

Paul Robbins training and consultancy

Bookkeeping Transactions

Lesson 8 – The Petty Cash Book

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The Petty Cash Book

- Used to record **low value cash payments** which are too small in value to be entered into the Cash Book such as office stationery and refreshments
- Also sometimes used to record **small receipts of cash** into the business such as members of staff paying for private telephone calls
- Administered by the **Petty Cashier** who is responsible for all aspects of the management and administration of the petty cash of a business
- Maximum value of petty cash payments usually limited to approximately £25.

The Role of the Petty Cashier

- Holding the petty cash (usually kept in a locked tin) and ensuring that it does not get lost or stolen
- Checking and approving payments of petty cash according to the petty cash rules for the business and making payments of petty cash
- Entering petty cash transactions in and balancing off the Petty Cash Book
- Reconciling the amount of petty cash held with the balance shown on the Petty Cash Book and dealing with any discrepancies
- Claiming reimbursement of petty cash from the company accountant and passing the Petty Cash Book to them so that financial information can be recorded in the Main Ledger accounts.

The Imprest System

- Most business organisations use the **Imprest System** for their petty cash
- Under the Imprest System the petty cash has a set **Imprest Level**. This is the maximum amount of petty cash that can be held at any one time
- During an accounting period, payments are made out of petty cash which reduces the petty cash balance and sometimes income is received into petty cash which increases the petty cash balance. Overall the petty cash balance at the end of the accounting period will be less than the Imprest Level
- At the end of the accounting period a payment will be made from the bank account to restore the petty cash to its Imprest Level
- A business should review its Imprest Level at regular intervals and if it finds that its Imprest Level is insufficient then it should increase it.

The Imprest System – Example

| | (£) |
|---|-----------|
| Imprest Level at start of this period | £150.00 |
| <u>Less</u> Total of petty cash expenditure paid during period | (£ 97.00) |
| <u>Add</u> Total of petty cash income received during period | £ 5.00 |
| Petty cash held at end of this period | £ 58.00 |
| <u>Add</u> Receipt from bank account to restore Imprest Level | £ 92.00 |
| Imprest Level at start of next period | £150.00 |

Petty Cash Vouchers

- Petty cash vouchers are used to record the details of payments made from petty cash and provide evidence of the transaction. These should contain:
- The date, details and amount of expenditure incurred
- The signature of the person claiming reimbursement and receiving the cash
- The signature of the person authorising the payment to be made
- The number of the petty cash voucher (which should be sequential)
- An attached receipt or other appropriate evidence of expenditure having been incurred.

Analysed Petty Cash Book

- The credit (payments) side of the Petty Cash Book will be analysed into various columns e.g. Administrative Expenses and Refreshments
- Each business will decide exactly how to analyse its petty cash payments
- However, since many petty cash expenses include VAT, it is essential that there is a VAT column so that total expenditure can be analysed to show the net and VAT amounts. This is so that a business can reclaim Input VAT on this expenditure
- Often till receipts do not show net and VAT amounts separately, so the Petty Cashier would **need to split out the gross amount using the VAT fraction**
- In your exam it is almost certain that you will be told which items include VAT and how to treat individual expenses in respect of VAT.

Types of Petty Cash Book

- A business can either operate an Integrated or Non Integrated Petty Cash Book
- An **Integrated Petty Cash Book** is where the Petty Cash Book is **both** the Book of Prime of Entry for recording petty cash transactions and the 'T' account for Petty Cash in the Main Ledger
- A **Non Integrated Petty Cash Book** is where the Petty Cash Book is **only** the Book of Prime Entry for recording petty cash transactions. In this case the business needs to use a separate **Petty Cash Control Account** in the Main Ledger.

Posting the Analysis Columns

- Whether or not the business uses an Integrated or Non Integrated Petty Cash Book, the analysis columns on the credit (payments) side of the Petty Cash Book must be transferred to the relevant Main Ledger accounts:
- For **expense columns** (e.g. Office Expenses or Travel Expenses) we would need to **debit the relevant expense account**
- For the **VAT column** we would need to **debit the VAT Control Account** as this is Input VAT which can be reclaimed from HMRC
- **To reimburse the Petty Cash Book to the Imprest Level we need to:**
- **Debit** – Petty Cash Book (or Petty Cash Control Account)
- **Credit** – Cash Book / Bank