Cash management module

Module objective

By the end of this module, you will understand cash flow dynamics and implement secure handling practices.

- Differentiate between cash and digital payments
- Effectively manage accounts receivable and payable
- Set up a petty cash system with proper controls
- Forecast cash flow to prevent crises

Key features



Video tutorials



Actionable checklists



Customisable templates



End-of-module quiz



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Separation of business and personal finance

Separating business and personal finances is a foundational step for any successful enterprise, creating a clear, professional, and secure framework. Here's why it's crucial:

Operational Efficiency & Clarity

- Streamlines income and expense tracking for accurate bookkeeping.
- Provides a clear view of financial health for informed budgeting and planning.

Legal Protection & Compliance

- **Protects Liability:** Prevents commingling of funds, strengthening legal protection.
- **Simplified Tax & Audits:** Easier filing, helps **maximise legitimate deductions**, and ensures audit readiness.

Credibility & Growth

- Builds trust with banks, investors, and partners.
- Essential for accessing capital and securing funding.

The bottom line: Financial separation is a simple but powerful step. It saves time, reduces risk and builds a foundation of trust and professionalism that every startup or organisation needs to succeed.

Understanding cash flow and its importance

Cash flow is simply the movement of money both in and out of your business. It is the lifeblood of any organisation; a company can be profitable on paper but still fail overnight if it runs out of cash. Managing it well ensures your business has the money it needs to operate, grow, and build trust with lenders and investors.

Cash flow components

Type	Operating activities	Investing activities	Financing activities
Cash inflows	Cash received from sales of goods and services	Cash received from the sale of assets or investments	Cash received from loans, equity financing, or financial instruments
Cash outflows	Cash paid for expenses such as salaries, rent, utilities	Cash spent on purchasing assets or investments	Cash paid for loan repayments, dividends, or interest

Without actual cash moving in and out of your business in a healthy, predictable way, survival becomes tough and growth even tougher.

Effective cash management allows Organisations to breathe through hard times and sprint toward opportunities when they arise.

Note cash flow is not the same as profit

It's easy to assume that being profitable means your business is financially healthy, but that is not true. Let's be clear: **cash** refers to the actual money you have in your bank account or in hand. And **cash flow**, the movement of this money in and out of your business and this is more critical than profit. Why?

Profit

What's left after subtracting expenses from revenue on paper

Includes non-cash items like depreciation

Includes sales made on credit

Cash flow

The actual movement of cash in and out of your business

Tells you whether you have the money *right now* in your bank or at hand to pay bills

Critical for paying employees and suppliers on time

Example: You sell goods worth **$ 500,000** to customers on 30-day credit. Your records show a profit, but you haven't received any cash yet. Meanwhile, your rent, salaries, and supplier payments are due.

For large companies, delayed cash might not hurt but for those with tight margins and limited reserves, this gap can cause serious cash shortages even lead to closure.

That's why organisations must manage cash flow proactively, even if they're making a profit.

Cash flow anatomy

The movement of money through your business follows a predictable pattern:

1

Cash inflows (money coming in)

These are the sources of money entering the business:

- Sales revenue (from products or services)
- Loans (from banks or financial institutions)
- Owner's capital (money invested by the business owner)

2

Cash available

This is the total cash the business has after receiving all inflows. It forms the base for daily operations, investments, or repaying debts.

3

Cash outflows (money going out)

These are the ways money leaves the business:

- **Operating expenses** (e.g., inventory, salaries, rent, utilities)
- **Investments** (e.g., purchasing new equipment, business expansion)
- **Debt repayments** (e.g., paying off loans and interest)

4

Net cash flow

This is calculated by subtracting total cash outflows from total inflows:If inflows > outflows → **Positive cash flow**If inflows < outflows → **Negative cash flow**

5

Decision point

Based on the net cash flow:**If positive**: Reinvest in the business or save the surplus for future needs.**If negative**: Review expenses, delay investments, or seek additional financing.

Why cash flow management is important

Cash flow is vital for any organisation, especially for those operating with limited resources and greater financial exposure. It's crucial for survival, growth, and stability, going beyond just sales or profitability. Here's why:

1 Survival and emergency readiness

Ensures liquidity to pay bills, salaries, and suppliers, preventing insolvency and bankruptcy. Cash reserves provide a crucial buffer for emergencies like equipment breakdowns or economic downturns.

2 Growth and investment

Positive cash flow enables reinvestment in growth (marketing, Research and Development, equipment) without relying heavily on debt. Consistent cash flow signals financial health, attracting investors and lenders.

3 Risk mitigation

Cash reserves help navigate market volatility, supply chain disruptions, and inflation. Effective cash flow management prevents over-leveraging and reduces the need for high-interest debt.

4 Compliance and credibility

Ensures compliance with tax obligations and transparent financial reporting. Accurate cash flow statements build credibility and trust with investors, suppliers, and customers.

5 Strategic decision-making

Cash flow forecasts inform data-driven strategic choices, such as prioritising investments, hiring, or cost-cutting.

Are you facing cash flow or profitability issues?

1

Assess current financial situation

Are you able to pay your bills on time?

- **Yes**: Proceed to question 2.
- **No**: You are likely facing a **cash flow issue**.

2

Evaluate revenue streams

Are your sales increasing?

- **Yes**: Proceed to question 3.
- **No**: You may have a **profitability issue**.

3

Analyse expenses

Are your expenses exceeding your revenue?

- **Yes**: You are likely facing a **profitability issue**.
- **No**: Proceed to question 4.

4

Review cash reserves

Do you have sufficient cash reserves to cover unexpected expenses?

- **Yes**: You may be facing a **temporary cash flow issue**.
- **No**: You are likely facing a **cash flow issue**.

5

Consider payment terms

Are your customers paying on time?

- **Yes**: Proceed to question 6.
- **No**: You may have a **cash flow issue**.

6

Examine profit margins

Are your profit margins healthy?

- **Yes**: You are likely in a stable financial position.
- **No**: You may have a **profitability issue**.

Identifying and solving common cash flow bottlenecks

Late customer payments

Clients delay payments, straining liquidity.

Solutions: Enforce stricter terms, offer early payment discounts, automate reminders, or switch to upfront billing.

High overhead costs

Fixed expenses drain cash, especially during low-revenue periods.

Solutions: Renegotiate contracts, outsource non-core tasks, or adopt lean operations (e.g., remote work, energy-saving measures).

Excess inventory

Cash tied up in unsold stock or raw materials.

Solutions: Just-in-Time (JIT) inventory, liquidate slow-moving items, accurate demand forecasting.

Seasonal demand swings

Revenue peaks/troughs create cash gaps.

Solutions: Build cash reserves, secure line of credit, diversify offerings.

Overinvestment in growth

Expanding too fast outpaces revenue.

Solutions: Phase growth, lease equipment, focus on high-margin products.

Unexpected Expenses

Emergencies disrupt cash flow.

Solutions: Maintain emergency fund, secure business insurance, use sinking funds.

Poor Forecasting

Lack of future cash visibility causes crises.

Solutions: Implement 13-week rolling forecast, monitor Key Performance Indicators (Days Sales Outstanding, Operating Cash Flow Ratio).

Resource checklist

Take control of your cash flow ! Download our cash flow killer checklist to manage and solve cashflow bottlenecks.

Cashflow Killers Checklist:

STEPS	DESCRIPTION
Poor Inventory Management	Keeping too much stock that ties up cash
	Not tracking inventory turnover regularly (Monthly/Quarterly)
	Slow-moving or obsolete products piling up
Overdue Customer Payments	Allowing long credit periods without proper controls
	Failing to follow up on unpaid invoices
	Not checking customer creditworthiness before selling on credit

Click here to download cashflow killers checklist

Seasonal cash flow fluctuations can cripple organisation without a plan

Many organisation experience **seasonal highs and lows.** Without proper planning, busy seasons lead to overspending without setting aside reserves and quiet periods bring cash shortages, missed payments, and stalled operations. Plan for slower seasons and peak periods by analysing past cash trends and building a reserve during good months.

Steps for seasonal cash flow planning:



Map your cash flow trends

Use past data to identify busy and slow periods.



Build a cash reserve

During peak seasons to cover the lean times.



Delay non-essential spending

When low seasons approach.



Negotiate supplier terms

To align with your cash availability.



Offer early payment incentives

To customers to improve collections.

Tips for easier cash flow management complaince



Real-time tracking

Ditch spreadsheets. Use tools like QuickBooks or Xero.



Monthly reconciliation

Match bank statements to books. No exceptions.



Document everything

Unlogged cash = red flags. Paper trails win audits.



Forecast religiously

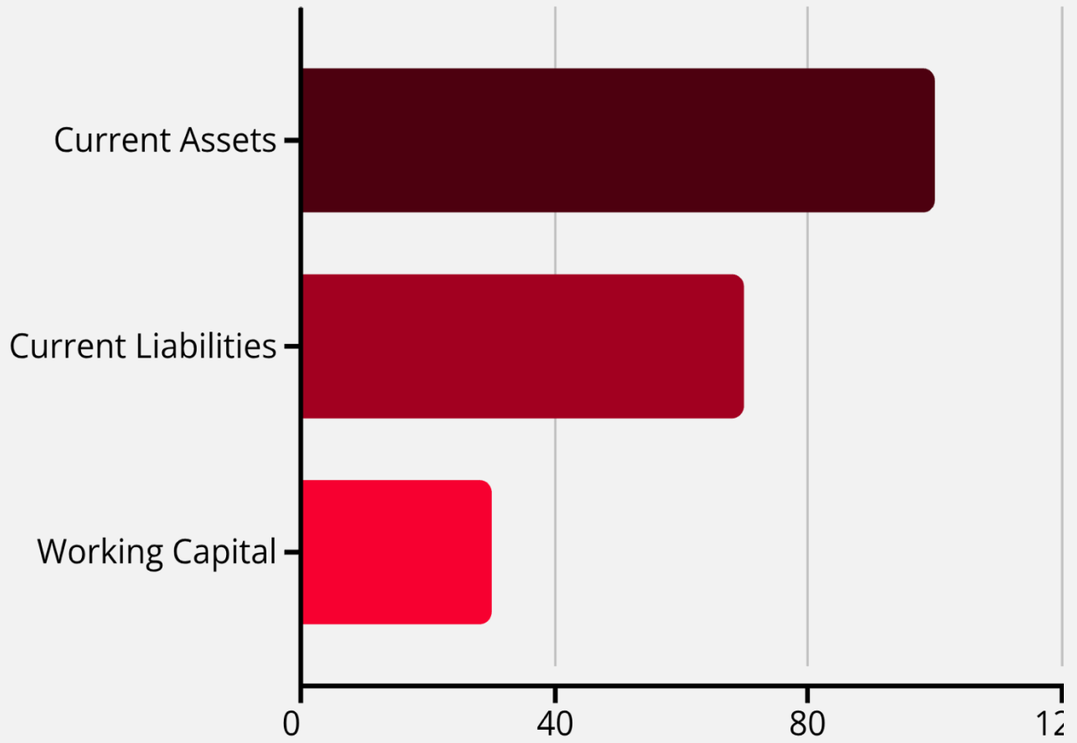
Know your cash position three, six, 12 months ahead.

Working capital and debt management

What's working capital (Can I pay my bills?)

Working capital = What you own (short-term Assets) – What you owe (short-term Liabilities).

- Current Assets
  - Cash
  - Money customers owe you (Accounts Receivable)
  - Inventory
- Current Liabilities
  - Bills you gotta pay
  - Short-term loans



Working capital formula: Current Assets - Current Liabilities

Positive working capital: Indicates the company can meet short-term obligations. **Negative working capital:** Suggests potential liquidity issues.

Managing working capital like a boss

Supercharge your cash inflow

- Send polite reminders, then get serious and follow up
- Offer discounts for early payments (e.g., "two percent off if paid in 10 days!").
- Stock just enough, no one needs one thousand unsold fidget spinners.

Delay outflows

- Negotiate better terms with suppliers (60 days instead of 30)
- "Hey Supplier, can I pay in 60 days instead of 30?"
- Build good relationships
- Use credit cards and short-term loans wisely
- Good: Using a zero percent introductory Annual Percentage Rate card for emergencies.
- Bad: Maxing out cards at 25% interest (RIP profits).

Key working capital metrics to monitor

Working capital is essentially current assets and current liabilities and so are the metrics

Current ratio

"Can we cover bills if sales slow down?"

Current assets / current liabilities

✅ Safe: Above 1.5 ⚠️ Risk: Below one (more debts than cash)

Example: $50,000 in assets ÷ $30,000 debts = 1.67 (Good cushion)

Quick ratio

"Could we pay bills TODAY without selling inventory?"

(Cash + receivables) /current liabilities

✅ Strong: Above one ⚠️ Danger: Below 0.5

Example: ($10,000 cash + $15,000 receivables) ÷ $30,000 debts = 0.83

→ Needs improvement (can't cover all bills immediately)

Inventory turnover

"Is our stock collecting dust?"

Cost of goods sold / average inventory

✅ High number: Selling fast (good!) ⚠️ Low number: Stock sits too long (ca

Example: $100,000 annual sales ÷ $20,000 average inventory = 5x/year

→ Sells out inventory every 2.4 months (decent!)

Days sales outstanding (DSO)

"How long until customers pay us?"

(Accounts receivable / total credit sales) × days in period

✅ Under 30 days: Great! ⚠️ Over 60 days: Hurting cash flow

Example: ($15,000 owed ÷ $180,000 annual credit sales) × 365 = 30.4 days

→ Customers pay within ~one month (ideal!)

Tips

Calculate these ratios monthly using your accounting software.

Red flags? Fix them fast:

- Chase late payments,negotiate longer supplier terms or sell old inventory

Debt structuring: Don't dig a money pit!

Smart debt structuring

- Match debt to need:
  - Short-term debt (like a line of credit) for daily operations.
  - Long-term debt (bank loan) for big investments (machinery, expansion).
- Avoid loan sharks and crazy interest:
  - Compare interest rates and terms before borrowing.
  - Explore alternative funding sources when traditional rates are unfavourable

Incremental paydown method

The "snowball method"

- Pay off the smallest debt first
- Apply freed-up payments to subsequent debts

Interest rate optimisation method

- Attack the highest-interest debt first

Refinance if you can

- Consider refinancing existing debt if lower rates are available
- Maintain strong credit standing to access favourable terms

Ready to transform your debt management? Take action by using our **Working capital health checklist**

Link: for more information https://corporatefinanceinstitute.com/resources/accounting/working-capital-cycle/

Forecasting to avoid cash flow crises

Cash flow tracking is the financial equivalent of an organisation's vital signs monitoring system. Just as physicians track pulse and blood pressure to assess health, business owners must monitor cash inflows and outflows to diagnose financial wellbeing.

Implementation framework:

Daily

Record all transactions in accounting software

Weekly

Review outstanding receivables and upcoming payables

Monthly

Reconcile with bank statements and adjust forecasts

Using past financial data to predict future cash needs

01

Gather historical data

- 12-24 months of bank statements
- Sales and expense reports

02

Identify patterns

- Seasonal spikes/dips
- Customer payment delays
- Recurring large expenses

03

Calculate key metrics

Average monthly growth rate = (Current month sales - Previous month sales) / Previous month sales

04

Apply to future periods

- Use moving averages for stable Organisation
- Apply growth rates for scaling Organisation

Scenario planning for unexpected expense

Worst case
- Sales drop 30%
- Key customer delays payment
- Major equipment breaks

Best case
- New client brings 20% more revenue
- Suppliers offer better terms

Most likely case
- Business continues current trajectory

Scenario testing process:

1	2	3	4
Impact assessment	**Trigger identification**	**Response planning**	**Stress testing**
Quantify potential cash flow effect	Establish early warning signs	Develop pre-approved action plans	Simulate multiple simultaneous challenges

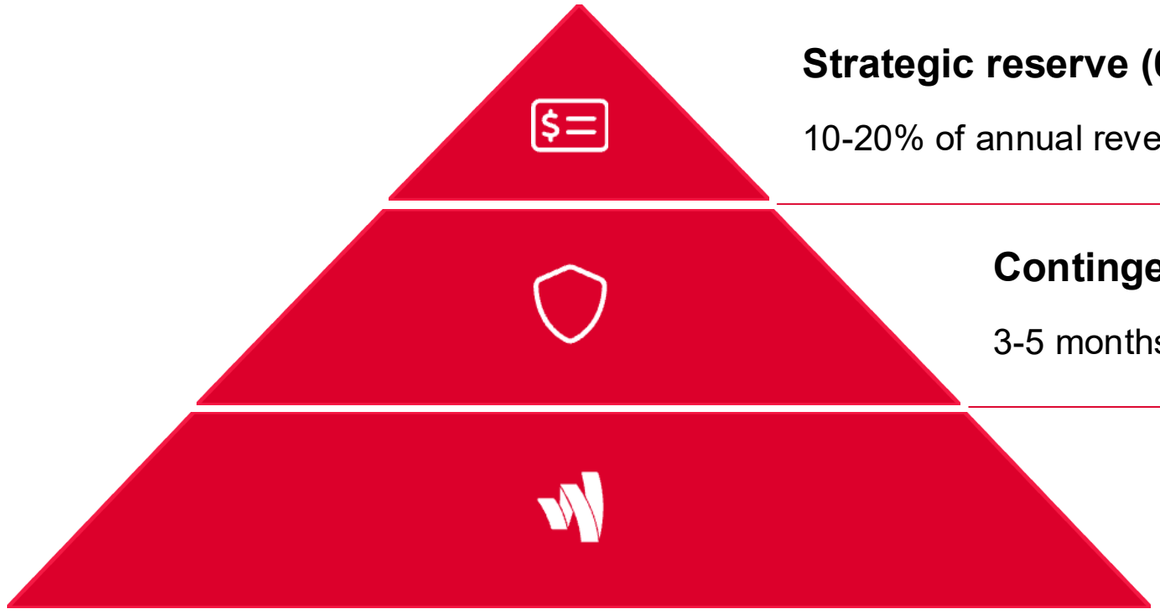
Budgeting for upcoming business obligations

Practical techniques
- Cash flow synchronisation: Align payment cycles with revenue inflows
- Vendor tiering: Classify suppliers by flexibility of terms
- Tax optimisation: Utilise estimated payment strategies

Implementation tools
- Cash flow buffering: Maintain 15-30 day cash cushions for critical obligations
- Payment staggering: Negotiate phased payments for large expenses
- Automated alerts: Set up reminders for all obligation due dates

Building cash reserves: The reserve architecture framework

Building strong financial resilience means having a layered savings strategy. This approach helps you strike the right balance between easy access to funds when you need them and getting good returns on the money you don't need right away.



Strategic reserve (6+ months)

10-20% of annual revenue in short-term bonds/CD ladders for opportunities

Contingency reserve (1-6 months)

3-5 months of fixed costs in high-yield savings for downturns

Operational reserve (0-30 days)

One month of operating expenses in liquid accounts for daily needs

Reserve accumulation strategies:

The one per cent rule

Allocate one per cent of all revenue to reserves

Windfall allocation

Direct 50% of unexpected gains to reserves

Expense swap

When paying off debt, redirect payments to reserves

Integrated cash flow management system

The 90-day implementation roadmap

Month one: Foundation

- Implement daily tracking procedures
- Complete historical data analysis
- Establish baseline forecasts

Month two: Optimisation

- Develop three core scenarios
- Implement obligation calendar
- Open reserve accounts

Month three: Automation

- Set up accounting software integrations
- Establish automated alerts
- Train team members

Continuous improvement

- Monthly forecast accuracy reviews
- quarterly scenario updates
- annual reserve strategy reassessment

This approach helps you move from simply reacting to cash problems to managing cash flow in a smart, strategic way. It brings stability to your business and lays the foundation for growth.

12 Months Cash Flow Forecast template for you to get started

Cash versus digital payments

Understanding the different ways you can send and receive money helps you choose what's best for your business. Each payment type has its pros and cons when it comes to speed, cost, security and record-keeping.

	Cash	Digital payments
Pros	- Immediate settlement - No transaction fees - Universally accepted	- Enhanced security features - Easy tracking and reconciliation - Suitable for remote and online transactions
Cons	- Risk of theft or loss - Difficult to track and reconcile - Not suitable for remote transactions	- Requires internet and digital literacy - Potential transaction fees - Vulnerable to cyber threats

Note that: Cash-heavy businesses face higher theft risks and manual reconciliation work while digital-first organisations benefit from faster settlements and automated records but pay transaction fees.

Trends in digital payment adoption



Mobile wallets

The use of mobile wallets like M-Pesa, online banking and card usage has surged, providing convenient and secure transaction methods.



Online banking

More consumers are embracing online banking and fintech platforms for better record-keeping and speed.



Contactless payments

The adoption of contactless and QR code payments has increased, offering faster and more hygienic transaction options.

Choosing the right payment methods

When selecting payment methods for your business:

Understand your customer base

Assess the preferred payment methods of your target market.

Evaluate costs

Consider transaction fees and setup costs associated with each payment method.

Assess infrastructure

Ensure you have the necessary infrastructure, such as internet connectivity and POS systems, to support digital payments.

Consider security

Implement secure payment systems to protect against fraud and cyber threats.

Managing digital payments

Integrating digital payments into business operations

- Connect your digital payment platforms with accounting software to automate transaction recording
- Ensure employees are trained to handle digital transactions securely and efficiently
- Clearly inform customers about available digital payment options

Record-keeping and reconciliation of digital transactions

- Regularly check digital payment records against bank statements
- Utilise your accounting software to generate transaction reports to simplify reconciliation
- Promptly investigate and rectify any discrepancies found during reconciliation

Simplify your digital payments reconciliation

Download your Digital Payments Reconciliation Template to stay organised and ensure nothing slips through the cracks. Here's how to use it:

Daily (if possible)

Match payment notifications (SMS/email) with the template

Weekly

Confirm all "Pending" transactions have cleared your bank.

Monthly

Reconcile fees with your processor statements.

Reflecting digital payments in financial statements and systems

Accurate Categorisation

- Categorise all digital transactions correctly in your accounting system.
- Create specific accounts for each payment processor (e.g., Venmo Receivables, PayPal Sales, Square Processing Fees).
- Automate categorisation of recurring transactions.
- Avoid recording gross sales without deducting processing fees.

Timely Updates

- Regularly update financial statements to reflect digital transactions (daily/weekly).
- Connect bank feeds to auto-import payments.
- Record income when the sale occurs, not when deposited.

Audit Trail

- Maintain a clear audit trail for all digital payments.
- Document transaction ID, date, customer details, fees, and reason for payment.
- Use accounting software (e.g., QuickBooks, Xero) to automate documentation.

Organise Records for Tax Filing

- Payment processors charge fees on sales.
- Most tax regulators require reporting Gross Sales, not just Net Deposits.
- Document fees separately as they are tax-deductible.

Tip: How to stay "tax ready"

Export monthly reports

Every month, download a transaction summary from your payment apps. Look for:

- Gross sales (total customer payments)
- Fees (what the platform deducted)
- Net deposits (what reached your bank account)

Example (from Stripe/PayPal):

Gross sales	$ 5,000
Fees	$ 150
Net deposits	$ 4,850

Record both in your books

- Income: Report $ 5,000 (Gross sales)
- Expense: Deduct $ 150 (Fees)
- Bank deposit: $ 4,850 (will match your statement)

Save digital copies

Store these reports in a "2025 Taxes" folder (PDF/Excel).

Label clearly: "Jan 2025 - Stripe sales report"

Digital payment best practices for organisations



Automate it

Tools like QuickBooks can sync with payment apps to categorise fees automatically.



Quarterly check

Before submitting tax estimates, reconcile these figures.



Red flag

If your payment provider statement shows higher Gross Sales than you reported, the tax authorities may ask questions!



Separate accounts

Use dedicated business profiles on payment apps like PayPal.



Watch for discrepancies

Compare bank deposits to platform reports (e.g., Shopify vs Stripe).

Foreign exchange management for organisations

Why foreign exchange management matters

Global risk exposure

Global transactions expose organisations to currency risk.

Profit protection

Exchange rate fluctuations can erode profits.

Financial reporting

Proper recording ensures accurate financial reporting.

Recording foreign exchange transactions

- **Exchange rates:** Use the official exchange rate on the transaction date for accurate recording of transactions.
- **Documentation:** Keep records of all foreign currency transactions, including invoices and receipts.

Key terms:



Spot rate

Current exchange rate at transaction time.



Realised gain/loss

Actual profit/loss after currency conversion.



Unrealised gain/loss

Temporary fluctuation (not yet settled).

Steps to record foreign exchange transactions in your accounting software

1

Invoice in foreign currency

- Record sales/purchases at the spot rate on the transaction date.
- Example: Sale of €1,000 at 1.10/€ = £1,100 revenue.

2

Payment received/made

- Revalue the outstanding invoice at the new rate on settlement date.
- Example: If rate drops to 1.05/€ when paid, record a £50 foreign exchange loss (£1,100→£1,050).

3

Journal entries

- Debtors: Adjust for rate changes.
- Foreign exchange gain/loss account: Track impacts on profit.

Reconciling foreign exchange gains/losses

Common scenarios

- Scenario 1: customer pays late and the exchange rate moved.
- Scenario 2: you hold foreign currency in a bank account.

Best practices

✓ Monthly revaluation: update all foreign balances to current rates.

✓ Separate general ledger accounts: track foreign exchange gains/losses for clear reporting.

✓ Software tools: use multi-currency features in Xero/QuickBooks.

Mitigating foreign exchange risk

1

Natural hedging

- Match income and expenses: bill clients in the same currency you pay suppliers.
- Example: an exporter invoicing in $ also buys raw materials in $.

2

Forward contracts

- Lock in rates for future transactions (avoid surprises).
- Ideal for: regular imports/exports.

3

Multi-currency accounts

- Hold foreign cash without converting immediately (e.g. Wise, Revolut).

Foreign exchange best practices

Risk management

Consider using hedging strategies to mitigate foreign exchange risk.

Policy development

Establish clear policies for handling foreign currency transactions.

Expert consultation

Seek advice from financial experts when dealing with complex foreign exchange transactions.

Fort Knox for small businesses: protecting your hard-earned money

Why security matters

Cash

Vulnerable to theft, counterfeit bills and employee mishandling.

Digital payments

Exposed to cyber fraud, chargebacks and phishing.

Impact

Financial losses, reputational damage, legal liability.

Did you know💡? 43 per cent of cyber attacks target small businesses and cash-heavy organisations lose five per cent of revenue to theft annually. Don't be a statistic!

Cash handling best practices



Physical security

Use a safe: Store large cash amounts in a time-delay safe.

Regular deposits: Avoid keeping excess cash overnight.

Dual control: Two employees count and verify cash together.



Employee controls

Background checks: For staff handling cash.

Cash handling policy: Define limits, procedures and penalties for violations.

Surprise audits: Random cash counts to deter theft.



Counterfeit detection

Ultraviolet lights/marker pens: Check bills for authenticity.

Train staff: Recognise fake currency (for example, mismatched serial numbers, poor print quality).

Download your cash handling checklist

Securing digital payments

Fraud prevention

- Payment Card Industry Data Security Standard (PCI DSS) compliance: If accepting cards, follow security standards.
- Two-factor authentication (2FA): For all payment accounts.
- Monitor suspicious activity:
  - Unexpected refund requests.
  - Multiple failed payment attempts.

Chargeback protection

- Clear descriptors: Ensure customers recognise transactions on statements.
- Keep records: Save invoices, delivery proofs and communication.

Cybersecurity

- Secure networks: Never process payments on public wireless fidelity (Wi-Fi).
- Software updates: Patch point of sale (POS) systems and accounting tools regularly.

Internal controls for all payments



Separation of duties

Different employees: Handle transactions, reconciliation and approvals.



Audit trails

Log all adjustments: Who made changes, when and why.



Employee training

Quarterly workshops: Cover new fraud tactics and security updates.

Action plan for organisations

Implement controls

Start with the easiest fixes (e.g., daily deposits, two-factor authentication (2FA)).

Monitor and improve

Review incidents monthly.

Introduction to petty cash management

Definition and purpose

Petty cash is a small amount of discretionary funds for minor business expenses (e.g., office supplies, staff refreshments).

Why it exists:

- Avoids cumbersome procurement for small purchases
- Covers urgent/incidental expenses
- Reduces administrative burden

Petty cash = number one target for "minor" employee theft

Unmanaged systems lead to "death by a thousand cuts" cash leaks

Reality check🚨: "60% of petty cash fraud goes undetected for over a year"

(Association of Certified Fraud Examiners)

Core components of petty cash management

Dedicated petty cash log

Best practises:

- Use a pre-numbered voucher system (sequential tracking)
- Log every transaction in real-time (no backdating)
- Record: Date, amount, purpose, recipient name + approver signature

Regular reconciliation

Process:

1. Weekly: Custodian verifies cash + receipts = float
2. Monthly: Finance team audits 100% of transactions

Red flags:

- Missing sequential vouchers
- Receipts without business purpose

Approval processes

Workflow:

Employee request → Manager approval → Custodian dispenses → Receipt submitted

Click here to download your reconciliation checklist

Click here to download your petty cash register excel template

Setting up a petty cash framework



Step 1: Determine fund size

Start by estimating how much cash your team needs to cover regular, small expenses without frequent replenishment.

1. Track one month of small expenses
2. Calculate average weekly spend
3. Set float at four times weekly average plus 10% buffer

Example: if average weekly petty spend = £100 → float = (£100 × four) + (10% × £400) = £440



Step 2: Assign a custodian

Appoint a trusted employee to manage the fund. Choose someone organised, honest, and trained in basic record-keeping.

Custodian's responsibilities:

- Disburse petty cash and keep supporting receipts
- Maintain the petty cash book or voucher log
- Request replenishment when funds run low
- Reconcile regularly with the accountant/finance team

Setting up a petty cash framework continued

Step 3: Usage guidelines

Define what petty cash can and cannot be used for. This avoids misuse and ensures proper categorisation.

Examples of allowed expenses:	Not allowed:
Office tea/coffee/sugar	Salary advances
Minor transport (e.g., fare to the bank)	Personal expenses
Small office supplies	Personal loans
	Large purchases

Step 4: Replenishment procedures

Petty cash should be replenished systematically, based on actual usage and supporting documentation.

Step-by-step replenishment process

1. **Monitor balances** - Only replenish when 80% depleted
2. **Summarise expenditures** - The custodian prepares a summary of all expenses since the last replenishment, supported by receipts/vouchers.
3. **Verify and approve** - The accountant or finance reviews and verifies the documentation for accuracy and compliance before reimbursement.
4. **Reimbursement request** - A petty cash replenishment form is filled and approved by management.
5. **Cash replenishment** - The approved amount is withdrawn and given to the custodian to restore the fund to its original float.
6. **Record the replenishment** - Both the journal and the cashbook should be updated to reflect the replenishment.

Petty cash frequently asked questions

Still have questions about managing petty cash?
Our comprehensive FAQ section has answers to common questions about fund limits, documentation requirements, and best practices.

Discover practical solutions to your most pressing petty cash management challenges:

Click to here to explore our petty cash FAQs

Bank reconciliation: the silent cash flow guardian

Cash flow leaks often start with one unchecked number, a missed transaction, an unrecorded fee, or a deposit that never cleared. Bank reconciliation isn't just accounting busywork; it's your first line of defence against financial errors, fraud, and compliance risks.

The golden rule: your accounting records should mirror your bank statements.

Bank balance

The actual amount of funds available in your bank account.

Book balance

The amount you've recorded in your internal accounting records or software.

The goal of reconciliation

To align both balances by identifying and resolving timing differences and unrecorded transactions, ensuring accuracy and preventing financial discrepancies.

If your balances don't match, you're either losing money or missing opportunities to collect.



Identifying discrepancies and correcting errors

Reconciling your financial records regularly helps you spot mistakes, misstatements, or unusual activity before they snowball into bigger problems.

Whether it's a typo, a missing transaction, or a fraudulent entry, identifying and correcting errors early protects your business from financial loss, tax penalties, and poor decision-making.

Why it matters

Mistakes happen

Banks make mistakes (duplicate charges, misapplied payments), your team makes mistakes (transposed numbers, forgotten entries).

Discrepancies signal problems

When your records don't match the bank statement, it could point to cash leaks, duplicate payments, or delayed deposits.

Supports tax and audit compliance

Provides a clear audit trail for regulators and investors.

What to look out for:

- **Missing or duplicated transactions**
- **Incorrect amounts recorded in your books**
- **Transactions in the wrong accounts or periods**
- **Unrecorded bank charges or interest income**
- **Fraudulent or unauthorised activity**

How to correct errors

1

Compare records

Line up your cashbook or accounting software against your bank statement.

2

Investigate mismatches

Check source documents (invoices, receipts, payment slips) to find the root cause.

3

Adjust entries

Correct the errors in your records using proper accounting entries and document the changes.

4

Flag recurring issues:

If a certain type of error keeps happening, review your internal process to fix the root cause.

Step-by-step bank reconciliation process map

Step 1: Gather documents

- Bank statement (from the bank)
- Organisation's cash book/ledger (internal records)
- Previous reconciliation report (if applicable)

Step 2: Compare deposits and withdrawals

- Match each transaction in the bank statement with the organisation's records.
- Tick off matching entries.

Step 3: Identify and record discrepancies

- Check for discrepancies such as:
- Outstanding cheques (issued but not yet cashed)
- Deposits in transit (recorded by the organisation but not yet by the bank)
- Bank fees and interest (recorded by the bank but not yet in books)
- Errors (duplicate entries, wrong amounts)

Step 4: Adjust the cash book

- Add or deduct discrepancies to align with the bank statement.
- Example:
- Bank charges not recorded → Deduct from book balance.
- Interest earned → Add to book balance.

Step 5: Prepare the reconciliation statement

Download an adjustable bank reconciliation template here

Step 6: Verify and finalise

- Ensure adjusted balances (i.e., book and bank balances) match.
- Investigate any remaining discrepancies.
- Document reconciliation for audit purposes.

Reconciliation best practices

1

Reconcile frequently

At least monthly (weekly for high-transaction businesses).

2

Use accounting software

Tools like QuickBooks, Xero or Wave automate matching.

3

Segregate duties

Different employees should handle recording and reconciliation.

4

Keep documentation

Maintain records for audits and compliance.

5

Investigate unusual items

Unexpected fees or missing deposits may indicate fraud.

Reconciliation tools: step-by-step guides

QuickBooks Online

1. Go to accounting → reconcile
2. Select account → enter statement date/ending balance
3. Tick off matching transactions → resolve any uncleared items
4. Click finish now when difference = £0

Xero:

1. Go to accounting → bank accounts
2. Click reconcile next to account
3. Match transactions side-by-side with statement
4. Use 'discuss' tab to flag unclear items
5. Click reconcile when balanced

Odoo:

1. Go to accounting → banking
2. Select the bank account you want to reconcile.
3. Click "match" or "reconcile": Odoo auto-suggests matches based on transaction history.
4. Manually match unmatched items (drag-and-drop or select from suggestions).
5. Use the "create" button to manually add missing transactions.
6. Add notes for unclear items (e.g., "pending investigation").
7. Click "validate" once balances match.

Video tutorials:



Watch now: master Odoo bank reconciliation in five minutes



Click to learn: QuickBooks Online reconciliation made easy



Start here: Xero bank rec tutorial for beginners

Cash management module resources

Access these comprehensive resources to enhance your understanding and implementation of effective cash management practices.



Checklists

Step-by-step guides to ensure you're following cash management best practices and compliance requirements.



Templates

Customisable documents for cash flow forecasting, reconciliation reports, and cash position summaries.



Links and video tutorials

Access supplementary learning materials and expert demonstrations of key cash management techniques.



Quiz

Test your knowledge of cash management principles

Checklists

Working Capital Health Checklist:

STEPS	DESCRIPTION
Cash Flow Management	Maintain at least 3 months of operating cash reserves
	Prepare monthly cash flow forecasts
	Send invoices immediately and follow up on late paymer
	Take advantage of early payment discounts from supplie
	Monthly review inventory levels

Click here to check working capital health checklist.

Cash Handling Checklist:

STEPS	DESCRIPTION
Verify Safe/Lockbox	Check for tampering before unlocking
	Ensure only authorized staff have access
Count Starting Float	Two employees witness count (dual control)
	Document starting amount in logbook/software

Click here to download cash handling checklist

Cashflow Killers Checklist:

STEPS	DESCRIPTION
Poor Inventory Management	Keeping too much stock that ties up cash
	Not tracking inventory turnover regularly (Monthly/Quarterly)
	Slow-moving or obsolete products piling up
Overdue Customer Payments	Allowing long credit periods without proper controls
	Failing to follow up on unpaid invoices
	Not checking customer creditworthiness before selling on credit

Click here to download cashflow killers checklist

Templates

Monthly Petty Cash Audit Checklist:

STEPS	DESCRIPTION
Schedule Audit	Conduct unannounced (surprise) audit
	Assign auditor independent of petty cash handling
Gather Documents	Petty cash logbook/register
	Previous month's audit report

Click here to download monthly petty cash audit checklist

Petty Cash Register Template

Summary Dashboard

Metric	Value
Starting Balance	$200.00
Total Expenses	$27.50
Current Balance	$172.50
Unreceipted Expenses	0

Click here to download petty cash register template

Petty cash FAQs: A guide for organisations

1. Fundamental Questions

Q1: What is petty cash and what is it used for?

A: Petty cash is a small amount of discretionary funds (typical business expenses where checks or cards are impractical.

✅ Common Uses:

Click here to download petty cash FAQs: A guide for organisations

Links and video tutorials

Access these valuable resources to deepen your understanding of cash management principles and tools.

Articles & Guides

Understanding the working capital cycle

Learn how to optimise your business's cash conversion cycle.

Video Tutorials

- Bank reconciliation | Odoo accounting
- QuickBooks online: How to reconcile your bank
- Xero bank rec – beginner tutorial

Step-by-step video guides for reconciling accounts in popular accounting platforms.

Bookmark these resources for quick reference during your cash management implementation.