

# IV. ACCOUNTING

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**Effective Date: April 21, 2008**

## G. PETTY CASH FUND

It is quite common for an organization to have occasion to expend small amounts for items such as postage/freight charges, office supplies, etc. Since it is not cost-effective to issue checks in payment of these expenses, a petty cash fund is often used to accommodate these situations.

The governing board should authorize the fund and establish certain policies and procedures which govern the manner in which the fund is utilized by management and staff.

1. A dollar limit, usually in the range of \$25 - 100, should be set for the fund.
2. One individual should be designated as fund custodian and should have responsibility for maintaining control over the cash and accounting for the expenditures. Because of the small amount involved, the segregation of duties requirement is not considered necessary under the circumstances.
3. Expenditures in excess of a specified amount should not be reimbursed from the fund.
4. Prior to making payment, the custodian should complete a petty cash voucher and have it signed by the person receiving reimbursement. Documentation in the form of a cash register tape, delivery ticket, invoice, etc., should be attached to voucher.
5. Employees should not be allowed to have personal checks cashed by the fund.
6. A person other than the custodian should periodically review fund activities to determine that the total of vouchers and cash on hand equal the authorized fund amount.
7. The fund should be replenished as needed during the year; however, it must be replenished at year-end to ensure that all expenditures are included in the financial statements. When the fund is replenished, disbursements from the petty cash fund are charged in the accounting records to accounts which reflect the nature/purpose of the expenditures.

In order to establish a petty cash fund, once it has been approved by the board, a check is written, on the regular checking account, payable to either the fund custodian or to "cash". The check is cashed at the bank and the currency becomes the organization's petty cash fund.

Accounting entries to establish and replenish the fund would be as follows:

**Debit      Credit**

July 1	Petty Cash Fund	50	
	Cash in bank-checking		50
	To establish petty cash fund		
Sept 15	Office Supplies	26	
	Postage/Freight	19	
	Cash in bank - checking		45

**To record petty cash expenditures from July 1 - September 15.**