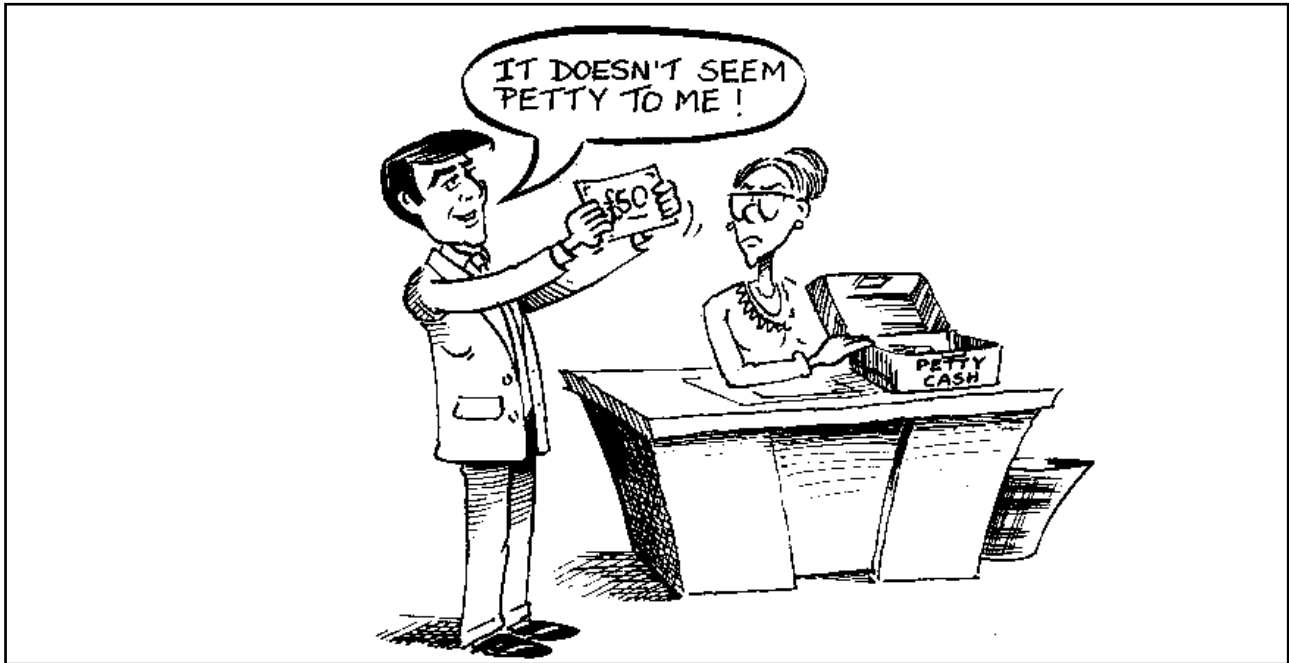


CASHFACTS

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Accounting for cash

The handling of cash and Petty Cash often causes organisations considerable headaches. The golden rule is that where possible it is better to pay by cheque to keep cash handling to a minimum.

That said, many organisations have no choice but to keep cash readily available to pay for small expenses; typically for office supplies like stamps and for expenses for volunteers.

It is a mistake to believe that because the sums involved in Petty Cash accounting are frequently small, Petty Cash is less in need of thoroughness than other accounting practice. All money that a

voluntary sector organisation handles should be accounted for in a responsible way. Funders, clients and the wider public expect and deserve nothing less.

This factsheet covers the main areas of cash accounting, and focuses on Petty Cash. This includes:

- The distinction between cash and Petty Cash
- Tips for handling cash receipts
- The Imprest System and Petty Cash rules
- One-off events and separate floats and fee books

Note that CASHFACTS uses the term Bank Analysis Book instead of Cash Analysis Book. (See CASHFACTS: Basic Bookkeeping).

Handling cash

Confusion sometimes arises over the distinction between cash and Petty Cash:

Cash is money received in the form of coins and notes. It should be paid into the bank and recorded in the Bank Analysis Book in the same way as cheques.

Petty Cash is a float system which is used to pay small expenses. The Petty Cash Book is where these payments are recorded.

Note that the Petty Cash Book can be written up using a page in your Bank Analysis Book. It is important to keep cash received separate from your Petty Cash float: if you mix the two you are courting disaster!

Don't be tempted to put money received in your Petty Cash box and then make payments from it. How will you distinguish between money received and money drawn from the bank for your Petty Cash float?

Always pay money received straight into the bank, so that it appears in the Bank Analysis Book and on your bank statement.

Never make payments directly from cash received. Ideally no cash payments should be made other than through Petty Cash.

Imprest system

CASH strongly recommends that voluntary sector organisations adopt the imprest system for administering petty cash.

The system that many organisations use is to withdraw money from the bank and keep it in a Petty Cash box. As and when necessary payments are made until the fund is run down. Some more money is then withdrawn from the bank.

This method is adequate, but it is difficult to know exactly how much money should be in the Petty Cash fund at any one time.

And it's easy to become too relaxed about accounting, particularly when it comes to filling in the Petty Cash Book and keeping a proper filing system for Petty Cash vouchers.

The Imprest System, by using a tightly controlled float of a specified sum, makes accounting far easier and mistakes less likely. But it needs to be backed up with a strong set of rules.

Here is a seven step guide to running an imprest system.

Step one

Decide on the appropriate amount for your float - say £100 - and withdraw that sum from the bank by cashing a cheque. The cheque details should be entered in the Bank Analysis Book in a column called "Petty Cash".

Step two

Put the cash in your Petty Cash box and enter it in your Petty Cash Book on the receipts side. You can buy a Petty Cash Book from stationers. Alternatively, you can use a page in your Bank Analysis Book. Petty Cash should be kept in a lockable cash box. Only one person should operate the Petty Cash system at any one time, and they are the only person who should have access to the box. When the Petty Cash system is handed over from one person to another, it should be done in front of a witness and the amount of cash and the amounts for vouchers should be written up in the Petty Cash Book.

Step three

Any money paid out should be replaced with a Petty Cash voucher made out to that amount. The voucher should be placed in your Petty Cash box. There should then always be £100 worth of cash and Petty Cash vouchers in the box. Receipts should always be obtained for Petty Cash claims, and the receipts should be stapled to Petty Cash vouchers. Pads of Petty Cash vouchers are available from stationers. Of course, with the best will in the world, receipts are not always available. In this instance an explanation as to why a receipt isn't available should be written on the back of the Petty Cash voucher. All Petty Cash vouchers should be signed and then authorised by someone else. The person making the claim should never be the person that authorises it!

Step four

Top-up the float when you are likely to be near the point of exhausting your Petty Cash fund. In your Petty Cash Book record details of payments. The total of these payments is the amount that you withdraw from the bank to restore your float to £100. If, for example, your payments come to £76.91, there should be £23.09 in your Petty Cash box. All you have to do is withdraw £76.91 to restore your float to £100.

Step five

The Petty Cash Book should be written up on a regular basis, ideally every time you draw more money from the bank for your Petty Cash fund. For large Petty Cash funds you should write up the book on a more frequently - this should make you question whether to hold large sums as Petty Cash.

Step six

Petty Cash vouchers, with receipts, should be filed in date order. It helps to number the vouchers and put a corresponding number against that item of expenditure in the Petty Cash Book. It is important that vouchers are kept as they will be needed when you prepare your accounts.

Step seven

For the purpose of accounts, on the last day of the financial year the Petty Cash should be counted in front of a witness and a signed certificate for that amount should be made out or the petty cash book should be signed.

One off events

For one-off events like AGMs and day trips it is often better to establish a float separate from your general Petty Cash fund. Withdraw the money from the bank, recording the details in the miscellaneous column of your Bank Book.

The reason for having a separate float is that it is often difficult to follow Petty Cash rules to the letter during one-off events - and this can seriously disrupt what had been a well run Petty Cash system. It may, for instance, not be possible to get receipts for many small items of expenditure. You should make a note of all expenditure on Petty Cash vouchers; and try not to put off doing this!

Put the vouchers into a file and keep them for your accounts. Unspent money should be paid back into the bank - not put into the Petty Cash box!

Is Petty Cash compulsory?

Certainly not. Paying by cheque is frequently easier to do and far easier to account for. Don't run a Petty Cash system for its own sake. If you can make all your payments by cheque, do so!

Personal imprests

It is sometimes easier to issue people with a personal imprest for repeat expenses like travel. Claims can be submitted on an agreed basis - ie. monthly. It should be noted, however, that this system only works if people are happy to have expenses paid through their own bank account.

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