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 (typically 50−500) used for minor business expenses where checks or cards are impractical.

✅ Common Uses:

- Office supplies (pens, staplers)
- Employee refreshments (coffee, snacks)
- Urgent small purchases (taxi fares, postage)

🚫 Not For:

- Employee loans
- Large purchases (>1% of float)

Q2: Why is it called "petty" cash?

A: The term originates from the French petit ("small"). Historically used since 1678 (Benjamin Billingsley's housekeeping guide) for insignificant purchases.
Modern Translation:
"Petty" = Minor operational expenses

Q3. Should I record petty cash in my accounting system?

Absolutely. Even small expenses affect your financial records. Petty cash should be tracked, reported, and reconciled just like any other account.

Q4: Is petty cash considered a cash equivalent?

A: No , It's actual physical cash (bills/coins). However, it's reported under "Cash and Cash Equivalents" on balance sheets.
Key Difference:

- Cash Equivalents: Liquid assets (T-bills, money market funds)
- Petty Cash: Physical currency in a locked box

2. Day-to-Day Management

Q5. Do I need receipts for every petty cash transaction?

Yes. Every payment, no matter how small, should be supported by a receipt or petty cash voucher. This maintains transparency and accountability.

Q6: What's the best way to track petty cash?

A: Use a 3-part system:

1. Numbered vouchers for every withdrawal

2. Digital log (Excel/accounting software)
3. Receipts taped to corresponding vouchers

Q7: How often should we reconcile petty cash?

✓ Weekly: Custodian verifies cash + receipts = float

✓ Monthly: Formal audit by finance team

🚨 Red Flags:
- Missing sequence numbers in vouchers
- Illegible receipts

3. Troubleshooting

Q8: What if the cash and records don't match?

Follow this 5-step investigation:
1. Recheck math in log
2. Verify all receipts are attached
3. Confirm no duplicate vouchers
4. Interview staff about unlogged transactions
5. If theft suspected, review camera footage

Q9: How do we replenish petty cash properly?

1. Collect all spent vouchers + receipts
2. Verify expenses are business-related
3. Prepare check/cash for exact spent amount
4. Record in General Ledger:
    - Debit expense accounts
    - Credit petty cash account

4. Security & Compliance

Q10: How can we prevent petty cash theft?

A: Implement the "LOCK" System:
- Limit access to 2 staff members
- Outline clear spending rules
- Conduct surprise audits
- Keep cash in tamper-evident box