Hold Onto Your Drawers

BY PAUL GOODMAN, CPA

Controls keep petty cash from getting out of hand

> Mother’s Day orders are piling up. Your workers are busy — and hungry.

Time to order a few pizzas to keep their bodies fueled and in the shop. You go to your register, open the drawer and pull out some cash.

It’s an easy and quick way to handle a small and spontaneous purchase, but how should you do the accounting? If you do nothing, your point-of-sale (POS) system will be short cash at the end of the day. And if the employee closing your shop wasn’t in on the lunch, he or she is likely to presume theft.

A quick bite could become a big mess if there isn’t a system in place.

Every shop needs to have a procedure to handle small cash needs and guard against theft at the same time. One solution is to forbid cash purchases, requiring a check instead. But that’s cumbersome and inconvenient.

Rather than yank out the checkbook every time you restock paper towels or treat your staff to lunch, consider establishing either a petty cash fund or a controlled paid-out procedure.

Register Your Kinds of Cash
There are basically three kinds of cash in the shop and knowing the difference helps keep your books in order, your register tidy and your employees from grabbing a few bucks to tip the aforementioned pizza guy.

Cash Receipts. Every day, cash and cash equivalents (checks and credit cards) enter the store. Customers pay for their purchases or a previous purchase charged to their house account.

All these receipts should go directly into your POS system and then into your bank account. Each transaction is keyed Received on Account (ROA) or the appropriate product sale category.

Cash Register/POS. You should start each day with adequate cash in your register, usually between $50 and $100 in small bills and change. This is the amount needed to make change for customers paying in cash.

The amount of money in the change fund is constant. At the end of the day, before making the bank deposit, count out the change you started the day with and set that amount aside for the next day.

When money is taken out of your POS drawer, it is termed “paid-out.” It literally means money was paid out of the drawer.

Set Aside: Petty Cash
For expediency, many shops opt for a “Petty Cash Fund.” This amount of cash remains in a separate box or money bag. It’s used for small, unplanned expenses.

To balance the fund, keep receipts with it. However, some small businesses don’t want to monitor an extra account.

Stash the Cash
You want to restrict the access to petty cash or paid outs. To limit your risk, it’s best to funnel the money through one or two people. The owner is the obvious first choice. The second could be a manager or someone you trust and who’s at the shop most of the time.
Be sure to limit the number of times petty cash is used. Once you establish your rules and procedures, communicate them to employees so everyone understands his or her responsibility when it comes to petty cash or paid outs.

Whenever feasible, use checks or credit cards. Always get a receipt. A good paper trail discourages casual theft.

**Don’t Suffer from Withdrawals**
Regardless of where the money comes from, employees should properly document the withdrawal with a receipt and log.

Good information is the essence of good control. When you pay for purchases by check (or credit card), the bank automatically documents the activity. With cash purchases, you have to personally record what was spent where and why. At the end of the day, a florist who doesn’t account for a small cash purchase will end up short.

Don’t allow for sloppy math and promise to make it up the next day. Whenever your cash is short, determine immediately whether it was a legitimate use of cash or theft. If there are no controls on petty cash or cash for paid outs, you provide opportunity to steal. A proper paid out system will create obstacles, not invitations, for dishonesty.

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**FOLLOW THE MONEY**

The following steps help you know where your cash is and when it’s coming back. Whether it’s from an allocated “pizza/Staples run” fund or straight from your drawer, cash keeps your shop alive, so don’t let it get lost in the shuffle.

**Petty Cash**
1. Decide on the amount of cash needed for petty cash fund. Whether it’s as little as $25 or more than $100, put your selected sum in a cash box or money bag and lock it.
2. Assign a petty-cash administrator and a backup.
3. The cash-seeking employee sees the “petty cash administrator,” who files the employee’s name and the amount dispersed on a log that remains with the petty cash fund.
4. Once the purchase is made, the employee returns the change and receipt to the administrator, who verifies that the correct change was returned, notes the appropriate general ledger expense category on the receipt and checks off the event on the log sheet.
5. When the cash dips below normal petty cash purchases (around $20), write a check to the shop for the amount of receipts in the box. As with any check, code it to the appropriate general ledger expense categories. This case, the codes and amounts should appear on the receipts. You can cash the check at the bank or simply out of your cash register.

**Paid Out**
1. Determine who can authorize paid-outs from the POS cash drawer and never permit more than one or two people to access this cash drawer.
2. Keep a ledger (similar to that for petty cash) in an envelope under the drawer. Log all paid outs and put receipts for each expenditure in the envelope. Place change back in the POS cash drawer.
3. Code receipts for the proper expense category, as if you were writing a check.
4. The easiest way is to account for paid-out purchases is when you do your daily cash balancing. Most POS systems are programmed to handle paid-outs. Simply enter the amount paid out and its purpose in the paid-out field and you are good to go. Your drawer will balance and the accounting will be done.

The other option is to check for the amount of new receipts, as you did for petty cash, code it, put it in the register and file the receipts. Your cash drawer should now balance. The drawback is that you have to write a check every day you have paid outs.