

BEFORE
You

READ

What You'll Learn

1. Record the entry to establish a change fund.
2. Prove the cash in the cash register drawers each business day.
3. Open and replenish a petty cash fund.
4. Journalize opening a petty cash fund.
5. Prepare a petty cash requisition to replenish the petty cash fund.
6. Use a petty cash register to record petty cash disbursements.
7. Journalize replenishing a petty cash fund.
8. Determine whether cash is short or over, and record the shortage or overage.
9. Define the accounting terms introduced in this chapter.

Why It's Important

- Cash is an asset, and it must be protected.

**Predict**

1. What does the chapter title tell you?
2. What do you already know about this subject from personal experience?
3. What have you learned about this in the earlier chapters?
4. What gaps exist in your knowledge of this subject?

Exploring the *Real World* of Business**PROTECTING CASH****Applebee's International**

Applebee's International owns restaurants with great food *and* work environments. Applebee's is a People Report™ "Heart of the Workplace Award" winner. This honor is given to companies that go the extra mile to care for employees and support their efforts to give back to the community.

The average guest spends about \$10 on a meal at Applebee's, so you can imagine its daily cash inflow. Applebee's employees follow company rules for all financial transactions, including specific policies for cash control and record retention. Restaurants keep cash on hand to make change for customers and pay for small expenses like delivery fees or office supplies. Accounting for and protecting this cash is an important function in managing each restaurant.

What Do You Think?

What documentation should businesses like Applebee's International keep for small cash payments?



Working in the *Real World*

APPLYING YOUR ACCOUNTING KNOWLEDGE

Waiters and waitresses are important employees in the restaurant industry. A portion of their earnings is likely to be cash tips from their customers. Businesses that take in significant cash need to protect their money from theft or loss. You will learn about the records used to account for cash funds in this chapter.

Personal Connection

1. What measures does your workplace take to protect cash?
2. If you were a store manager, how would you prevent employee theft of cash?

Online Connection

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Working in the Real World** and select **Chapter 22** to learn more about the real-world workplace.





SECTION I

The Change Fund

**BEFORE
YOU**

READ

Main Idea

Some businesses keep cash on hand to make change for customers. The accounts used for this cash are **Change Fund** and **Cash Short & Over**.

Read to Learn...

- how and why to set up a change fund. (p. 642)
- how to use the change fund. (p. 643)
- how to record a discrepancy in the change fund. (p. 644)

Key Terms

change fund

In earlier chapters you learned that businesses use checking accounts for depositing cash receipts and making cash payments. Merchandising businesses, such as Sears or Blockbuster, keep some cash on hand so that they can make change for customers who pay for purchases with cash.

Establishing a Change Fund

What Is a Change Fund?

A **change fund** is an amount of money, consisting of varying denominations of bills and coins, that is used to make change in cash transactions. For example, a customer who pays for a \$13.80 purchase with a \$20 bill will receive \$6.20 in change.

When a business first establishes a change fund, the amount needed for the fund is estimated. The size of the fund does not change unless the business finds that it needs more or less change than it had originally estimated. The change fund is established by writing a check for the amount of the fund. The check is made payable to the person in charge of the change fund. That person cashes the check and places the bills and coins in the cash register drawer. The transaction is recorded in an asset account called **Change Fund**. Let's look at On Your Mark's establishment of a change fund as an example.

Business Transaction

On May 1 the accountant for On Your Mark wrote Check 2150 for \$100 to establish a change fund.

ANALYSIS *Identify
Classify
+/-*

1. The accounts affected are **Change Fund** and **Cash in Bank**.
2. Both **Change Fund** and **Cash in Bank** are asset accounts.
3. **Change Fund** is increased by \$100. **Cash in Bank** is decreased by \$100.

DEBIT-CREDIT RULE



4. Increases to asset accounts are recorded as debits. Debit **Change Fund** for \$100.
5. Decreases to asset accounts are recorded as credits. Credit **Cash in Bank** for \$100.

T ACCOUNTS

6.

Change Fund

Debit
+
100

Credit
—

Cash in Bank

Debit
+

Credit
—
100

JOURNAL ENTRY

7.

GENERAL JOURNAL						PAGE 32
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	May 1	Change Fund		100 00		2
3		Cash in Bank			100 00	3
4		Check 2150				4
5						5

If the business needs to increase the amount in the change fund, the accountant writes a check for the amount of the cash increase. For example, suppose that On Your Mark needs to increase the change fund from \$100 to \$125. The amount of the check is \$25. The journal entry debits **Change Fund** for \$25 and credits **Cash in Bank** for \$25. This brings the **Change Fund** account balance to \$125.

Using the Change Fund

How Do You Use the Change Fund?

The amount of cash in the change fund is put into the cash register drawer at the beginning of the day. When a cash sale occurs, the salesclerk rings the sale on the cash register. The sale is automatically recorded on the cash register tape. At the end of the day, the cash in the cash register drawer is counted. A cash proof is prepared to verify that the amount of cash in the drawer equals the total cash sales for the day plus the change fund. The amount of cash in the change fund is set aside for use as change for the next day. The balance of the cash from the drawer is deposited in the checking account.

Let's look at an example. Suppose On Your Mark has \$470 in the cash register drawer at the end of the day on May 15. The cash register tape shows that cash sales, including sales tax, total \$370. **Figure 22-1** on page 644 shows the cash proof. As you can see, the amount of cash in the drawer at the end of the day minus the amount of cash in the change fund equals the total sales shown on the cash register tape.

Most businesses require that salesclerks sign the cash proof to indicate that they have counted the cash in the drawer and verified its accuracy, both when they receive the drawer and turn it in. The supervisor also checks these amounts and signs the cash proof. The cash proof form is attached to the cash register tape, which is the source document for recording the cash sales for the day.

As You READ

In Your Experience

Change How do you verify that the change you receive from a clerk after a purchase is correct?

May 15
Tape 71

348.00	CA
22.00	ST
<u>370.00</u>	

CASH PROOF

Date May 15, 20--
Cash Register No. 1

Total cash sales (from cash register tape)	\$ <u>370.00</u>
Cash in drawer	\$ <u>470.00</u>
Less change fund	<u>100.00</u>
Net cash received	<u>\$ 370.00</u>
Cash short	_____
Cash over	_____
Salesclerk	<u>Tom Blake</u>
Supervisor	<u>Greta Keegan</u>

Figure 22–1 Cash Proof Form

Recording Cash Short and Over

What If Cash in the Drawer Does Not Match the Records?

Many cash transactions occur during each business day. Occasionally, a salesclerk makes an error and gives the incorrect amount of change to a customer. When this happens, the amount of cash in the cash register drawer, less the beginning change fund, does not agree with the cash sales amount recorded on the cash register tape. If the salesclerk gives a customer too much change, the amount of cash in the drawer at the end of the day is *short*, or less than it should be. If the salesclerk gives a customer too little change, the cash amount is *over*, or more than it should be.

The amount of cash either gained or lost because of errors is recorded in the **Cash Short & Over** account. **Cash Short & Over** is a temporary account. Because cash shortages are expenses to the business, they are recorded as debits to **Cash Short & Over**. Cash overages are revenue for the business; they are recorded as credits to the **Cash Short & Over** account. Note that the **Cash Short & Over** account does not have a normal balance.

Cash Short & Over	
Debit Cash Shortages	Credit Cash Overages

At the end of the accounting period, the balance of the **Cash Short & Over** account is closed to **Income Summary**. Let's look at an example of a shortage.

Connect to...

SCIENCE

Science has provided technology to make counterfeiting money more difficult. Some technology used with \$50 notes includes

- a *watermark* imbedded in the paper
- a *security thread* in the paper that glows yellow under an ultraviolet light
- *color shifting ink* that changes from copper to green based on the viewing angle

Business Transaction

On May 2 the cash register tape shows that cash sales are \$520 and sales taxes are \$26, for a total of \$546. The actual cash in the cash register drawer, after subtracting the amount of the change fund, is \$545.

T ACCOUNTS

Cash in Bank		Cash Short & Over	
Debit	Credit	Debit	Credit
+	—		
545		1	
Sales		Sales Tax Payable	
Debit	Credit	Debit	Credit
—	+	—	+
	520		26

JOURNAL ENTRY

GENERAL JOURNAL						PAGE	33
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1	20--						1
2	May 2	Cash in Bank		545 00			2
3		Cash Short & Over		1 00			3
4		Sales			520 00		4
5		Sales Tax Payable			26 00		5
6		Cash Proof—Cash reg. tape					6
7							7



The journal entry to record a cash overage is similar to that for a cash shortage. The only difference is that **Cash Short & Over** is *credited* for the amount of the overage.

In the previous example, suppose that the amount of cash in the drawer is \$547 after the amount of the change fund is subtracted. The journal entry would debit **Cash in Bank** for \$547 and credit **Cash Short & Over** for \$1. The credits to **Sales** and **Sales Tax Payable** remain the same.

As You

READ

Instant Recall

Debit-Credit Rules

Expenses are increased by debits. Revenue is increased by credits.

AFTER
You

READ

Reinforce the Main Idea

A business that uses a cash register prepares a cash proof each day. Create a diagram similar to this one to show the step-by-step method for proving cash and recording any discrepancy.

Proving Cash

↓
↓
↓

**Do the Math**

The Children's Consignment Shop operates primarily with cash transactions. One of your responsibilities is to prove cash register cash. The cash register tape showed cash received from sales and sales taxes collected to be \$620.40. The count of cash in the drawer was: 16 \$20 bills, 18 \$10 bills, 26 \$5 bills, 44 \$1 bills, 66 quarters, 30 dimes, 52 nickels, and 130 pennies. The change fund is \$75 dollars. What was the net cash received? Was cash short, over, or in balance? If the total sales tax Rate is 10%, what is the amount of cash sales and the sales tax payable?

**Problem 22-1 Preparing a Cash Proof**

The change fund for Messina's Grocery Store is \$200 per cash register. On March 31 total cash sales from cash register 6 are \$964 and sales taxes are \$57.84. A count of cash shows \$1,216.84 in the cash register drawer.

Instructions

1. Use the form in your working papers to prepare a cash proof. Sign your name as the salesclerk.
2. Record the March 31 cash sales on page 2 of a general journal.

Mar 31
Tape 49

964.00 CA
57.84 ST

**Problem 22-2 Recording a Cash Overage**

The change fund for Visions Hair Salon is \$300 per register. On April 14, at the end of the business day, the manager counts the funds in the register. Cash sales total \$1,496 and sales taxes amount to \$89.77 in register 2. The cash drawer contains \$1,895.77.

Instructions

1. Use the form in your working papers to prepare a cash proof. Sign your name as the salesclerk.
2. Record the April 14 cash sales and overage on page 4 of the general journal.



SECTION 2

The Petty Cash Fund

Businesses often make small cash payments for delivery fees, postage stamps, supplies, and other similar purchases.

Establishing the Petty Cash Fund

What Is a Petty Cash Fund?

Small, incidental cash payments are made from the **petty cash fund**. The word *petty* indicates that only small amounts of cash are paid out of this fund. When setting up a petty cash fund, each business determines the maximum amount that will be paid out by a petty cash disbursement. A **petty cash disbursement** is any payment made from the petty cash fund. All payments over the maximum amount are paid by check. The person responsible for maintaining the petty cash fund and for making cash disbursements is called the **petty cashier**.

To establish a petty cash fund, a business estimates the amount of cash needed in the fund for a certain period of time, usually a month. This estimate is based on the company's past experiences.

On Your Mark decides to establish a petty cash fund. Crystal Casteel, an office clerk, is appointed petty cashier. The petty cash fund will contain \$100. Any payments under \$10 will be paid from the petty cash fund. Any payments over \$10 will be paid by check. The company accountant, Greta Keegan, prepares a check for \$100, payable to "Petty Cashier Crystal Casteel," to establish the fund. The transaction is recorded in an asset account called **Petty Cash Fund**. Crystal cashes the check and places the money, consisting of small denominations of bills and coins, in a petty cash box. For internal control purposes, the petty cash box is kept in an office safe or a locked desk drawer. Crystal is responsible for the \$100 in the petty cash fund. When members of the staff need small amounts of cash for items like stamps or office supplies, Crystal will disburse the cash and store the receipts in the petty cash box. Let's learn how to journalize transactions to open a petty cash fund.

BEFORE YOU READ

Main Idea

Businesses use petty cash funds because writing checks for small amounts is impractical, costly, and time consuming.

Read to Learn...

- how and why to set up a petty cash fund. (p. 647)
- how to use the petty cash fund. (p. 648)
- how to record a discrepancy in the petty cash fund. (p. 653)

Key Terms

petty cash fund
petty cash disbursement
petty cashier
petty cash voucher
petty cash requisition
petty cash register

Business Transaction

On May 1 Check 2151 for \$100 was issued to establish the petty cash fund.

ANALYSIS *Identify
Classify*
+/-

1. The accounts affected are **Petty Cash Fund** and **Cash in Bank**.
2. Both **Petty Cash Fund** and **Cash in Bank** are asset accounts.
3. **Petty Cash Fund** is increased by \$100. **Cash in Bank** is decreased by \$100.



DEBIT-CREDIT RULE

- Increases to asset accounts are recorded as debits. Debit **Petty Cash Fund** for \$100.
- Decreases to asset accounts are recorded as credits. Credit **Cash in Bank** for \$100.

T ACCOUNTS

6.		Petty Cash Fund		Cash in Bank	
		Debit +	Credit –	Debit +	Credit –
		100			100

JOURNAL ENTRY

7.		GENERAL JOURNAL					PAGE 32
		DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
5	May	1	Petty Cash Fund		100 00		5
6			Cash in Bank			100 00	6
7			Check 2151				7
8							8

Sometimes petty cash disbursements occur more often than expected, and the petty cash fund is used up before the end of the specified time period. If this happens often, the company may decide to increase the fund's amount. To increase the petty cash fund, the accountant debits the **Petty Cash Fund** account and credits the **Cash in Bank** account for the amount of the increase.

Using the Petty Cash Fund

How Do You Use the Petty Cash Fund?

The petty cashier is responsible for making payments from the petty cash fund. Whenever a cash payment is made, a petty cash voucher is completed. A **petty cash voucher** is a proof of payment from the petty cash fund.

Figure 22–2 shows a petty cash voucher. These vouchers are usually prenumbered. If they are not, the petty cashier numbers them when issuing them.

The petty cash voucher includes the following information:

- the date of the payment
- the person or business to whom the payment is made
- the amount of the payment
- the reason for the payment
- the account to be debited
- the signature of the person approving the payment (usually the petty cashier)
- the signature of the person receiving the payment

After the petty cash disbursement is made, the voucher is filed in the petty cash box until the fund is reimbursed.

PETTY CASH VOUCHER	
No. 001 Paid to <u>Premier Office Supply Co.</u> For <u>Printer paper</u> Account <u>Supplies</u> Approved by <u>Crystal Casteel</u>	Date <u>May 2, 20--</u> \$ <u>7.10</u> Payment received by <u>John Marks</u>

Figure 22-2 Petty Cash Voucher

Replenishing the Petty Cash Fund

To *replenish* a petty cash fund means to restore the fund to its original cash balance. As the cashier makes payments from the fund, the amount of cash in the petty cash box decreases. Some businesses set a minimum amount that must be kept. When the amount of cash in the petty cash box reaches the minimum or a low amount, the accountant replenishes the petty cash fund.

On Your Mark replenishes its petty cash fund once a month, when the balance reaches the minimum amount, or at the end of the accounting period. Replenishing the petty cash fund affects the general ledger accounts that the petty cash disbursements impact (such as **Supplies** and **Delivery Fees**), which must be updated.

Replenishing the petty cash fund requires reconciling the cash balance in the fund and then preparing a petty cash requisition form.

Reconciling the Petty Cash Fund

The petty cashier reconciles the petty cash fund to determine whether it is in balance. To reconcile the petty cash fund, the petty cashier first adds all paid petty cash vouchers. This total is then subtracted from the original cash balance of the petty cash fund. The difference is the *reconciled petty cash balance*, or the amount of money that *should be* in the petty cash box. If the count of the cash in the petty cash box agrees with the reconciled balance, the petty cash fund is in balance. If the two amounts do not agree, the petty cash fund is either short or over.

On May 31 the total of all the petty cash vouchers for the month was \$87.75. As you recall, the original petty cash balance was \$100. The reconciled petty cash balance is:

Original balance	\$100.00
Total of paid petty cash vouchers	— 87.75
Reconciled petty cash balance	\$ 12.25

The amount of cash in the petty cash box that Crystal counted was \$12.25. The petty cash fund, therefore, is in balance.



Preparing a Petty Cash Requisition Form

After reconciling the petty cash fund, the petty cashier prepares a **petty cash requisition**, which is a form requesting money to replenish the petty cash fund. **Figure 22–3** shows a typical petty cash requisition. This form serves as the source of information for the check written to replenish the petty cash fund. The check stub then serves as the source document for the entry recorded in the general journal.

PETTY CASH REQUISITION	
Accounts for which payments were made:	Amount
Supplies	\$24.45
Delivery Expense	19.00
Miscellaneous Expense	29.50
Advertising Expense	14.80
TOTAL CASH NEEDED TO REPLENISH FUND	\$87.75

Requested by: <u>Crystal Casteel</u>	Date <u>5/31/20--</u>
Approved by: <u>Greta Keegan</u>	Date <u>5/31/20--</u>
Check No. <u>2341</u>	

Figure 22–3 Petty Cash Requisition

To prepare the petty cash requisition, the petty cashier first sorts the paid petty cash vouchers by account and totals the vouchers for each account. The cashier records the account title and total amount to be debited to it on the petty cash requisition. Review **Figure 22–3** again. During May On Your Mark made petty cash disbursements affecting the general ledger accounts **Supplies**, **Delivery Expense**, **Miscellaneous Expense**, and **Advertising Expense**.

The total of all paid petty cash vouchers is the amount of cash needed to replenish the petty cash fund. After receiving the petty cash requisition from the petty cashier, the accountant writes a check for the total of the paid vouchers. The check is made payable to the petty cashier, who cashes the check and places the money in the petty cash box.

Using a Petty Cash Register

Some businesses use a **petty cash register** to record all disbursements made from the petty cash fund. The petty cash register is a supplemental record that summarizes the types of petty cash disbursements. It is not an accounting journal because amounts from it are not posted to general ledger accounts.

Recording Petty Cash Vouchers in a Petty Cash Register.

Not all businesses that have a petty cash fund use a petty cash register. Those who do might use a form similar to that shown in **Figure 22–4**. This illustration shows a typical petty cash register with vouchers recorded. It shows the month's disbursements following the fund's establishment.

The establishment of the petty cash fund on May 1 is noted on line 2 of the register. On each line that follows, each petty cash payment is identified by date, voucher number, and a brief explanation. The amount of each disbursement is entered in the Payments column *and* in the appropriate Distribution of Payments column. The register has three special amount columns: Supplies, Delivery Expense, and Miscellaneous Expense. The General Amount column is used for petty cash payments that do not belong in one of the three special amount columns. This column has two subdivisions, one for the account name and the other for the amount.

Totaling and Proving the Petty Cash Register. Replenishing the petty cash fund requires totaling and proving the petty cash register. Refer to **Figure 22–4** as you read the following steps on totaling and proving a petty cash register:

1. Enter the date the fund is being replenished in the Date column. Also enter the word *Totals* in the Description column.

As You READ

Compare and Contrast

Change Fund and Petty Cash Fund How is a petty cash fund similar to a change fund? How is it different?

2. Single rule the amount columns.
3. Foot each amount column.
4. Verify that the total of the Payments column is equal to the total of the Distribution of Payments columns.

Payments		Distribution of Payments
	\$24.45	Supplies
	19.00	Delivery Expense
	29.50	Miscellaneous Expense
	14.80	Advertising Expense
\$87.75	=	\$87.75

Once verified, the totals are recorded below the footings.

5. Draw a double rule under the amount columns to show that the totals have been proved.
6. You will now enter the petty cash fund replenishment information. Skip one line, and then enter the reconciled petty cash balance (the amount of cash that *should be* in the petty cash box before it is replenished). For On Your Mark, that amount is \$12.25.
7. On the next line, write the amount of the check written to replenish the petty cash fund.
8. Add the balance that *should be* in the petty cash fund and the amount of the check. The sum should equal the original amount of the petty cash fund.

PETTY CASH REGISTER														PAGE	1	
	DATE	VOU. NO.	DESCRIPTION	PAYMENTS		DISTRIBUTION OF PAYMENTS										
						SUPPLIES	DELIVERY EXPENSE	MISC. EXPENSE	GENERAL							
									ACCOUNT NAME		AMOUNT					
1	20--															1
2	May 1	—	Est. Petty Cash (\$100)													2
3	2	1	Printer paper		7 10		7 10									3
4	3	2	Postage on incoming mail		2 50					2 50						4
5	4	3	Newspaper Ad.		9 80							Adv. Expense		9 80		5
6	5	4	Gas & Parking		9 50					9 50						6
7	7	5	Daily newspaper		3 50					3 50						7
8	8	6	Collect telegram		1 25					1 25						8
9	10	7	Pens and pencils		2 50		2 50									9
10	12	8	Dara's Delivery Service		9 50				9 50							10
11	16	9	Daily newspaper		3 50					3 50						11
12	18	10	Memo pads		8 45		8 45									12
13	20	11	Postage stamps		1 00					1 00						13
14	22	12	Ad in H.S. yearbook		5 00							Adv. Expense		5 00		14
15	26	13	File folders		6 40		6 40									15
16	29	14	Dara's Delivery Service		9 50				9 50							16
17	30	15	Gas & tolls		8 25					8 25						17
18	31		Totals		87 75		24 45		19 00		29 50			14 80		18
19																19
20			Reconciled bal. \$ 12.25													20
21			Replen. check +87.75													21
22			Total \$100.00													22
23																23

Figure 22-4 A Typical Petty Cash Register

As You READ

Key Point

Petty Cash Fund There are only two instances when the **Petty Cash Fund** account is debited.

- to initially establish the fund
- to increase the amount of money in it

As you can see, the petty cash register helps the petty cashier keep track of the petty cash disbursements by account. When the petty cash fund is replenished, the totals of the special columns and the amounts recorded in the General column are listed on the petty cash requisition form.

Using a Petty Cash Envelope

Small businesses sometimes use *petty cash envelopes* to record petty cash disbursements. A form very similar to the petty cash register is printed on the front of the petty cash envelope. Petty cash disbursements are recorded on the form on the envelope.

The paid petty cash vouchers are placed in the petty cash envelope. When the petty cash fund is replenished, the petty cash envelope, containing all paid vouchers for the period, is sealed and filed. A new envelope is used to record the next period's petty cash disbursements.

Journalizing the Check to Replenish the Petty Cash Fund

The check stub and the petty cash requisition are the source documents for recording the journal entry for a check written to replenish the petty cash fund. Let's learn how to journalize transactions to replenish a petty cash fund.

Notice that this transaction does not affect the **Petty Cash Fund** account. Replenishing petty cash requires crediting **Cash in Bank** and debiting the accounts for which petty cash payments were made.

Business Transaction

On May 31 Check 2341 is written to replenish the petty cash fund.

ANALYSIS Identify

Classify

+/-

1. The accounts affected are **Supplies, Delivery Expense, Miscellaneous Expense, Advertising Expense,** and **Cash in Bank**.
2. **Supplies** is an asset account. **Delivery Expense, Miscellaneous Expense,** and **Advertising Expense** are expense accounts. **Cash in Bank** is an asset account.
3. **Supplies** is increased by \$24.45. **Delivery Expense** is increased by \$19. **Miscellaneous Expense** is increased by \$29.50. **Advertising Expense** is increased by \$14.80. **Cash in Bank** is decreased by \$87.75.

DEBIT-CREDIT RULE



4. Increases in asset accounts are recorded as debits. Debit **Supplies** for \$24.45. Increases in expense accounts are recorded as debits. Debit **Delivery Expense** for \$19; and **Miscellaneous Expense** for \$29.50. Debit **Advertising Expense** for \$14.80.
5. Decreases in asset accounts are recorded as credits. Credit **Cash in Bank** for \$87.75.

T ACCOUNTS

6.

Supplies		Delivery Expense	
Debit + 24.45	Credit —	Debit + 19.00	Credit —
Miscellaneous Expense		Advertising Expense	
Debit + 29.50	Credit —	Debit + 14.80	Credit —
Cash in Bank			
Debit +	Credit — 87.75		

JOURNAL ENTRY

7.

GENERAL JOURNAL						PAGE	41
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1	20--						1
2	May 31	Supplies		24.45			2
3		Delivery Expense		19.00			3
4		Miscellaneous Expense		29.50			4
5		Advertising Expense		14.80			5
6		Cash in Bank			87.75		6
7		Check 2341					7
8							8

Handling Cash Short and Over in the Petty Cash Fund

How Do You Handle Shortages and Overages in the Petty Cash Fund?

The petty cashier could occasionally make an error when paying cash from the petty cash fund. This will cause the amount of cash in the petty cash box not to agree with the reconciled petty cash balance. Any amounts of cash *gained* or *lost* through errors made by the petty cashier are recorded in the **Cash Short & Over** account.

Let's look at an example. At the end of June, Crystal Casteel, On Your Mark's petty cashier, classified and totaled the petty cash vouchers. The accounts affected by the petty cash disbursements follow:

Supplies	\$15.75
Delivery Expense	20.45
Miscellaneous Expense	21.80
Advertising Expense	25.00
	<u>83.00</u>

As You READ

In Your Own Words

Handling Cash Short and Over The journal entry to replenish the petty cash fund debits various accounts, sometimes including **Cash Short and Over**. Why debit these accounts rather than the petty cash fund account?

Figure 22–5 Journal Entry to Replenish the Petty Cash Fund

GENERAL JOURNAL												PAGE	43
	DATE		DESCRIPTION	POST. REF.	DEBIT			CREDIT					
1	20--										1		
2	June	30	Supplies			15	75				2		
3			Delivery Expense			20	45				3		
4			Miscellaneous Expense			21	80				4		
5			Advertising Expense			25	00				5		
6			Cash Short & Over			1	50				6		
7			Cash in Bank						84	50	7		
8											8		

The June petty cash disbursements totaled \$83. Crystal then reconciled the petty cash fund.

Original balance	\$100
Total of paid petty cash vouchers	<u>— 83</u>
Reconciled petty cash balance	\$ 17

Crystal counted the cash in the petty cash box and found only \$15.50—a shortage of \$1.50 (\$17.00 – 15.50). Bringing the petty cash fund up to the original \$100.00 requires \$84.50 (\$83.00 + \$1.50). The \$1.50 cash shortage is an expense and is debited to the **Cash Short & Over** account.

When Crystal prepared the petty cash requisition form, she listed the accounts to be debited for the petty cash disbursements. She also indicated that the **Cash Short & Over** account is to be debited for \$1.50. The journal entry to record the replenishment is shown in **Figure 22–5**.

A petty cash *overage* is recorded in a similar manner. If, for example, the cash in the petty cash box is \$17.75, a cash overage of 75¢ exists. **Cash Short & Over** is credited for that amount in the journal entry. Instead of needing \$83.00 to replenish the fund, only \$82.25 is required.

The cash shortage or overage is also reported in the petty cash register if a business uses one. **Figure 22–6** shows how the June cash shortage of \$1.50 is recorded in the petty cash register.

Figure 22–6 Recording a Cash Shortage in the Petty Cash Register

PETTY CASH REGISTER									
PAGE 2									
	DATE	VOU. NO.	DESCRIPTION	PAYMENTS	DISTRIBUTION OF PAYMENTS				
					SUPPLIES	DELIVERY EXPENSE	MISC. EXPENSE	GENERAL	
								ACCOUNT NAME	AMOUNT
1	20--								
2	June 1	16	Postage stamps	5 00			5 00		
14	30	29	Button	1 25				Adv. Expense	1 25
15	30		Totals	83 00	15 75	20 45	21 80		25 00
16									
17			Reconciled bal. \$ 17.00						
18			Cash short (1.50)						
19			Replen. check 84.50						
20			Total \$100.00						
21									

AFTER
You READ

Reinforce the Main Idea

The journal entry to replenish the petty cash fund depends on whether the fund is in balance, over, or short. Use a diagram like this one to show the three possible journal entries using the accounts **Cash in Bank**, **Supplies**, **Delivery Expense**, **Miscellaneous Expense**, and **Cash Short and Over**.

Transaction Description	Account Debited	Account Credited



Do the Math

It is another busy day at Olde Time Swimming Hole, a private swimming facility for your neighborhood. You have a summer job running the concession stand, and you maintain the petty cash fund. To make your accounting easier, you record the cash sales and the petty cash transactions in one report at the end of the day. You always attach the cash register tape to prove the cash drawer. Using the following figures, determine the revenue and expenses for the day. How much money will remain in the cash drawer?

Opening cash drawer	\$225
Petty cash fund	100
Cash sales	600
Pool supplies bought	55
Photocopy paper purchased	8

Problem 22-3 Analyzing
a Source
Document

The petty cash clerk for Riddle's Card Shop prepared the accompanying petty cash requisition.

Instructions Review the document and prepare Check 973 to replenish the petty cash fund in your working papers.

PETTY CASH REQUISITION

Accounts for which payments were made:	Amount
Office Supplies	\$12.40
Postage Expense	12.00
Misc. Expense	16.00
Cash Short and Over	(.89)

TOTAL CASH NEEDED
TO REPLENISH FUND \$39.51

Requested by: Brent Roy Date 2/28/20--

Approved by: Hugh Morrison Date _____

Check No. 941

Key Concepts

1. A *change fund* is the money used to make change for cash transactions. To establish a change fund, write a check for the fund amount payable to the person in charge of the fund. This person will cash it and place the money in the designated cash register drawer. Here is the entry to establish a change fund:

GENERAL JOURNAL						PAGE _____
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	Date	Change Fund		XXX XX		2
3		Cash in Bank			XXX XX	3
4						4

2. At the end of each business day, a cash proof is prepared to reconcile the amount of cash in the register to the recorded cash sales. To prove cash, count the cash in the cash register drawer, subtract the change fund, and compare that amount with the amount of total cash sales, shown on the cash register tape.

Counted cash in cash register drawer	—	Change Fund	=	Total cash sales from cash register tape
---	---	-------------	---	---

If the two amounts do not agree, the shortage or overage is recorded in the **Cash Short & Over** account.

Cash Short & Over	
Debit Cash Shortages	Credit Cash Overages

3. A petty cash fund is the cash a business has on hand for making small, incidental cash payments. To open a petty cash fund:

- Estimate the amount of cash needed in the fund for a specific period.
- Write a check to the petty cashier, who is responsible for the cash.
- Record the transaction in the asset account **Petty Cash Fund**.

A petty cash fund is replenished by restoring the fund to its original amount. The cash balance in the fund must be reconciled with the petty cash vouchers and then a petty cash requisition form is prepared to replenish it.

4. Here is the entry to establish a petty cash fund:

GENERAL JOURNAL						PAGE _____
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--					1
2	Date	Petty Cash Fund		XXX XX		2
3		Cash in Bank			XXX XX	3
4						4

5. The petty cashier prepares a petty cash requisition form to request that the petty cash fund be replenished. The petty cash requisition includes this information:
 - Name and total of each account for which payments were made
 - Total amount of cash needed to replenish the fund
6. In some businesses, the petty cashier records petty cash disbursements in a petty cash register. The following is recorded for each petty cash payment:
 - date
 - voucher number
 - brief explanation for the payment
 - amount paid

7. The journal entry to replenish a petty cash fund depends on its balance.

- If petty cash has no shortages or overages:

Debit: Various Assets and Expenses	Credit: Cash in Bank
---	-----------------------------

- If petty cash has a shortage:

Debit: Various Assets and Expenses	Credit: Cash in Bank
Debit: Cash Short & Over	

- If petty cash has an overage:

Debit: Various Assets and Expenses	Credit: Cash in Bank
	Credit: Cash Short & Over

8. At the end of each business day, a cash proof is prepared to reconcile the cash in the register to the recorded cash sales.

- To record a cash shortage:

Debit: Cash in Bank	Credit: Sales
Debit: Cash Short & Over	Credit: Sales Tax Payable

- To record a cash overage:

Debit: Cash in Bank	Credit: Sales
	Credit: Sales Tax Payable
	Credit: Cash Short & Over

Key Terms

change fund	(p. 642)	petty cash requisition	(p. 650)
petty cash disbursement	(p. 647)	petty cash voucher	(p. 648)
petty cash fund	(p. 647)	petty cashier	(p. 647)
petty cash register	(p. 650)		

AFTER
YOU

READ

Check Your Understanding

1. **Change Fund**
 - a. What is a change fund?
 - b. Which accounts are debited and credited when a change fund is established?
2. **Cash Register Proof**
 - a. When is the amount in the cash register proved?
 - b. How is the cash register proof performed?
3. **Petty Cash Fund**
 - a. Why would a business set up a petty cash fund?
 - b. Explain the procedure for replenishing the petty cash fund.
4. **Opening a Petty Cash Fund**
 - a. Which accounts are debited and credited to establish a petty cash fund?
 - b. To whom is the check to establish a petty cash fund made payable?
5. **Petty Cash Requisition**
 - a. What is a petty cash requisition?
 - b. Explain how to prepare a petty cash requisition.
6. **Petty Cash Register**
 - a. What information is included on each line of the petty cash register?
 - b. Why is the petty cash register not considered a journal?
7. **Replenishing a Petty Cash Fund**
 - a. What is meant by *reconciling the petty cash fund*?
 - b. What accounts are debited when replenishing a petty cash fund?
8. **Cash Short and Over**
 - a. When does a cash shortage occur?
 - b. Explain why a cash shortage is treated like an expense.

Apply Key Terms

As the financial manager of The Tennis Center, you believe a petty cash fund should be established. Using these terms, prepare a one-page memorandum to convince your boss, Megan Long, to open a petty cash fund.

change fund
petty cash
disbursement
petty cash fund

petty cash register
petty cash requisition
petty cash voucher
petty cashier



Maintaining Cash Funds

Making the Transition from a Manual to a Computerized System

Task	Manual Methods	Computerized Methods
Maintaining the check register	<ul style="list-style-type: none"> A check stub or deposit slip is the source document for journalizing cash payments. Add deposits/deduct the checks to keep a running balance in the check register. 	<ul style="list-style-type: none"> Checks and deposits are automatically entered in the check register when transactions are journalized and posted. The checking account balance is updated as each transaction is posted.
Reconciling the bank statement	<ul style="list-style-type: none"> Compare the check register with the bank statement. Add deposits in transit to the statement balance. Deduct outstanding checks. Deduct bank charges from the check register. Journalize and post bank charges. 	<ul style="list-style-type: none"> Enter the bank statement balance. Verify outstanding checks and deposits not included on statement. Record bank charges as a payment.



Peachtree® Q & A

Peachtree Question	Answer
How do I review the check register?	<ol style="list-style-type: none"> From the Reports menu, select Accounts Payable. From the Reports list, select Check Register and click Preview. At the Filter window, set the range of checks to be displayed.
How do I reconcile the bank statement?	<ol style="list-style-type: none"> From the Tasks menu, choose Account Reconciliation. Select the account you wish to reconcile. Enter the bank statement ending balance and date. Mark the Clear box for each check and deposit listed on the statement. Click Adjust to record the journal entry for the service charge. If the unreconciled difference is \$0.00, the reconciliation is complete.



QuickBooks Q & A

QuickBooks Question	Answer
How do I review the check register?	<ol style="list-style-type: none"> From the Reports menu, select Banking. Select Check Detail, and enter the date range for this report.
How do I reconcile the bank statement?	<ol style="list-style-type: none"> From the Banking menu, select Reconcile. Select the account you wish to reconcile. Enter the bank statement date and ending balance, and click Continue. Mark each check and deposit that have cleared. If the unreconciled difference is 0.00, the reconciliation is complete. Click Reconcile Now to save the reconciliation.

For detailed instructions, see your Glencoe Accounting Chapter Study Guides and Working Papers.

CHAPTER 22

Problems

Complete problems using:

Manual Glencoe
Working Papers

OR

Peachtree Complete
Accounting Software

OR

QuickBooks
Templates

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 22-4

1. Select the problem set for Sunset Surfwear (Prob. 22-4).
2. Rename the company and set the system date.
3. Record the entry to establish the change fund using the **General Journal Entry** option.
4. Manually prepare a cash proof.
5. Record the cash sales using the **General Journal Entry** option.
6. Print a General Journal report and proof your work.
7. Complete the Analyze activity.
8. End the session.

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 22-5

1. Select the problem set for InBeat CD Shop (Prob. 22-5).
2. Rename the company and set the system date.
3. Record the entry to establish the petty cash fund.
4. Record the entry to replenish the petty cash fund.
5. Print a General Journal report and proof your work.
6. Complete the Analyze activity.
7. End the session.

TIP: Use the **General Journal Entry** option to record the petty cash fund transactions.

Problem 22-4 Establishing a Change Fund

On February 1 Sunset Surfwear issued Check 115 to establish a change fund of \$150. At the end of the business day on February 2, the shop's cash register tape showed cash sales of \$340 plus sales taxes of \$17. An actual cash count of the money indicated that \$505 was in the cash register drawer.

Instructions

1. Record the entry to establish the change fund on page 1 of the general journal.
2. Prepare a cash proof for Feb. 2. Sign your name on the Salesclerk line.
3. Record the cash sales for Feb. 2 on page 1 of the general journal.

Analyze

Determine whether the shortage or overage represents revenue or expense to the business.

Problem 22-5 Establishing and Replenishing a Petty Cash Fund

InBeat CD Shop established a petty cash fund for \$100.

Instructions

1. In your working papers, record the entry to establish the petty cash fund on page 6 of a general journal.
2. Record the entry for replenishing the petty cash fund on page 10 of the general journal. There was \$5 cash in the petty cash fund box on February 28.

Date	Transactions
Feb. 1	Issued Check 112 for \$100 to establish the petty cash fund.
28	Issued Check 146 to replenish the petty cash fund. Paid petty cash vouchers included Supplies, \$40; Advertising Expense, \$16; Maintenance Expense, \$27; and Miscellaneous Expense, \$12.

Analyze

Conclude whether cash was short or over.

Problem 22-6 Establishing and Replenishing a Petty Cash Fund

Shutterbug Cameras, a camera store, decided to establish a petty cash fund. On February 1 the accountant, Al Rosen, issued Check 1018 for \$70 to establish the fund. The following disbursements were made.

Instructions

1. In your working papers, record the entry to establish the petty cash fund on page 9 of a general journal.
2. Make a list of the paid petty cash vouchers.
3. Classify the petty cash disbursements by account. Calculate the total amount paid out for each account.
4. Prepare a petty cash requisition, signing your name as the petty cashier. On February 28 there was \$1.50 in the petty cash box.
5. Record the entry in the general journal (page 11) to replenish the petty cash fund on February 28. Use Check 1191.

Date	Transactions
Feb. 1	Purchased memo pads for the office, \$2.75, Voucher 101 (Supplies).
3	Prepared Voucher 102 for a newspaper ad, \$7.50 (Advertising Expense).
5	Prepared Voucher 103 for the postage on an outgoing package, \$1.75 (Miscellaneous Expense).
8	Paid Dandy Delivery Service \$5.65, Voucher 104 (Delivery Expense).
10	Prepared Voucher 105 for pens and pencils, \$3.75 (Supplies).
12	Paid \$2.20 for postage stamps, Voucher 106 (Miscellaneous Expense).
15	Paid Dandy Delivery Service \$6.75, Voucher 107 (Delivery Expense).
20	Paid the news carrier \$4.25 for delivery of the daily newspaper, Voucher 108 (Miscellaneous Expense).
22	Bought typing paper for \$7.50, Voucher 109 (Supplies).
25	Paid \$4.50 to Dandy Delivery Service, Voucher 110 (Delivery Expense).
27	Prepared Voucher 111 for an advertisement, \$10 (Advertising Expense).
28	Paid \$4.40 for postage stamps, Voucher 112 (Miscellaneous Expense).
28	Prepared Voucher 113 for an advertisement, \$7.50 (Advertising Expense).

Analyze

Calculate the total petty cash disbursements for Delivery Expense during February.

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SMART GUIDE

Step-by-Step Instructions: Problem 22-6

1. Select the problem set for Shutterbug Cameras (Prob. 22-6).
2. Rename the company and set the system date.
3. Record the entry to establish the petty cash fund.
4. List the petty cash vouchers and then manually prepare a petty cash requisition.
5. Record the entry to replenish the petty cash fund.
6. Print a General Journal report and proof your work.
7. Complete the Analyze activity.
8. End the session.

TIP: Use the **General Journal Entry** option to record the petty cash fund transactions.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 22-6

1. Restore the Problem 22-6.QBB file.
2. Record the entry to establish the petty cash fund using the **Write Checks** option.
3. Record the petty cash vouchers using the **Use Register** option.
4. Record the entry to replenish the petty cash fund using the **Write Checks** option.
5. Print a Journal report and proof your work.
6. Complete the Analyze activity.
7. Back up your work.

SOURCE DOCUMENT PROBLEM

Problem 22-7

Use the source documents in your working papers to complete this problem.

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SMART GUIDE

Step-by-Step Instructions: Problem 22-7

1. Select the problem set for Cycle Tech Bicycles (Prob. 22-7).
2. Rename the company and set the system date.
3. Record the entry to a petty cash fund.
4. Manually record petty cash disbursements.
5. Manually prepare a petty cash requisition.
6. Record the entry to replenish petty cash.
7. Print a General Journal.
8. Complete the Analyze activity.
9. End the session.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 22-7

1. Restore the Problem 22-7.QBB file.
2. Record the entry to establish the petty cash fund using the **Write Checks** option.
3. Record the petty cash vouchers using the **Use Register** option.
4. Record the entry to replenish the petty cash fund using the **Write Checks** option.
5. Print a Journal report.
6. Complete the Analyze activity.
7. Back up your work.

Problem 22-7 Using a Petty Cash Register

Cycle Tech Bicycles decided to establish a petty cash fund. On February 1 the accountant issued Check 3724 for \$120 to establish the fund. The following disbursements were made.

Instructions

1. In your working papers, record the entry to establish the petty cash fund in a general journal, page 5.
2. Enter the information about the establishment of the petty cash fund on line 1 of a petty cash register, page 1.
3. Record the petty cash disbursements in the petty cash register.
4. Foot, total, and prove the petty cash register on February 28.
5. Record the petty cash fund replenishment information in the explanation column below the totals. On February 28 there was \$4.35 in the petty cash box.
6. Prepare a petty cash requisition form. Use the form provided in your working papers and sign your name as petty cashier.
7. Record the issuance of Check 3875 to replenish the petty cash fund in the general journal, page 8.

Date	Transactions
Feb. 2	Prepared Voucher 1 for a \$9.25 newspaper advertisement (Advertising Expense).
5	Prepared Voucher 2 for pens and pencils, \$5 (Supplies).
9	Paid \$12.50 for flowers for an employee's birthday, Voucher 3 (Miscellaneous Expense).
12	Bought cash register tape for \$3.95, Voucher 4 (Supplies).
19	Prepared Voucher 5 for \$15 to pay National Express for parts delivered (Delivery Expense).
20	Paid \$3.90 for postage stamps, Voucher 6 (Miscellaneous Expense).
22	Paid \$16 to have the show window cleaned, Voucher 7 (Miscellaneous Expense).
24	Bought an \$11 advertisement in the local newspaper, Voucher 8 (Advertising Expense).
25	Bought stationery for \$10, Voucher 9 (Supplies).
26	Prepared Voucher 10 to National Express for packages delivered, \$8.25 (Delivery Expense).
27	Prepared Voucher 11 incorrectly and voided it.
27	Purchased memo pads for the office for \$3, Voucher 12 (Supplies).
28	Paid the news carrier a \$4 tip for the daily newspaper delivery, Voucher 13 (Miscellaneous Expense).

CONTINUE

Date	Transactions (cont.)
28	Paid \$6.80 for postage stamps, Voucher 14 (Miscellaneous Expense).
28	Prepared Voucher 15 for a \$10 newspaper advertisement (Advertising Expense).

Analyze

Identify the number of payments that were made from the petty cash fund during the month of February.

Problem 22–8 Handling a Petty Cash Fund

River's Edge Canoe & Kayak petty cash fund was established on February 1 for \$100, by writing check 1763. The accounts for which petty cash disbursements are likely to be made include **Supplies**, **Gas Expense**, **Advertising Expense**, **Delivery Expense**, and **Miscellaneous Expense**.

Instructions

1. In your working papers, record the entry to establish the petty cash fund on page 12 of a general journal.
2. Record the establishment of the fund on the first line of the petty cash register, page 1.
3. Record each petty cash disbursement in the petty cash register.
4. Foot, prove, total, and rule the petty cash register on February 28.
5. Reconcile the petty cash fund. The amount in the petty cash box is \$1.50.
6. Prepare a petty cash requisition. Sign your name as petty cashier.
7. Record the entry to replenish the petty cash fund by issuing Check 1798 in the general journal, page 15.
8. Record the replenishment information in the petty cash register.
9. The accountant believes the petty cash fund should be increased by \$25. Record the issuance of Check 1799 on February 28.

Date	Transactions
Feb. 1	Bought an \$8 advertisement in the local newspaper, Voucher 101.
2	Prepared Voucher 102 for \$7.50 to pay Mercury Messenger for packages delivered.
3	Bought adding machine tape for 75¢, Voucher 103.
5	Paid \$9.50 for flowers for an employee's birthday, Voucher 104.

CONTINUE

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SMART GUIDE

Step-by-Step Instructions: Problem 22–8

1. Select the problem set for River's Edge Canoe & Kayak (Prob. 22–8).
2. Rename the company and set the system date.
3. Record the entry to establish the petty cash fund.
4. Manually record the petty cash disbursements.
5. Reconcile the petty cash register and manually prepare a petty cash requisition.
6. Record the entry to replenish the petty cash fund.
7. Record the entry to increase the petty cash fund.
8. Print a General Journal report and proof your work.
9. Complete the Analyze activity.
10. End the session.

Date	Transactions (cont.)
7	Prepared Voucher 105 for \$5.25 for a typewriter ribbon.
9	Paid \$4.40 for postage stamps, Voucher 106.
12	Bought \$9 worth of gasoline, Voucher 107.
15	Paid \$8.50 to have the shop's windows washed, Voucher 108.
18	Bought memo pads, pencils, and pens for office use, \$6.30, Voucher 109.
20	Prepared Voucher 110 for \$7.50 to pay Mercury Messenger for packages delivered.
23	Prepared Voucher 111 incorrectly and voided it.
23	Bought stationery for \$8, Voucher 112.
27	Paid the news carrier \$4.75 for the daily newspaper, Voucher 113.
28	Prepared Voucher 114 for \$7.50 to pay Mercury Messenger for packages delivered.
28	Bought gasoline, \$5.80, Voucher 115.
28	Prepared Voucher 116 for a newspaper advertisement, \$5.

Analyze

List the petty cash disbursements that are charged to the Miscellaneous Expense account.



Problem 22-9 Locating Errors in a Petty Cash Register

On February 1 a petty cash fund of \$150 was established for Buzz Newsstand, Check 1198. The petty cashier writes a voucher for each petty cash disbursement. The vouchers are entered in a petty cash register, which is included in your working papers. When the petty cash register was totaled on February 28, the accounting clerk discovered that the footings of the Distribution of Payments columns did not equal the total of the Payments column.

Instructions

1. Compare the petty cash disbursement information in your working papers with the entries in the petty cash register.
2. Correct any errors you find in the petty cash register by drawing a line through the incorrect item and writing the correction above it.
3. Total all columns after the corrections are made.
4. Record the replenishment information on the register. The amount in the petty cash box on February 28 was \$8.10.

Analyze

Explain how you determined the amount of the check to replenish the petty cash fund on February 28.

Practice your test-taking skills! The questions on this page are reprinted with permission from national organizations:

- Future Business Leaders of America
- Business Professionals of America

Use a separate sheet of paper to record your answers.



Future Business Leaders of America

MULTIPLE CHOICE

1. An amount of cash kept on hand and used for making small payments is called
 - a. revenue.
 - b. cash.
 - c. petty cash.
 - d. prepaid interest.
 - e. none of these answers
2. A form showing proof of a petty cash payment is a
 - a. check.
 - b. petty cash slip.
 - c. petty cash check stub.
 - d. journal.
3. A petty cash on hand amount that is more than a recorded amount is called
 - a. cash over.
 - b. cash short.
 - c. cash credit.
 - d. cash debit.



Business Professionals of America

MULTIPLE CHOICE

4. The entry to replenish the petty cash fund requires

<u>Debit</u>	<u>Credit</u>
a. Petty Cash Fund	Cash
b. Petty Cash Expense	Petty Cash Fund
c. Cash	Petty Cash Fund
d. Various Expense accounts	Cash
5. Michelle is a cashier for The Pet Store. When she counted the cash in her register drawer at the end of the day, the total was \$959.74. According to the electronic register, she should have had a balance of \$969.85. Was Michelle short or over in her drawer and by how much?
 - a. \$10.11 short
 - b. \$10.11 over
 - c. \$10.38 short
 - d. \$10.38 over

Need More Help?

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Winning Competitive Events** and select **Chapter 22**.

- Practice Questions and Test-Taking Tips
- Concept Capsules and Terminology



CRITICAL Thinking

Cash Funds

1. What form is used to control payments from the petty cash fund?
2. What happens to cash in a cash register drawer at the end of a business day?
3. You are the petty cashier responsible for the petty cash fund. You counted the cash in the petty cash box and found that you will likely run out of petty cash soon. What would you do to restore the fund to its original cash balance?
4. How do you find out whether a petty cash fund amount is short or over?
5. Summarize the steps involved in replenishing the petty cash fund. What are the source document(s) for recording the journal entry, and which account(s) is (are) used to make the journal entry?
6. Which problem do you think is more serious in a change fund: cash short or cash over? Why?

CASE STUDY

Merchandising Business: Health Foods

The Healthy Alternative sells vitamins and natural health-care products. It has two electronic cash registers that track inventory and record sales directly to the computerized accounting system. The store owner is concerned because the actual cash on hand is usually short when it is compared to the sales records.

INSTRUCTIONS

1. You work for a local CPA firm that is auditing The Healthy Alternative's accounting records. What advice would you give the owner about cash controls and protection?
2. Explain to the owner why it is important for the cash records to match the accounting records.

a matter of ETHICS

Borrowing from Petty Cash

You are the petty cashier for a local theater group. Its petty cash fund pays for taxi fares to and from the airport for actors, directors, and set designers. Today you forgot to bring cash for your lunch. You consider borrowing \$5 from the petty cash fund and leaving an IOU. After all, you will pay it back tomorrow.

ETHICAL DECISION MAKING

1. What are the ethical issues?
2. What are the alternatives?
3. Who are the affected parties?
4. How do the alternatives affect the parties?
5. What would you do?

COMMUNICATING ACCOUNTING

Process to Increase the Change Fund

Retro Threads sells designer vintage clothing on consignment. The shop is open only on Fridays and Saturdays and does a brisk business. You maintain the accounting records for the shop. Dorothy Douglas, the owner, wants to increase the change fund from \$100 to \$200. Write her a note explaining the transaction. Remind her to notify the salesclerks that the change fund will increase by \$100.



Integrity

Fun Farm is a hands-on, educational working farm where elementary students learn about planting crops and raising animals. In auditing its petty cash fund, you notice some unusual disbursements and cash shortages. You suspect an employee is taking funds from it and not preparing a voucher or falsifying one. Discuss with a partner how you should handle this situation.



International Monetary Fund

When Kenya suffered a severe drought in 2000, the International Monetary Fund (IMF) helped with a \$52 million loan. The IMF helps promote a healthy world economy through exchange rate stability, the growth of international trade, and monitoring economic developments. Its members can get technical advice and training or financial assistance to correct underlying economic problems.

INSTRUCTIONS Summarize benefits available to IMF members.



Your Spending Records

You should track your cash daily to be aware of the cash you have at the start and end of each day. If the amounts differ, you should have receipts for expenses or estimate where the remainder went such as for cold drinks or snacks. If you cannot account for the difference, you should pay more attention to spending cash.

PERSONAL FINANCE ACTIVITY For three days, track your personal expenses like a petty cash fund. Record how much you spend on each item on an envelope or sheet of paper. At the end of each day, is your cash over or short?

PERSONAL FINANCE ONLINE Log on to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Making It Personal** and select **Chapter 22**.



Calculating Price-Earnings Ratio

To decide whether to buy stock, analysts and investors look at stock prices over time and calculate the price-earnings (PE) ratio. It compares a stock's current market value with its earnings per share. Suppose a company has a PE ratio of 10. At that price, investors are willing to pay \$10 for every dollar of last year's earnings. Companies that are expected to grow will have a higher PE ratio than companies in decline. To calculate the PE ratio:

$$\text{Price-earnings ratio} = \frac{\text{Current market value per share}}{\text{Earnings per share}}$$

INSTRUCTIONS Use PETSMART's consolidated statements of operations in Appendix F to answer these questions. Use the "Basic" earnings per share figure, and round your answer to the nearest whole number.

1. For the fiscal year ended February 1, 2004, calculate the PE ratio assuming PETSMART stock is selling at (a) \$32.50 per share and (b) \$35.00 per share.
2. Describe how stock price affects the PE ratio. How would you use this ratio in deciding which stocks to buy?

