Principles of Accounting HelpLesson #6 Accounting for Petty Cash and Cash Short and Over By Laurie L. Swanson

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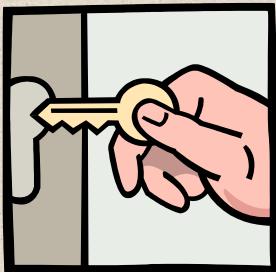
Cash

Cash is one of the most important assets a business owns. Cash is the primary asset used to acquire other assets as well as to pay for operating expenses.



Internal Control for Cash

Because Cash is a highly desirable asset and is readily transferable, internal control over cash is especially important.



Petty Cash

Another internal control is to keep as little cash on hand as possible. It is often necessary, however, to keep some cash on hand.

Cash kept on hand at a business to pay for small items such as postage due, a birthday card, or fuel expenses is known as Petty Cash.



Petty Cash

Petty Cash is generally kept in a petty cash drawer and payments are made for miscellaneous items out of this cash.





Establishing A Petty Cash Fund

A Petty Cash fund is established by cashing a check for the amount determined to be included in the Petty Cash fund. This amount varies by company and may be as small as \$25 or as large as \$500 depending on the company's needs.



Journal Entry for Establishing A Petty Cash Fund

Assume that JCC has determined that \$125 cash should be kept on hand for miscellaneous expenses. A check will be written on JCC's checking account and JCC will put \$125 cash in a Petty Cash drawer. The following journal entry should be recorded for this transaction.

Petty Cash	125	
Cash		125
Established Petty Cash Fund		

Internal Control Over Petty Cash

Petty Cash is paid out in exchange for a petty cash voucher signed by both the recipient of the cash and the petty cash controller. The voucher should indicate the amount of cash paid out and the purpose of the disbursement. The recipient of the cash should provide a receipt for the purchase made out of petty cash which will be attached to the petty cash voucher.



Replenishing Petty Cash

At some point the Petty Cash fund must be replenished. It is at this point that the petty cash fund will also be reconciled.

The procedure to replenish and reconcile petty cash begins by counting the cash remaining in the Petty Cash drawer. Next, all vouchers are totaled. The combined total of remaining cash and Petty Cash Vouchers should equal the established value of the Petty Cash fund.

Finally, the Petty Cash vouchers should be organized into expense categories.



Replenishing Petty Cash: An Example •The cash in the **Petty Cash Voucher** Fuel Exp Amount <u>\$23.00</u> Petty Cash Drawer is Totals \$61 Charge to Fuel Expense counted. **Petty Cash Voucher** Amount \$38.00 Charge to Fuel Expense 12 **Petty Cash Voucher** Office Amount <u>\$12.00</u> \$18 **Supplies** Charge to Off Supplies 1 Total \$21 **Petty Cash Voucher** Amount \$9.00 Charge to Off Supplies •The Petty Cash Misc Expense **Petty Cash Voucher** Vouchers are organized Amount <u>\$22.00</u> Totals \$22 and totaled. Charge to Misc Expense **All Vouchers Total \$104**



Replenishing Petty Cash: An Example

•Add the total of the cash in the Petty Cash Drawer to the total of all Petty Cash Vouchers.

\$18 + \$104 = \$122.

•Compare the total of all items in the Petty Cash drawer to the amount for which Petty Cash was established.

Total of Items in Petty Cash Drawer:\$122Petty Cash Fund Original Balance:\$125

•There is a shortage of \$3 in the Petty Cash drawer.



Replenishing Petty Cash: An Example

• The Petty Cash Fund must be replenished by cashing a check to bring the drawer up to the originally funded amount.

The Petty Cash fund for JCC was originally funded for \$125. A count of the cash in the Petty Cash drawer revealed \$18. Cash of \$107 must be added to the Petty Cash drawer to replenish the fund.

• A journal entry is required to record the transaction to replenish the Petty Cash fund.



Replenishing Petty Cash: Journal Entry

•When journalizing the entry to replenish Petty Cash, you will debit the items for which Petty Cash was withdrawn and credit Cash.

•Recall the Petty Cash Vouchers that were previously organized and totaled. These vouchers provide the numbers used in the debit portion of this entry.

• The Cash shortage must also be addressed with this entry.

Fuel Expense	61	
Office Supplies	21	
Miscellaneous Expense	22	
Cash Short and Over	3	
Cash		107

Cash Short & Over

One other internal control over cash is to keep a close watch over any amounts of cash that are short or over.

Although careful steps are taken to ensure internal control over cash, errors occur in the handling of cash. Most often in making change.



Cash Short & Over

The Cash Short & Over account keeps up with any overages or shortages from change funds and petty cash funds. Any significant balance in this account is a red flag to management that cash is not being handled carefully enough.



Cash Short & Over Account Type

Cash Short & Over appears on the Income Statement and is either an expense or revenue depending on its ending balance.

End of Period Balance	Account Type
Debit	Expense
Credit	Revenue

This Concludes The Presentation on *Petty Cash and Cash Short and Over*

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