

9 Principles of petty cash

what this chapter covers . . .

This chapter:

- explains the principles of maintaining a petty cash system using the imprest system
- shows the completion of the petty cash vouchers for expenses
- describes the importance of checking details on the vouchers, including amounts claimed
- covers the authorisation of vouchers including signatures
- explains the principles and procedures of VAT
- explains the importance of accuracy
- explains the importance of keeping the petty cash safe and secure

OCR assessment criteria covered

Unit M5: Maintaining petty cash records

- 1.1 Prepare petty cash vouchers
- 1.2 Calculate the purchase tax (eg VAT) where the expense includes it

INTRODUCTION TO PETTY CASH

All businesses and organisations regularly incur small items of expenditure. Often these expenses are paid for by cash since the amount required may be too small for the payment to be made by cheque. Such examples of this type of expense could be payment of postage stamps, travelling expenses, small items of stationery, and so on. Such small items of expenses are usually recorded in the petty cash book that is designed specifically for this purpose. Other expenditure incurring larger amounts of money is recorded in the cash book and this is dealt with in Unit M3 (Chapters 6-7).

THE PETTY CASH PROCEDURE

The business will appoint a petty cashier, often a junior member of staff, who is responsible for looking after the petty cash on behalf of the main cashier. The main cashier will provide the petty cashier with a sum of money, called a 'float'. The petty cashier is then responsible for this money, making payments to members of staff to repay them for expenses incurred on behalf of the business and keeping records of payments made, amounts received and balancing the petty cash book at regular intervals.

The petty cashier will need the following to carry out this task:

- a petty cash book in which to record transactions
- a lockable petty cash box to hold the money
- a stock of blank petty cash vouchers (see page 204) for claims on petty cash to be made
- a secure place (eg a lockable drawer) in which to keep these items

making a claim

Before studying the form-filling procedures we will look at how a claim for petty cash is made by an employee with the following example:

John works for Harpers Estate Agents as an office junior. His supervisor, Mrs May, asks John to go to the post office and buy postage stamps for the office. John carries out this request as follows:

- John goes to the post office and buys the postage stamps for the office. He pays £4.20 for them in cash and asks for a receipt.
- On his return to the office John gives the stamps and receipt to Mrs May.
- Mrs May authorises a petty cash voucher that details the purchase of the postage stamps made by John and attaches the receipt to the voucher.

- The petty cashier gives John £4.20 in cash.
- The petty cashier enters the details in the petty cash book.

items claimed for by petty cash

As already mentioned, petty cash is used to make small cash payments for purchases and expenses incurred by the business. Examples of the type of payments made from petty cash include:

- postage
- small items of stationery
- casual labour
- window cleaning
- travel expenses such as bus and rail fares incurred on behalf of the business
- donations

Note, however, that petty cash should not be used to pay for private expenses of employees, eg tea, coffee and milk, unless the business has agreed these in advance. Usually there will be a list of approved expenses that can be reimbursed from petty cash.

The business will also decide on the maximum value for any transaction that can be paid out of petty cash; for example, £25 is a common figure.



Case study

PETTY CASH EXPENSES

situation

You are employed as an accounts assistant for Astley Controls Limited. One of your duties is that of petty cashier. Which of the following expenses would you allow to be paid out of the petty cash? The upper limit for petty cash transactions is £25.

- Postage stamps, £6.50
- Window cleaning, £8.00
- Envelopes for office use, £3.20
- Computer disks, £38.50
- Coffee and milk for the office, £5.76
- Donation to a local charity, £10.00
- Train fare to work £4.60 claimed by the office assistant
- Car mileage to work of Manager who was called in on Sunday morning following a break-in of the premises

solution

Postage	pay from petty cash
Window cleaning	pay from petty cash
Envelopes	pay from petty cash
Computer disks	this is a business expense but, since the amount is £38.50 it is too large to be paid out of petty cash, instead it should be paid by cheque
Coffee and milk	this payment can only be made out of petty cash if the items were used for the use of official visitors and customers and not for use by the employees
Donation	pay from petty cash
Train fare	this is a personal expense and cannot be paid for out of petty cash
Car mileage	travel to work is a personal expense, as seen from the previous item; however, as this expense was a special journey on a Sunday following a break-in to the premises, it can be paid from petty cash

Notes on the case study

- If the petty cashier cannot decide whether or not an item of expense can be paid from petty cash, the item should be referred to the accounts supervisor for a decision.
- Before payments can be made for petty cash expenses they must be supported by documentary evidence and be properly authorised (see below).

THE IMPREST SYSTEM

As mentioned above, the petty cashier is given a ‘float’ of money at the beginning of the period to enable payments to be made for expenses incurred during the period. At the end of the period the amount spent is added up, this amount is then reclaimed from the cashier to restore the money to the original float. It is the same principle as filling up the tank of your car each week. The amount of fuel you put in is the same as the amount you have used. The following example illustrates the procedure:

		£
January 1	Float received from cashier	100.00
January 31	Amount spent during month	<u>70.00</u>
	Balance of cash in hand	30.00
February 1	Amount received from cashier to restore float to original amount	<u>70.00</u>
	Cash at start of next month ie imprest	<u>100.00</u>

If, during the period, all the cash is used up then it is possible to obtain further amounts of money from the cashier to top up the float. It is also

possible to increase the float from time to time if extra money is required for additional expenditure .

advantages of using the imprest system

One advantage of using the imprest system is that it is possible to check the cash at any time since the total of expenditure incurred during a period together with the cash in hand should always equal the original float. Another advantage is that small items of expenditure can be recorded separately in the petty cash book thereby eliminating such items from the main cash book. Since this task can be carried out by a junior member of staff it saves the cashier valuable time that can then be spent in other areas of work.

PETTY CASH VOUCHER

When an employee incurs expenditure on behalf of the business and then wishes to get the money back he/she will have to complete a petty cash voucher and provide documentary evidence such as a receipt if possible. Petty cash vouchers contain the following details:

- details of expenditure together with a receipt for money spent (if possible)
- amount spent, including VAT, if applicable
- signature of person making the claim and to whom the money will be paid
- signature of person authorising the payment, usually the petty cashier for amounts within the authorisation limit, larger amounts will be authorised by the accounts supervisor or manager
- the petty cash voucher will then be numbered to enable the documentation to be filed correctly and easily identified in the petty cash book

An example of a petty cash voucher is shown below.

petty cash voucher		No. 83	
		date 6 December 2011	
description		amount	
Train fare (no VAT)		£	p
		5	83
		5	83
signature	<i>S J Worrall</i>		
authorised	<i>J K Blake</i>		

authorisation of petty cash vouchers

When the petty cashier receives a completed petty cash voucher from a member of staff it is important to check that the voucher has been completed correctly, signed by the person making the claim and has been properly authorised. It is important to check that the amount claimed for is within the authorised limit. For example, the organisation may allow payments to be made by petty cash up to £25 as already mentioned above. The petty cashier should also check the voucher for accuracy in the calculations and wherever possible ensure that a receipt is attached to the voucher.

The petty cash voucher details are then entered in the petty cash book and the voucher filed away in numerical order so that it may be easily located if necessary.

PETTY CASH BOOK

A petty cash book is shown on the next page. Note the analysis columns that enable the transaction to be recorded and analysed at the same time, according to the type of expenditure incurred. We will look in detail at the entries that are made in the petty cash book in the next chapter.

VALUE ADDED TAX (VAT)

Most of the goods and services we buy are subject to Value Added Tax (VAT) which is added to the cost of the goods and services at the standard rate. In the UK all businesses above a certain level of turnover (sales) have to be registered for VAT which is administered by HM Revenue & Customs.

As stated above, VAT is charged by a business on its sales and is ultimately paid by the last 'purchaser' of the goods or services and 'collected' by the business selling the goods and services and then paid to HM Revenue & Customs.

VAT Rates

There are three VAT rates presently set by the government:

- 1 **Standard Rate @ 20%** – this tax is added to most goods and services such as electrical and household goods, car servicing, meals in a restaurant.
- 2 **Reduced Rate @ 5%** – this rate applies to certain goods and services for example domestic fuel or power for heating and the installation of energy saving materials.

3 **Zero Rate @ 0%** – some goods and services are zero rated, which means that VAT is charged at 0%. Such goods and services include most food purchased from the supermarket, children’s clothes and shoes, books and periodicals.

exempt goods and services

However, not all expenses are subject to VAT. Supplies that are **exempt** include financial services and certain types of education.

VAT and petty cash

For a business to reclaim the VAT charged by a supplier, a receipt or invoice must be obtained for the business expense incurred. The document must contain the supplier’s name, address and most importantly the VAT registration number. Such a receipt or invoice usually identifies the cost of the item purchased, together with the VAT charged to give a total amount, as shown below.

INVOICE				
Business Products & Co				
Unit 3 Wellington Industrial Estate Burton-upon-Trent BT1 7TS Vat Registration No. 501 2764 72				
to Kerr and Partners High Street Burton-upon-Trent BT1 6FG		invoice no. K 4621/03		
		date 18 August 2011		
		order no. 04/9848		
quantity	description	cat. no.	unit price (£)	£
4 reams	A4 photocopier paper	PP639T	3.00	12.00
			VAT at 20%	2.40
				14.40
terms: net monthly				

To prepare a petty cash voucher from this invoice and enter the details in the petty cash book is straightforward because all the figures are available on the invoice:

- £2.40 will be entered in the VAT column of the petty cash book
- £12.00 will be entered in the appropriate expense column (probably the 'Stationery' column)
- £14.40, the total amount paid, will be entered in the total column

documents not showing VAT

Sometimes, however, receipts are issued showing the total amount paid but not the amount of VAT incurred. This is quite normal practice for smaller amounts. An example of a receipt that does not identify the amount of VAT separately is shown below:

RECEIPT	
Logan Labels & Co., Dunwoody Lane, Derby, DA8 6HJ Tel: 01332 280421 Vat Registration No. 488 2720 76	
No.123	
date <u>23 Sept 2011</u>	
received with thanks from	<u>R Dudek</u>
the sum of	<u>seven pounds and twenty pence</u>
for	<u>1 pack adhesive labels</u>
cheque	<u> </u>
cash	<u>7.20</u>
discount	<u> </u>
total	<u>7.20</u>
signature	<u>J Murphy</u>

calculating the VAT amount when it is not shown

In the above case it will be necessary to calculate the amount of VAT included in the total price of the adhesive labels of £7.20.

This can be calculated by formula as shown on the next page.

The formula, with VAT at 20% is:

price including VAT divided by 1.2 = price before VAT is added on . . .

in this case . . .

£7.20 divided by 1.2 = £6.00 = price before VAT is added on

the VAT content is therefore:

£7.20 less £6.00 = £1.20

using the VAT fraction

Another method of calculating the VAT content of a total price where the VAT is not shown is to use the VAT fraction. For 20% VAT this is $\frac{1}{6}$. All you have to do is to divide the total including VAT at 20% by 6.

In the case of the receipt on the previous page, you just divide the total amount of £7.20 by 6 to produce a VAT total of £1.20.

entries in the petty cash book

Whichever method you use, the £1.20 will be entered in the VAT column in the petty cash book, £6.00 in the appropriate expense column, and the full £7.20 in the total payment column.

Note that when calculating VAT amounts, fractions of a penny are ignored, ie the tax is normally rounded down to a whole penny. For example, the 20% VAT content of a total of £14.38 is £2.396666666. This is rounded down to £2.39.

SECURITY

It is important that the petty cash book and the money are kept in a safe and secure place. Ideally the money should be kept in a lockable cash box. The petty cashier should keep the key to the petty cash box in a safe place with a duplicate key being kept by the main cashier or accountant. The box together with the petty cash book should ideally be kept in a fireproof safe or cabinet. Only the petty cashier or main cashier should be authorised to make payments of petty cash and they should obtain a signature from the person receiving the money.

As mentioned above, one of the advantages of using the imprest system is that it is easy to check the petty cash at any time. This enables checks to be made on the petty cashier at various intervals to ensure that he or she is honest and the money is secure.

Chapter summary

- The petty cash book is used to record small items of cash expenditure incurred by a business.
- The person responsible for maintaining the petty cash book is called the petty cashier, and he or she is responsible for security.
- Most businesses operate petty cash using the imprest system. Initially a cash 'float' of a fixed amount of money is given to the petty cashier for a specific time period. During the period payment is made against the correct documentation – usually a petty cash voucher – which must be signed and authorised for payment. At the end of the period, any cash paid out is restored to the same amount for the beginning of the next week or month. This is known as the 'imprest' system.
- The advantage of using the imprest system is the ability to check the cash at any time since the total amount spent together with the cash in hand should always equal the original float. It also minimises the number of entries made in the main cash book.
- Petty cash vouchers are entered in the petty cash book and are analysed according to the type of expenditure incurred.
- If VAT has been paid it is important to analyse the relevant amount separately in the VAT column. If VAT is not shown separately on a receipt or petty cash voucher it may be necessary to calculate this figure to enable the VAT to be recorded in the appropriate column.
- It is important that the money is kept in a lockable box and – together with the petty cash book – kept in a secure place.

Key terms

cash float	an amount of money given to the petty cashier at the beginning of a period to enable them to make payments
imprest system	where money held in the petty cash float is restored to the original amount for the beginning of the next period
petty cash book	a book used for recording small items of cash expenditure which are usually analysed as they are entered
petty cashier	person responsible for the petty cash system
petty cash voucher	the form used to claim amounts from petty cash, which must be properly completed, signed and authorised

 **Exercises**

Answers to the asterisked questions are to be found at the back of this book.

9.1 * You are employed as petty cashier for a small advertising agency. The agency operates the petty cash imprest system in which small items of expenditure incurred by staff members up to £25.00 are paid by you, any item of expense above £25.00 is paid by cheque. The accountant asks you to look through a list of expenditure incurred by employees and to state which items should be paid by you out of petty cash, paid by the accountant by cheque and those items which you consider not to be business expenses.

- (a) Photo copier paper £12.60
- (b) Office cleaner £26.75
- (c) Postage on parcel to Hong Kong £3.74
- (d) Secretary's weekly train ticket to work £44.00
- (e) Tea, sugar and milk £4.92 for the office (given to visitors)
- (f) Coffee £5.20 for staff
- (g) Postage stamps £8.00
- (h) Card, fabric and staples for client's display £83.50
- (i) Advertisement in local press for new cleaner £21.70
- (j) Flowers for reception area £7.00

9.2 * Morgan's Garage Limited employs several staff including James Dean, the accounts assistant, who unfortunately has to go into hospital for treatment and will be absent from work for the next four weeks. The garage operates their petty cash using the imprest system and one of James's tasks is that of petty cashier. James has a float of £200.00 that he uses to operate the imprest system on a monthly basis.

Whilst James is absent from work the owner of the garage, John Morgan, has asked Louise, the secretary, to look after the petty cash. To enable Louise to carry out this task John Morgan asks James to write some instructions on how the imprest system is used to operate the business's petty cash.

Task

Assume you are James and write brief notes on the operation of the petty cash using the imprest system. Ensure the instructions are clear and easy to follow.

9.3* As petty cashier you have been asked to prepare the petty cash vouchers, shown below, for signature by the person making the claim. You are to use today's date and are able to authorise payments up to £20.00; any amount above that is to be authorised by the cashier, Bob Allen. You are to assume that Bob Allen duly authorises any payment above £20.00. The next available petty cash voucher number is 22.

- Louise Carter purchased postage stamps totalling £18.30 (no VAT).
- Martin Gould purchased two computer memory sticks from Baxter's Stationers at a cost of £4.80 each, including VAT totalling £1.60.
- The office manager, Chris Edge, recently attended a training conference and wishes to be reimbursed for his train fare to London of £35.00 (no VAT).

State what other documentation would also be required besides the completed petty cash vouchers in each of the above.

Blank petty cash vouchers are reproduced on the pages that follow. You may photocopy them. Blank vouchers are also available at the end of the book and for download from the Resources section of www.osbornebooks.co.uk

petty cash voucher		No.	
		date	
description		amount	
		£	p
signature			
authorised			

petty cash voucher		No.	
		date	
description		amount	
		£	p
signature			
authorised			

petty cash voucher		No.	
		date	
description	amount		
	£	p	
signature			
authorised			

9.4 Star Secretarial Agency has an office in Leeds and due to an increase in business has recently employed a new junior accounts assistant, Fred Grainger, who likes to be called Freddy. One of Freddy's duties is that of petty cashier and during Freddy's initial training he is shown the following instructions that must be followed when paying petty cash expenses to members of staff:

- All requests for payment of petty cash expenses must be made on petty cash vouchers showing full details of the expense, the date and if possible a receipt must be attached.
- Vouchers must be signed by the person claiming the money.
- Vouchers must be authorised for payment by the company secretary, Nick Burns.
- The petty cashier is authorised to pay claims up to £25.00, any item above that must be made by cheque.
- The agency uses the imprest system with a float of £100.00 for a two week period.

As petty cashier, Freddy, is asked to complete petty cash vouchers for any of the items shown below in accordance with the agency's instructions shown above.

STAR SECRETARIAL AGENCY

Details of transactions for 9 September 2011 are listed below. The last voucher used was No. 82.

- A4 copier paper for use in the office costing £15.60, including VAT of £2.60. This was bought by Joe Simpson, the assistant accountant, and a receipted invoice is attached.
- Nick Burns, the company secretary, gives you a receipt for the cost incurred in taking clients out for lunch, the bill totalled £57.60 including VAT of £9.60.
- Donation to the local church, £25.00, this was paid by Joe Simpson on behalf of the agency and a receipt obtained. No VAT.
- Postage stamps £9.00 paid for by Jane Adams the office administrator. No VAT.
- Train fare for employee, Alice Gee, to work £5.50. No VAT.

- Window cleaner £18.00 paid by Nick Burns, no receipt available. No VAT involved.
- Office milk, tea and coffee paid for by Jane Adams £12.30 (no VAT). The agency pays for these items for staff use.

Task

Assume you are Freddy. Complete, where appropriate, the petty cash vouchers. If, for any reason you are unable to pay a particular item you are to state why.

petty cash voucher		No.	
date			
description	amount		
	£	p	
signature			
authorised			

petty cash voucher		No.	
date			
description	amount		
	£	p	
signature			
authorised			

petty cash voucher		No.	
date		_____	
description	amount		
	£	p	
signature			
authorised			

petty cash voucher		No.	
date		_____	
description	amount		
	£	p	
signature			
authorised			

petty cash voucher		No.	
date		_____	
description	amount		
	£	p	
signature			
authorised			

9.5* You are the petty cashier for Bode Manufacturers Ltd and have been given the following petty cash vouchers all of which include VAT at 20%. You have been asked to calculate the amount of VAT that will be shown in the VAT column of the petty cash book and the amount that will appear in the appropriate expense column.

Note that VAT amounts should always be rounded down to the nearest penny.

(a)	£21.60	(f)	£ 3.37
(b)	£ 2.40	(g)	92p
(c)	£ 8.58	(h)	£ 7.92
(d)	£ 1.44	(i)	£10.32
(e)	£16.32	(j)	£14.40

- 9.6** As petty cashier of The Holly Hotel you have been given the following petty cash vouchers, all of which include VAT at 20%. The hotel manager asks you to calculate the amount of VAT that will be shown in the VAT column of the petty cash book and the amount that will appear in the appropriate expense column.

Note that VAT amounts should always be rounded down (where appropriate) to the nearest penny.

(a)	£33.60	(f)	£7.20
(b)	£25.92	(g)	£34.56
(c)	£1.92	(h)	£28.80
(d)	£4.80	(i)	96p
(e)	£ 5.76	(j)	£12.00