issue with your tax advisor.

In the event that cashless receipts are recorded and stored by the cash register as a result of sales involving EC cards, direct debit, or credit card transactions, these must remain clearly identified as such.

Anyone who fails to submit the required data and operating instructions or who denies access to equipment may be penalized by the tax authorities and required to pay a “delay fine” of between EUR 2,500 and EUR 250,000.

3.4.3 Old devices

In the event that devices are already in use that do not meet the above conditions for data storage (old devices and systems), these may still be used until December 31, 2016.

If such old devices continue to be used until December 31, 2016, and their technology cannot be adapted, the following documents must be kept as a minimum:

- User guides, programming manuals, possibly program access following changes, device logs, etc. as well as instructions for printing pro forma invoices or suppressing data and memory content.

- Invoices issued using the cash register.
- End-of-day total slips (Z receipts).
- All other printed reports that form part of checking out at the end of the day, such as business reports, training memory print-outs, and so on.

Note

Entrepreneurs are subject to an obligation to upgrade equipment. This means that they are required to make technically possible software modifications or memory upgrades to the cash register system in use when appropriate – or to arrange to have this done.

3.4.4 Taximeters and odometers

The information about storing digital documents does not only apply to cash registers, but also to data created using a taximeter or odometer insofar as these provide the basis for entries on a shift record.

In order to take account of specific characteristics of the taxi business, a shift record is sufficient in combination with information that can be read from the meters of individual taxis. Such information meets the minimum requirements to keep individual records.

Specifically, the entries may be as follows:

- Full name of the driver
- Shift duration (date, start time, end time)
- Sum of total mileage and occupied mileage as per the taximeter
- Number of trips as per the taximeter

- Total receipts as per the taximeter
- Mileage according to the tachometer (start and end of shift)
- Receipts for trips without using the taximeter
- Type of payment (e.g. cash, EC card, electronic direct debit, credit card)
- Overall sum of receipts
- Details of employee payroll deductions for driver
- Details of other deductions (e.g. trips on account)
- Sum of the remaining revenue
- Sum of amounts handed over to the company
- Taxi license plate

The above details apply to companies without external staff accordingly.

When recording the time and location of use, information shall be based on the vehicle in which the device was deployed.

4. Special Case: Cash-Basis Accounting

Entrepreneurs who do not balance their accounts but who determine their profits using the net income method are not required to maintain a cash ledger. However, this does not mean that no records need to be kept of cash receipts and expenses. In any case, records must be obtained for VAT purposes. This taxpayer may meet this obligation by preparing a cash report or a cash register.

5. VAT and Cash Transactions

If the entrepreneur makes cash sales that are subject to various tax rates (generally 7 % or 19 %), correct records must be ensured. This usually occurs in the form of separate records in the cash ledger, cash register, or electronic cash register. It is recommended to discuss the manner in which separate tariffs are shown with a tax advisor.

6. Audit and Outlook

The tax authorities are aware that everything pivots on cash records in the event of disagreements involving companies that have significant cash sales or whose businesses involve solely or almost exclusively cash transactions. For this reason, auditors focus intensively on cash management at such businesses.

If irregularities are identified, these often lead to higher sales estimates by the auditor. Even minor errors can lead to serious problems if other factors also show inconsistencies, such as a post-calculation carried out by the auditor.

Higher sales estimates result directly in additional VAT payments and, depending on the personal tax situation of the individual concerned, they generally lead to additional income and business tax payments due to the associated increase in profit.

“Classic” errors:

- **Negative cash account:** It can be demonstrated that the cash balance must have been calculated as a negative figure at a certain time.
- **Addition error:** Although the daily sales volume reported in the cash report agrees with the actual balance, the calculation method used to arrive at the sales figure from the final cash balance reveals a different result when performed in retrospect.
- Z receipts are not continuous.
- Revenues are rounded when entered.

Furthermore, there are typical indicators that cause auditors to question proper compliance. These include frequent cash deposits to offset deficits and high cash balances that cannot be explained by operational necessity.

Cash records are an integral part of accounting records. Since 2002, companies have been required to provide auditors with cash register data in electronic form. The tax authorities use verification software as part of their audits. This entails a statistical examination of cash bookings, for example.

In addition to the negative cash test, the chi-squared test is very popular. This is used to check whether the sales figures entered in the cash management system are “correctly” distributed in statistical terms or whether the numbers have been “invented” instead. The assumption here is that each person has certain favorite numbers, and these are used (unconsciously) for randomly entered sales figures.

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