



PIPSO

Pacific Islands Private Sector Organisation

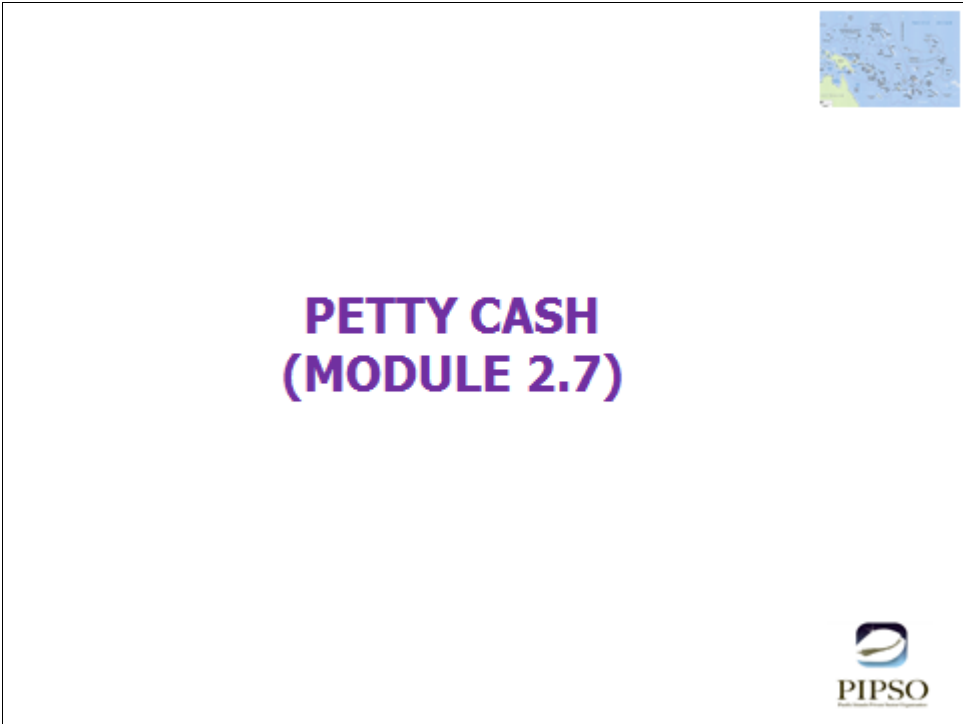
PETTY CASH & ACCOUNTABLE ADVANCE

January 1

2014

This Module explains the reasons for & how to set up & operate a petty cash fund & an accountable advance. It includes an activity on operating a fund.

MODULE 2.7



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PURPOSE

This module is provided for businesses that are growing & seeking a way to pay for routine small items of minor expenditure from time to time using cash.

The Module covers:

1. Petty cash
2. Accountable advance

For petty cash, the Module includes:

- Setting up a fund
- Running the petty cash float
- Changing the amount of the float
- An example of a voucher
- A format for the petty cash book
- An activity writing up the petty cash book

For an accountable advance, similar in formation to petty cash, it covers:

- Creation of an advance
- Periodic reporting of expenses
- Repayment of any unspent advance


On completion of this Module participants should be able to establish a petty cash fund for their business, record the use of the cash in the fund, record the replenishment of the fund & change the amount of the fund's float. Similarly, participants should be able to meet the accounting requirements of an accountable advance.


WHY A PETTY CASH FUND?

PETTY CASH

A petty cash fund is a useful way to pay for small items in cash such as:

- Postages
- Stationery
- Taxis & other fares
- Tea, coffee & biscuits for staff
- Other small outlays for office supplies





Having a petty cash fund minimises the need to draw cheques use credit or debit cards for small transactions, thereby keeping bank fees down.

Even for a business using cash registers a petty cash fund avoids the temptation or need to dip into the till for small amounts. This latter practice needs special attention as it may result in unbalanced cash receipts unless other recording procedures are in place.

There is no technical limit on the size of a petty cash fund & larger limits are not uncommon in bigger businesses.

It is also normal to have more than one petty cash fund in geographically diverse businesses on the basis of one fund per location.

PETTY CASH



The amount kept in a petty cash float is determined by management.

A float is normally in the range of \$50 to \$250 depending on expected use & frequency of top-up.



The size of the fund is determined by the frequency of top up that is considered reasonable & not too time consuming & the number of small cash expenses that the office incurs. This will be influenced by the numbers of personnel in the office & the nature of their duties.

Petty cash is usually topped up either when the balance falls below an agreed level, e.g. \$25.00, at regular intervals, say fortnightly or monthly, or whichever comes first.

SETTING UP PETTY CASH

SETTING UP A PETTY CASH FLOAT

Steps to set up a petty cash float are:

- Draw an initial cash cheque to begin fund
- Keep cash in a lockable container, money box, safe or drawer
- Issue cash & receive a pre-numbered petty cash voucher
- Attach a supplier receipt wherever possible
- Draw cheque to replenish fund as needed
- Retain vouchers as source documents



Once the business owner, board, or authorised manager has approved the setting up of a fund & the amount of the limit of the fund, the process for starting the fund is as above.

The total of the cash held plus signed vouchers must at all times equal the amount of the limit of the fund, the “float”.

One employee/manager, the petty cash custodian, must take responsibility for the fund at all times. The custodian must have the only key to the lockable container of the cash & vouchers that make up the fund.

A second key may be held by the business owner separately in a secure location, in the event of absence or illness of the primary custodian. Occasional unannounced spot checks of the petty cash fund are recommended as an internal control measure.

In the event of a hand-over from one individual to another of the custodian role, the fund must be balanced & signed evidence of the hand-over kept. The signed original must be kept with other source documents.

Advances may be issued from the fund for prospective purchases or expenses before made & vouchers issued so long as the total of all vouchers plus the cash held equals the limit of the fund. Use the reverse side of the voucher to record the advance & any cash returned, putting the actual amount paid only on the face of the voucher.

Once an advance is issued, the receiver is responsible for the cash & must return a receipt plus any unused cash, if any.

SETTING UP A PETTY CASH FLOAT



Notes:

- Take care when processing vouchers for items without VAT or receipt
- Advances from petty cash are acceptable
 - Use back of voucher to record issued amount & amount returned, or
 - On face of voucher record amount actually paid (amount issued less any returned)
- Float can be changed by simply altering the amount drawn when fund topped up



A change in the amount of a petty cash fund must be approved by the business owner or an authorised manager in writing before a cheque for the higher amount is cashed. The approval should be retained with other source documents.

Once approved, simply draw the next top up cheque as normal plus add the extra amount approved.

PETTY CASH VOUCHER



PETTY CASH VOUCHER	
No	
Date	
Amount (in words)	
.....	
Being for	
.....	
Signature	
Name	
Approved by	\$



A petty cash voucher is little more than a numbered receipt. The use of pre-numbered vouchers is preferable, where possible.

THE PETTY CASH BOOK

[illegible]

Not all items of expense may attract VAT/GST, so take care to note those which do & those which do not. If the business is VAT/GST registered it can only recoup amounts where it holds the tax invoice, with the VAT/GST amount clearly stated.

There is no limit to the number of headings along the top. This is a practical matter for adaption by the custodian.

When balancing the petty cash book take the following steps:

1. Add all columns down
2. The total of the payments column must equal the sum of the expenses.
3. In the payments column, on the line below the total add the cash on hand
4. The sum of the payments & the cash on hand must equal the total float
5. This being the case, carry the cash amount down in the far left hand column, below the total
6. On the line below, add the cash cheque amount to begin the new period

PREPARE A PETTY CASH BOOK



Time to work through an example.
(Activity 2.7.1)

Individual exercise, but with group discussion if preferred.



Activity 2.7.1

PETTY CASH

Part 1: Matching Exercise

		Term		Definition
	1	Net assets	a	Business resources consisting of coins, currency, cheques etc on hand or in a bank account
	2	Internal control	b	Cash position of a business at a point in time
	3	Cash	c	A cash fund used to pay small amounts
	4	Current liabilities	d	A form that records business transactions, often standardised
	5	Profit	e	Safeguards & procedures designed to ensure the accuracy of business records
	6	Outstanding cheques	f	Estimate of expected results

	7	Liquidity	g	Balances of short-term obligations owed by a business as at a date
	8	Financial budget	h	The excess of revenue earned over operating costs during a period
	9	Petty cash fund	i	Cheques recorded in books of a business but unpaid by the bank
	10	Source document	j	An amount equal to the value of owner's equity

Required:

Place the letter aligned to the correct definition in the first column alongside the matching term.

Part 2: Operating A Petty Cash Book

Pacific Tours uses a petty cash system for small disbursements. Business policy requires use of a prenumbered petty cash voucher for all payments. Relevant supplier receipt must be attached to all vouchers at time of payment.

The total petty cash float amount is set at \$200.00 & VAT is charged at 9%

On 7 June 2013 the cash on hand was \$22.45. A reimbursement cheque number 2276 for \$177.55 was drawn & cashed that day.

Disbursements during the next fortnight were as follows:

Date	Voucher	Item	Amount \$ (incl. VAT)
08-Jun	208	Taxi	24.80
10-Jun	209	Staff refreshments	14.00
	210	Express post	15.00
12-Jun	211	Sales refund	33.35
14-Jun	212	Coffee	12.00
	213	Express post	12.10
15-Jun	214	Taxi delivery	26.40
17-Jun	215	Stamps (20)	12.00
19-Jun	216	Stationery	<u>30.80</u>
			<u>180.45</u>

A reimbursement cheque number 2430 is drawn on 21 June for all items purchased.

Required:

Write up the Petty Cash Book for Pacific Tours for the fortnight ended 21 June 2010.

A template follows.

[illegible]

ACCOUNTABLE ADVANCE

ACCOUNTABLE ADVANCE



An accountable advance is issued to an frequent travelling officer to meet expenditure incurred.

It should be accounted for periodically & repaid on completion of travel or at the end of each accounting period, i.e. 12 months, if not cleared earlier.



Similar to petty cash, an accountable advance is issued to an officer of the business to cover expenses. In this case the advance is for the use of that officer only & is fully accountable for by that officer. The amount advanced should be based on expectation of the need.

ACCOUNTABLE ADVANCE



An accountable advance is issued by the drawing of a cash cheque for the amount of the advance.


The receiving officer signs for the receipt of the cash on the requisition voucher.



Accountable advances should be cleared on or before the end of the financial period, usually each 12 months, but may be cleared & redrawn as required in between. It is common

practice for advances to be acquitted after each period of travel. If not a monthly usage report may be required prior to acquittal.


ACCOUNTABLE ADVANCE



Periodically the recipient of the advance lodges a usage report, usually monthly, for routine management reporting.


An example follows.

All expenses are accountable & receipts must be provided.



As for petty cash, receipts are required for all expenses incurred & it is recommended that a running record of the amount unspent & all expenses incurred be kept by the recipient. This record provides the information for periodic reporting. A format is provided below.

ACCOUNTABLE ADVANCE



NGO
ACCOUNTABLE ADVANCE USAGE FORM

Accountable Advance Balance at 1 June 2014: 845.00


Date	Particulars	Amount
14-Jun	RMI-Training	
	Transfer (Lami-Nausori)	35.00
	Transfer (Airport-Honolulu-Airport)	126.24
	Internet	207.39
	Taxi (In-country consultations)	45.09
	Departure tax	36.07
	Total Expenses	449.79
	Repayment	
	Accountable Advance balance 30 June 2014:	395.21

Name: Les Massey

Position: Training Officer

Signature:

Date:



ACCOUNTABLE ADVANCE



Repayment of any balance unused should be signed for by the receiving officer.

Depending on the amount the money returned may be banked or taken into petty cash & recorded there as a replenishment.



It is not uncommon for an accountable advance to be fully used & redrawn from time to time. In the event it is repaid, the funds must be deposited in the bank account or, where a small amount, it may be used to replenish the petty cash float instead, by following the normal fund replenishment procedure.

ACCOUNTABLE ADVANCE



One final exercise, Activity 2.7.2 comprising:

1. A matching exercise for revision
2. Acquitting an accountable advance

Discussion.



ACTIVITY 2.7.2

ACCOUNTABLE ADVANCE

SECTION A: TRUE OR FALSE

1. Having a petty cash fund reduces the need to draw large cheques.
2. It is normal to top up a petty cash fund once the balance falls below a set a level.
3. The petty cash voucher is the only source document for the accounting records.
4. The value of the vouchers plus the cash held must always equal the “float”
5. An accountable advance is issued to an officer who is personally accountable for its use.

SECTION B: MULTIPLE CHOICE

- 1) In setting up a petty cash float, a business owner does not:
 - a) Approve the use of the float
 - b) Set the float limit
 - c) Determine the expenses to be paid for using the float
 - d) Appoint a custodian
- 2) A recipient of an accountable advance has no obligation to:
 - a) Repay unused funds quarterly
 - b) Keep receipts of spending
 - c) Maintain a record of unspent amount
 - d) Provide periodic reporting
- 3) Which of the following is not a responsibility of the custodian of a petty cash float?
 - a) Periodic audit of the float
 - b) Keeping source documents with vouchers
 - c) Issuing cash in exchange for numbered vouchers
 - d) Reconciling vouchers & cash to float
- 4) An accountable advance can be:
 - a) Fully used
 - b) Repaid
 - c) Redrawn
 - d) All of the above
- 5) Both a petty cash float & an accountable advance is:
 - a) Limited to a set dollar amount
 - b) Kept in a locked container
 - c) Accountable by one individual
 - d) All of the above

SECTION C: ACCOUNTABLE ADVANCE USAGE

Mere works for NGO & has delivered a training workshop in Kiribati from 8 to 10 December 2014. She was given an accountable advance of A\$1,400 on 5 December to cover her workshop expenses there, apart from airfares & accommodation. As the business prepares its financial statements as at end December all advances must be cleared on assignment completion in December.

She incurred the following expenses:

- Venue hire - \$150 per day paid on first day of training
- Catering costs - \$180 per day paid daily
- Vehicle hire - \$75 per day for 5 days paid on 11 December at check out

Complete the following accountable advance usage form ready for lodgment & settlement of the difference.

NGO		
ACCOUNTABLE ADVANCE USAGE FORM		
	Accountable Advance Balance at	
Date	Particulars	Amount
	Total Expenses	
	Repayment	
	Accountable Advance balance at	
Name:		
Position:		
Signature:		
Date:		

This activity ends this Module.

ANSWERS TO ACTIVITIES

Activity 2.7.1

PETTY CASH

Part 1: Matching Exercise

		Term		Definition
j	1	Net assets	a	Business resources consisting of coins, currency, cheques etc on hand or in a bank account
e	2	Internal control	b	Cash position of a business at a point in time
a	3	Cash	c	A cash fund used to pay small amounts
g	4	Current liabilities	d	A form that records business transactions, often standardised
h	5	Profit	e	Safeguards & procedures designed to ensure the accuracy of business records
i	6	Outstanding cheques	f	Estimate of expected results
b	7	Liquidity	g	Balances of short-term obligations owed by a business as at a date
f	8	Financial budget	h	The excess of revenue earned over operating costs during a period
c	9	Petty cash fund	i	Cheques recorded in books of a business but unpaid by the bank
d	10	Source document	j	An amount equal to the value of owner's equity

Part 2: Operating A Petty Cash Book

PACIFIC TOURS				VAT:	9%					
Petty Cash Book										
Receipts	Date	Voucher/ cheque number	Particulars	Payments	Postages	Staff amenities	Fares	Sundry	VAT paid	
\$	2013			\$	\$	\$	\$	\$	\$	
22.45			Cash on hand							
177.55	07-Jun	2276	Cashed cheque							
	08-Jun	208	Taxi	24.80			22.75		2.05	
	10-Jun	209	Staff refreshments	14.00		12.84			1.16	
		210	Express post	15.00	13.76				1.24	
	12-Jun	211	Sales refund	33.35				30.60	2.75	
	14-Jun	212	Coffee	12.00		11.01			0.99	
		213	Express post	12.10	11.10				1.00	
	15-Jun	214	Taxi delivery	26.40			24.22		2.18	
	17-Jun	215	Stamps (20)	12.00	11.01				0.99	
	19-Jun	216	Stationery	30.80				28.26	2.54	
			Sub-total	180.45	35.87	23.85	46.97	58.86	14.90	
	21-Jun		Cash on hand	19.55						
200.00				200.00						
19.55			Cash on hand							
180.45	21-Jun	2430	Cashed cheque							

Activity 2.7.2

ACCOUNTABLE ADVANCE

SECTION A: TRUE OR FALSE

6. Having a petty cash fund reduces the need to draw large cheques. F
7. It is normal to top up a petty cash fund once the balance falls below a set a level. T
8. The petty cash voucher is a source document for the accounting records. F
9. The value of the vouchers plus the cash held must always equal the "float" T
10. An accountable advance is issued to an officer who is personally accountable for its use.
T

SECTION B: MULTIPLE CHOICE

1	c
2	a
3	a
4	d
5	c

SECTION C: ACCOUNTABLE ADVANCE USAGE

NGO		
ACCOUNTABLE ADVANCE USAGE FORM		
	Accountable Advance Balance at 5 December 2014	1,400.00
Date	Particulars	Amount
8-Dec-14	Venue hire 8-10/12	450.00
8-Dec-14	Catering 8/12	180.00
9-Dec-14	Catering 9/12	180.00
10-Dec-14	Catering 10/12	180.00
11-Dec-14	Vehicle hire 7-11/12	375.00
	Total Expenses	1,365.00
	Repayment Attached	35.00
	Accountable Advance Balance at 22 December 2014	0.00
Name:	Mere	
Position:	Trainer	
Signature:		
Date:	22-Dec-14	