

Financial management

Section seven Petty cash

7.1 What is petty cash and why do you need it?

Petty cash is the name given to systems and procedures for making small payments in cash. Most organisations need to have a small amount of cash available to pay for items like volunteers' travel expenses, photocopying (if this is done in a local shop, for example) and stamps. However, there is a tendency for organisations, particularly smaller ones, to rely too heavily on the use of cash. It is therefore necessary to set some 'ground rules', or rules agreed by everyone in your organisation, as a fundamental part of any petty cash system. These should be incorporated into your organisation's written financial regulations (see **Section one** on **financial controls**).

7.2 Six 'ground rules' for an effective petty cash system

1. Petty cash should only be used for a limited number of budget headings, and only where it is really not possible to use a cheque. Each time you think about using petty cash, you should ask yourself if you could use a cheque instead. For example, rather than buying £10 worth of postage stamps every two weeks, why not buy 100 stamps, pay by cheque and store them in the petty cash box? If you always use the photocopier in the local shop, ask them if it would be possible to open an account and pay at the end of each month.
2. Set a maximum amount for payments by petty cash. You should not be making £70 payments from the petty cash box, and if a shop or supplier refuses to accept a cheque for this amount, then change your supplier.
3. **One** person should ideally be in charge of the petty cash box, which should be kept locked and secure. The more people there are with access to the petty cash, the harder it will be to regulate and control.
4. Petty cash is for reimbursing expenses and making purchases in line with the budget, and as such is no different to payments made by cheque. It should never be used to make short term loans.
5. Only cash drawn from the bank, under the petty cash system, which will be explained below, should be used as petty cash. Cash received from any other source should be kept separate from petty cash and banked immediately.

6. A petty cash voucher (books of vouchers are available at most stationers, such as WH Smith) should be completed and signed for every payment from the petty cash box at the time the cash is taken.

Payments by cheque are relatively easy to trace and regulate. There will be an entry in the cash paid analysis book, a record on the cheque stub and an entry on the bank statement. This is the main reason why cheque payments are preferred. When a payment is made by cash, however, it is much more difficult to trace, and it is therefore necessary to have in place a reliable system for monitoring and controlling petty cash. There are a number of systems, but the one most suitable for RCOs is the **Imprest system**.

7.3 Imprest petty cash system

Under this system, your organisation (that is, your management committee (MC), on guidance from your treasurer) decides on an amount of petty cash (the float – see **Section eleven** for the glossary of financial terms) that will cover your cash purchases each month. It is important not to set the amount too high, since you do not want large amounts of money being stored in the office. You might find it difficult to decide on an amount when first setting up the system, but if you think about what the petty cash will be used for (such as volunteers' expenses), it will make it easier.

The amount decided on (let us say £50) is withdrawn from the bank account and placed in the petty cash box. Every time cash is taken out of the box, a petty cash voucher is completed, detailing who has received the money and what it is for. The voucher is then signed by the recipient and by the person authorising the payment, and placed in the petty cash box.

Receipts or sales tickets (or photocopies of travelcards in the case of volunteers' expenses) should always be obtained for petty cash payments, and these should be stapled to the back of the petty cash voucher.

The information from the petty cash vouchers should be entered into the petty cash analysis book on a regular basis, usually weekly, by the treasurer or another designated person, and the vouchers filed.

At the end of each month, the treasurer should calculate the totals in the petty cash analysis book and check that the amount remaining in the cash box corresponds to the amount that should be remaining from the bank withdrawal at the beginning of the month. If the amounts do not agree, s/he should try to establish the reason – it may be that someone forgot to fill in a voucher.

At the end of each month, the amount spent through petty cash (for example, £46) is withdrawn from the bank and added to the cash remaining in the petty cash box, bringing the amount in the box back to the original level of the float, £50 in our example. This means that at the beginning of each month there should be the same amount in the petty cash box.

There is a sample 'petty cash analysis book' using the Imprest system, in **figure 7** below.

Figure 7 – Sample petty cash analysis book

Receipts				Payments							
Date	Details	Chq No	Amount	Date	Details	Voucher number	Total	Travel & Training	Stationery & copying	Postage	Other Expenses
3/4/XX	Cash from bank	001	50.00	4/4/XX	D. Clarke - travel	001	10.00	10.00			
				14/4/XX	D Lang - photocopying	002	8.50		8.50		
				20/4/XX	coffee, tea, etc	003	6.76				6.76
				21/4/XX	Postage	004	9.20			9.20	
					Total expenses	c/c	34.46	10.00	8.50	9.20	6.76
				30/4/XX	Balance	c/down	15.54				
			<u>50.00</u>				<u>50.00</u>				
1/5/XX	Balance	b/down	15.54	20/5/XX	J. Tambo - travel	005	16.00	16.00			
2/5/XX	Cash from bank	012	34.46	27/5/XX	Tea, coffee, etc	006	4.50				4.50
				30/5/XX	Postage	007	14.78			14.78	
					Total expenses	c/c	35.28	16.00		14.78	4.50
				31/5/XX	Balance	c/down	14.72				
			<u>50.00</u>				<u>50.00</u>				
1/6/XX	Balance	b/down	14.72	5/6/XX	R Kid Stationers	008	7.65		7.65		
1/6/XX	Cash from bank	029	35.28	15/6/XX	Postage	009	2.70			2.70	
				16/6/XX	D Lang - Photocopying	010	7.50		7.50		
				23/6/XX	J. Tambo - travel	011	18.50	18.50			
					Total expenses	c/c	36.35	18.50	15.15	2.70	
				30/6/XX	Balance	c/down	13.65				
			<u>50.00</u>				<u>50.00</u>				
30/6/XX	1st Quarter										
	Cash from bank		119.74		Expenses	c/c	106.09	44.50	23.65	26.68	11.26

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