

Visual Learning Maps

Introductory Financial Accounting



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## VIRTUAL TEXT BOOK

### PETTY CASH FUND – USE & ACCOUNTING ENTRIES – 1 OF 6

#### Practical Use

The word “Cash” in this course means cash in the bank account. Petty Cash is physical cash kept on the business premises, usually in a locked box or safe. The person who has the key for the box and who is responsible for its contents is called the custodian.

Depending on the business, the amount of petty cash on hand will vary. It could be \$100; it could be \$1,000.

There are **3 transaction events** in accounting for Petty Cash:

- Establishing the fund
- Increasing or decreasing the fund
- Reimbursing (also called replenishing) the fund

Petty cash is needed for daily miscellaneous expenditures that need to be paid; but either there is not enough time to process a check or the expenditure is expedited faster with cash. Examples:

- Buying stamps   ▪ Buying supplies   ▪ Cash for taxis or transit
- Cash for meals   ▪ Paying for deliveries   ▪ Cash for miscellaneous repairs

#### Petty Cash Cycle - example

The custodian starts the day with a Petty Cash fund of \$100. A delivery arrives and the custodian pays for the delivery in cash, \$15. The receipt for the delivery is put into the Petty Cash box. Later in the day the custodian receives a taxi receipt from an employee; pays the employee \$10 and puts the receipt in the Petty Cash box.

- At this point there is \$75 in cash in the box and \$25 in receipts, adding up to \$100; the correct amount of the fund.

The amount of cash plus the amount of the receipts must always add up to the established amount of the Petty Cash fund.

A week passes and the custodian finds that there is \$12 cash in the fund and \$88 in receipts. The custodian then prepares a requisition for a check for \$88 and submits it with the receipts for approval to reimburse the fund. The check is then issued to the custodian, and is cashed by the custodian. This is called the “reimbursement or replenishment of the fund.” The petty cash fund is now \$100 in cash. The cycle begins again.

## PETTY CASH – USE & ACCOUNTING ENTRIES – 2 OF 6

### Petty Cash Cycle – example...continued – the Mistake Factor

From time to time mistakes are made in counting cash. This is true at the cash register at the sales point; and it also occurs in the Petty Cash cycle. When the custodian processes the receipts to replenish the fund all the receipts and cash left is totalled. This total should equal the established amount of the fund – following the example, they should add to \$100. But what if they don't?

If the cash and receipts on hand do not add up to the established fund amount, an error has been made. The total of the cash and receipts may add to \$98 or perhaps \$102. The difference is recorded to an account titled "cash over / short." How this is recorded is explained in detail in the Accounting Entries section.

## Accounting Entries

### Establishing the Petty Cash Fund

When a petty cash fund is established, a check is issued to the custodian. Continuing the example - a check is issued for \$100. This has the effect of decreasing the current asset "cash / bank" and increasing the current asset "petty cash. One asset decreases and one asset increases.

The entry is always recorded like this:

	<u>Debit</u>	<u>Credit</u>
Petty cash	100	
Cash / bank		100

### Increasing the Petty Cash Fund

A petty cash fund is sometimes increased because it was not high enough when it was established. When a petty cash fund is increased a check is issued to the custodian for the amount of the increase. Continuing the example – when it is decided to increase the petty cash fund from \$100 to \$225, a check is issued to the custodian for \$125.

The asset petty cash is increasing and the asset cash / bank is decreasing.

The entry is always recorded like this:

	<u>Debit</u>	<u>Credit</u>
Petty cash	125	
Cash / bank		125

## PETTY CASH – ACCOUNTING ENTRIES...continued – 3 OF 6

### Decreasing the Petty Cash Fund

A petty cash fund is sometimes decreased because it was established at too high a level. When a petty cash fund is decreased the custodian provides cash from the fund to be deposited into the bank account. The amount of cash deposited to the bank is the amount of the decrease.

For example – if a fund was established at \$500; and later it was decided that the fund should be at \$300, the fund must be reduced by \$200. Therefore \$200 of physical cash would be removed from the petty cash safe and would then be deposited to the bank.

The asset cash / bank is increasing and the asset petty cash is decreasing.

The entry is always recorded like this:

	<u>Debit</u>	<u>Credit</u>
Cash / bank	200	
Petty cash		200

### Test & Exam Twists

Sometimes you will be given the amount of the old fund and the amount of the new fund. In these cases you must find the difference between the two amounts because this is always the figure to be recorded. Get this figure into the debit and credit columns; then decide “Is this increasing or decreasing the fund?” (The problem will always tell you whether the fund is increasing or decreasing.)

If the fund is increasing, it means the asset petty cash is increasing; debits increase assets, therefore the debit is to petty cash.

If the fund is decreasing, it means the asset petty cash is decreasing; credits decrease assets, therefore the credit is to petty cash.

## PETTY CASH – ACCOUNTING ENTRIES...continued – 4 OF 6

### Reimbursing the Petty Cash Fund

The petty cash fund must be reimbursed from time to time because the custodian is low on cash and high on receipts.

This is the most lengthy of the three petty cash events, but is a step-by-step process that is the same every time.

The steps are best shown with an example:

A petty cash fund for \$100 was established on June 1. On June 15<sup>th</sup> the custodian has the following in the safe:

- \$20 of receipts for taxis
- \$12 of receipts for stamps
- \$18 of receipts for meals
- \$24 of receipts for repairs
- \$20 of receipt for supplies
- \$5 in cash

First record the expenditures by entering the debits like this:

	Debit	Credit
Travel expense (taxis)	20	
Postage expense	12	
Meals expense	18	
Repairs expense	24	
Supplies	20	
<i>At this point in the entry you must decide How much cash is needed to replenish the fund – there is \$5 in the fund and the fund is supposed to be \$100; therefore the fund needs \$95; therefore credit cash \$95</i>		
Cash		95
But the entry does not Balance! It is out \$1 – make it balance via Cash over /short		
Cash short	1	

Cash short is always a debit. Cash over is always a credit.

## PETTY CASH – ACCOUNTING ENTRIES...continued – 5 OF 6

### Calculating Over or Short

You can also calculate the amount that is over or short.

You know the amount of the established fund and you also can add the total of all the receipts. The difference between the total of the receipts and the fund amount should be the amount of cash on hand; but these two figures do not always agree.

In the above example the calculation would be as follows:

Amount of the fund -	\$100	
Total of receipts of on file (20+12+18+24+20)	<u>94</u>	
<u>Difference</u> (cash that should be on hand)	6	
Amount of actual cash on hand	<u>5</u>	
<u>Difference</u>	<u>1</u>	This is Short because the "Should Be Amount" is higher."

The logic is this – the fund should have \$6 on hand, but has five – so it is short. When the "Should Be" amount is lower than the actual amount; it is over.

### TRY THIS ONE

A petty cash fund for \$500 was established on June 1. On June 15<sup>th</sup> the custodian has the following in the safe:

- \$120 of receipts for taxis
- \$112 of receipts for stamps
- \$108 of receipts for meals
- \$100 of receipts for repairs
- \$ 55 of receipt for supplies
- \$ 7 in cash

Is cash over or short; by how much? Go to the next page for the answer

## **PETTY CASH – ACCOUNTING ENTRIES...continued – 6 OF 6**

### **Answer to Example – 6 OF 6**

Over by \$ 2

The receipts add to \$ 495. The fund amount is \$ 500, so the cash on hand should be \$ 5. But it isn't; the cash on hand is \$ 7. The cash on hand is higher than it should be by \$ 2.