

What is Petty Cash?

Worksheet

Petty cash is a small, fixed cash fund kept on-site for minor expenses. It is managed under the imprest system: the fund is replenished periodically to bring it back to its fixed balance, using receipts as proof of spending.

Questions

- Under the imprest system, the petty cash fund is always replenished to:
 - A random amount
 - Its original fixed balance
 - Zero
 - Double the receipts
- A \$250 fund has \$60 cash and receipts of \$185. What is the shortage or overage?
 - \$5 short
 - \$5 over
 - Exactly balanced
 - \$60 short
- When is the expense recorded for a petty cash disbursement?
 - Immediately at payout
 - At replenishment, using receipts
 - Never recorded
 - At year-end only
- Increasing the size of the petty cash fund requires:
 - Crediting an expense account
 - Debiting Petty Cash and crediting Cash
 - No journal entry
 - Debiting Cash and crediting Petty Cash
- A company sets up a petty cash fund of \$200. At month-end, \$46 in cash remains along with receipts for supplies (\$90) and postage (\$64). How much is needed to replenish the fund?
- A \$150 fund has \$22 cash left and receipts totaling \$126. Is the fund short, and by how much?
- Management decides to increase the petty cash fund from \$200 to \$300. What journal entry is needed?
- Define: What is petty cash?
- Define: What is the imprest system?
- Define: Who is the petty cash custodian?

Answer Key

1. B) Its original fixed balance - The imprest system restores the fund to its fixed original balance each time.
2. A) \$5 short - Expected cash = 250 - 185 = 65; actual is 60, so it is \$5 short.
3. B) At replenishment, using receipts - Expenses are recognized when the fund is replenished, based on collected receipts.
4. B) Debiting Petty Cash and crediting Cash - A fund increase moves cash into the Petty Cash account, not an expense entry.
5. Total receipts = 90 + 64 = \$154 Check: Cash on hand + receipts = 46 + 154 = 200 Replenishment = Fund Cash on hand = 200 - 46 = \$154
6. Expected cash on hand = Fund Receipts = 150 - 126 = \$24 Actual cash on hand = \$22 Shortage = 24 - 22 = \$2 (recorded as Cash Short and Over)
7. Increase needed = 300 - 200 = \$100 Entry: Debit Petty Cash \$100, Credit Cash \$100 (no expense involved - just a fund size change)
8. A small, fixed cash fund kept on hand to pay for minor day-to-day business expenses.
9. A method where the petty cash fund is kept at a fixed balance and replenished by exactly the amount spent.
10. The employee responsible for safeguarding the fund and collecting receipts for every payout.

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