

This problem provides a tangible, team exercise pertaining to the correct operation of a petty cash fund. Begin by forming a nine-person team consisting of four employees, a banker, a petty cash custodian, a treasurer, an accountant, and an auditor.

Step 1

The treasurer will prepare a check to create a \$100 petty cash fund, and present this check to the banker who will cash the check. The accountant should record this transaction in the journal.

Step 2

The treasurer will present the cash to the petty cash custodian, and each employee will next present his or her receipts for reimbursement. You may assume presented receipts are legitimate and meet company guidelines.

Step 3

Employee #1, who has not been reimbursed by the fund for any expenses, will reconcile the petty cash account in the presence of the petty cash custodian. The employee will inform the treasurer of the amount needed for reimbursement. The treasurer will prepare a check for reimbursement and to increase the total petty cash fund to a balance of \$150. The treasurer will present the check to the bank and provide the funds to the petty cash custodian. The accountant should record this activity in the journal.

EMPLOYEE # 1 Your objective is to be sure that receipts plus cash equal the \$100 fund amount. You should observe the petty cash custodian perform the count. It would be a bad practice for you to actually touch the money since you would then be a "suspect" in any shortage that might exist. Prepare a memo detailing the results of your review of petty cash. Be sure to include a listing of the expenses incurred by the fund and a statement confirming the remaining cash balance. Present this memo to the treasurer and the accountant.

EMPLOYEE # 2 Clip this receipt and present it to the petty cash custodian for reimbursement. The customer agreed to reimburse Centennial for the overnight delivery cost, so make a prominent notation on the receipt for the accounting department to be sure and bill the customer.

| <i>Overnight Parcel Express</i> | |
|---------------------------------|---|
| <i>Shipment # 579709587</i> | |
| <i>Jan. 15, 20X5</i> | |
| Sender | Centennial Corp. 4648 Westover Rd. |
| Recipient | Broadway Industries 789 Fairway Lane #120 |
| Contents | Overnight package - electronic parts |
| Delivery | Guaranteed by 10 a.m. - recipient signature req'd |
| Amount | \$45.00 |
| Payment | Cash received from customer |

EMPLOYEE # 3 Present the following receipt to the petty cash custodian for reimbursement. This meal was with Arnold Zavier, a key customer. Your meeting with Arnold was to discuss a new product line. Tax rules require that you document the purpose of the meal and the involved persons. Make an appropriate notation directly on the receipt and attach your signature. (Note: As an aside, tax laws place limitations on the deductibility of such costs in determining a company's tax liability.)

| | |
|---|----------------|
| Szechuan Restaurant | |
| <i>Fine food with fun!</i> | |
| Jan. 20, 20X5 | |
| Lunch special (2 @ \$8.75) | \$17.50 |
| Iced tea | 1.75 |
| Hot tea | <u>1.50</u> |
| | \$20.75 |
| Tax | <u>1.60</u> |
| Total | \$22.35 |
| Tip | 3.65 |
| Total Ticket | \$26.00 |
| <p><i>Thank you for dining with us!</i> <i>May good fortune come your way today!</i></p> | |

EMPLOYEE # 4 Present the following receipt to the petty cash custodian for reimbursement. This fuel was to "top off" the tank on a company vehicle prior to sending it out on a lengthy road trip.

| | |
|---------------------------|----------------------------|
| RUN TIME PETROLEUM | |
| 8487 Northwest Highway | |
| Jan. 25, 20X5 | |
| Unleaded regular gasoline | (3 gallons @ \$4) \$ 12.00 |
| | Total \$ 12.00 |

BANKER

Use the following "currency" and pay the checks presented by the treasurer. Be sure the checks are made payable to "cash" and not "petty cash." The treasurer should sign the check on the front and endorse the check on the back.

| | | |
|-------------------------------|----------------------------|----------------------------|
| \$20 TWENTY DOLLARS | \$10 TEN DOLLARS | \$5 FIVE DOLLARS |
| \$20 TWENTY DOLLARS | \$10 TEN DOLLARS | \$5 FIVE DOLLARS |
| \$20 TWENTY DOLLARS | \$10 TEN DOLLARS | \$5 FIVE DOLLARS |
| \$20 TWENTY DOLLARS | \$10 TEN DOLLARS | \$5 FIVE DOLLARS |
| \$20 TWENTY DOLLARS | \$10 TEN DOLLARS | \$5 FIVE DOLLARS |
| \$20 TWENTY DOLLARS | \$10 TEN DOLLARS | \$1 ONE DOLLAR |
| \$20 TWENTY DOLLARS | \$10 TEN DOLLARS | \$1 ONE DOLLAR |
| \$20 TWENTY DOLLARS | \$10 TEN DOLLARS | \$1 ONE DOLLAR |
| \$20 TWENTY DOLLARS | \$10 TEN DOLLARS | \$1 ONE DOLLAR |
| \$20 TWENTY DOLLARS | \$10 TEN DOLLARS | \$1 ONE DOLLAR |

PETTY CASH
CUSTODIAN

Accept the cash provided by the treasurer and reimburse receipts presented by employees. Custodians should maintain a record of activities that includes signatures from employees who receive reimbursement or place funds into the account. Use the following form for this purpose. It is also a good practice to be sure that each receipt is clearly marked with the purpose of the expenditure and to whom reimbursement is made. Mark each receipt as "paid" at the time of reimbursement.

| Date | Item | Amount | Signature |
|------|------|--------|-----------|
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TREASURER

Properly complete the checks and present them to the banker for cashing. Provide the funds to the custodian. It is a good practice to have the custodian sign a "receipt" acknowledging that he or she has accepted the funds.

Centennial Corp.
4648 Westover Rd.

Check # _____
Date: _____

Pay to the order of: _____ \$ _____

DOLLARS

◆ Meridian Bank ◆

MEMO _____

Centennial Corp.
4648 Westover Rd.

Check # _____
Date: _____

Pay to the order of: _____ \$ _____

DOLLARS

◆ Meridian Bank ◆

MEMO _____

I acknowledge receipt of _____ dollars from _____
 for the purpose of establishing or replenishing the petty cash fund over which I am custodian.

Date: _____ Signed: _____

I acknowledge receipt of _____ dollars from _____
 for the purpose of establishing or replenishing the petty cash fund over which I am custodian.

Date: _____ Signed: _____

AUDITOR At the conclusion of this problem, review the procedures and documentation used by your team and identify if there were any errors or irregularities. Do you have any suggestions for improving controls?

Lead your team in a discussion of the importance of a good accounting system. For instance, how would Centennial insure that the shipping costs get billed back to Broadway, how would costs that have unique tax treatment (like the meal) be tracked and documented, and so forth. Focus the discussion on the importance of proper accounting systems and controls as a necessity in correctly managing business resources.

ACCOUNTANT Record the check to establish the petty cash fund.

Concurrent with the treasurer's reimbursement of the fund, obtain the receipts from the custodian along with a copy of the report prepared by Employee #1. Examine the documents for any discrepancies and prepare an appropriate journal entry.

| GENERAL JOURNAL | | | | |
|-----------------|--|--|-------|--------|
| Date | Accounts | | Debit | Credit |
| | | | | |
| | | | | |
| | <i>To establish petty cash fund</i> | | | |
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| | | | | |
| | | | | |
| | | | | |
| | <i>To replenish and increase petty cash fund</i> | | | |
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