

How Do You Handle Petty Cash?

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Accrual Accounting and Cash Basis Accounting

You have an actual cash drawer with a given amount of money and the Petty Cash Account in the general ledger has a debit balance of the same amount.

1. You must set up a "Petty Cash" vendor. The name can be Petty Cash, your company's name or your bank's name. This vendor should only be used for replenishing the petty cash drawer. To set up the drawer for the first time or to increase the amount in the drawer, vouch to this vendor using the G/L Petty Cash Account.
2. When you pay something out of the petty cash drawer, you must have a receipt or a detailed note of what it is.
3. Weekly, semi-monthly or monthly (depending on how much petty cash is used) you will need to replenish the drawer. You will vouch the receipts and/or notes to the Petty Cash Vendor, using the correct general ledger accounts, usually expenses. When the receipts are vouched, file them in the A/P File, do not return them to the Petty Cash Drawer.
4. Write a check for all the open items in the Petty Cash Vendors account. Cash this and return the money to your petty cash drawer.
5. No matter how many times you do the above (3 & 4) during the month, you should always replenish the petty cash drawer at the end of each month to properly record expenses.

Balance cash drawer

1. Take the amount in the Petty Cash General Ledger Account and subtract the open item amount for the Petty Cash Vendor. This should be the amount of cash in the drawer. Or
2. Add all receipts in the drawer to the actual cash in the drawer. This should equal the YTD Balance in the Petty Cash General Ledger Account.

The only time you would use the Petty Cash general ledger account is if you want to make a permanent change to the account (drawer) balance. (see #1 above.)

You may want to vouch the receipts each week and not write the check until later. This is perfectly acceptable. This may keep you from losing or misplacing the receipts and will make it easier to balance your petty cash drawer.