

WORKING WITH PETTY CASH

Petty cash can be very convenient and VERY costly to a small business because, once the cash is in someone's possession, how do you prove it's yours?

So, answer these questions:

- Why do you need the cash and can you use anything else – check or credit card – which would be safer?
- Where will you keep the cash box so it is as secure as possible?
- Who will be responsible and who will have access?
- How often do you want to reimburse the cash box – weekly, monthly?

With all of that in mind, strong internal controls are in order to protect not only the business and its owner, but the employees dealing with cash transactions.

Step one: Determine the cash needed on hand for the business to function

- Determine the maximum amount you can 'lose' if there is a break-in or theft
- Determine the minimum amount needed to keep the business running.

Your 'optimum' amount will be in that range. Most businesses can keep one month's worth of petty cash on hand which they use for stamps, office supplies, the occasional soda for a customer, that sort of thing. If you need a LOT of cash on hand, you might consider weekly reimbursement.

Step two: Set up your Cash Box

- Get a locking box and nail/screw/secure it in a location that is not easily accessible.
- The business owner should have a key/combination and one other person (maximum) should have a spare in case of emergency.
- Write a check to "Cash" for the amount of cash you need, cash it and put the cash in the box. Yes, you could go to an ATM, but an ATM receipt does NOT record that the withdrawal was for Petty Cash which is a business expense. So, do it the hard way – it's safer in an audit.

Step Three: Record the Petty Cash in Your Records

- If you have an accountant, give the information to them and they will properly record it.
- If you do your own books or use a small bookkeeping service and not a registered accountant, you should speak to your tax preparer or a professional accountant on the best way to record the initial transactions.
- Once set up, the ONLY time an entry is made to the actual Petty cash account is when you increase or reduce the standard amount. All other entries are made recording the reimbursement checks.

Step Four: Paying with Cash

Just because the cash is there, doesn't mean there shouldn't be a good, solid paper trail.

- Every time you take cash out, it should be recorded on a receipt and put into the box when the cash comes out.
- Once the transaction is complete, the receipt should be reconciled against the receipt and any change returned and the paid receipt should be placed in the box with the original, reconciled receipt. Every paid receipt should contain the following information:
 - Date of transaction
 - What was purchased and from whom
 - Amount of the transaction
 - If a meal, it should also include the business reason and names of people/clients eating
- Both individuals who have access should be witness to the transactions and, I recommend, sign off on each receipt, reconciliation and reimbursement.

Step Five: Reimbursing the Box

Eventually, your box will become too depleted to be of continued use. At that point you need to replenish your petty cash. Using the form below (or something like it), count the cash in the drawer and fill in the appropriate boxes. Put your original FUND balance amount on the line indicated.

Then list all the receipts in the box and attach them to the form. The cash PLUS receipts should equal the original fund balance. Variances should be noted as "Cash Over" or "Cash Short". Write a new check for the total of receipts plus any cash sort and less any cash over amounts. The form with the attached receipts are the support for the check which will then be entered into your accounting system as a check with the receipts recorded as individual expenses in your bookkeeping system.

Petty Cash Reconciliation & Repayment Form

Date _____

Cash in Box

Denomination	Qty	Total
\$100.00		
\$50.00		
\$20.00		
\$10.00		
\$5.00		
\$1.00		
\$0.25		
\$0.10		
\$0.05		
\$0.01		
	Total:	

**Petty Cash Fund
Balance**
\$ _____

Receipts

Date	Vendor	For:	Amount
		Total	
		Grand Total	