

1) Zardoz Inc. Established A \$200 Petty Cash Fund On March 1. 2) On March 31, The Petty Cash Box Contained

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Understanding petty cash management is essential for small and medium-sized businesses to maintain smooth daily operations. This article explores the scenario where Zardoz Inc. established a petty cash fund and the subsequent account balance observed at the end of the month. By analyzing this example, readers will gain insights into petty cash procedures, recording transactions, and internal controls vital for accurate financial reporting.

Overview of Petty Cash Funds

What Is a Petty Cash Fund?

A petty cash fund is a small amount of cash kept on hand to cover minor expenses that are impractical to pay via check or electronic transfer. These expenses typically include office supplies, postage, minor repairs, or employee reimbursements. Establishing a petty cash fund simplifies the process of handling small payments and helps maintain proper expense tracking.

Importance of Proper Petty Cash Management

Effective management of petty cash ensures:

- Accurate financial records
- Prevention of theft or misuse
- Ease of reconciliation
- Streamlined expense payments

Proper controls involve designated custodians, regular replenishment, and documented transactions.

Zardoz Inc.'s Establishment of the Petty Cash Fund

Initial Setup on March 1

On March 1, Zardoz Inc. established a petty cash fund amounting to \$200. This process involves:

- Writing a check or transferring funds from the company's main account to create the petty cash fund.
- Assigning a custodian responsible for disbursing and replenishing the petty cash.
- Preparing a petty cash voucher system for recording disbursements.

Journal Entry to Establish the Fund:

Date	Account Title	Debit	Credit
March 1	Petty Cash	\$200	
	Cash		\$200

This entry indicates that cash has been moved from the company's main bank account into the petty cash fund.

Setting Up Internal Controls

To avoid misappropriation:

- The custodian should keep the cash in a secure box.
- All disbursements should be documented with receipts and petty cash vouchers.
- Periodic replenishment should be scheduled to reconcile the fund.

Transactions and Reconciliation by March 31

Expenses and Disbursements

Between March 1 and March 31, the petty cash was used for various small expenses.

Common types include:

- Office supplies
- Postage and shipping
- Minor repairs
- Employee reimbursements

Suppose the petty cash disbursements during March totaled \$75. The custodian collected receipts and vouchers for each expense, maintaining accurate records.

Replenishing the Petty Cash

At the end of March, the petty cash fund needs to be replenished to its original amount of \$200. This process involves:

- Summing all receipts and vouchers
- Determining the remaining cash in the box

- Writing a check to replenish the fund

Example Reconciliation:

- Starting petty cash: \$200
- Expenses paid: \$75
- Cash remaining in the box: determined during physical count

Suppose the custodian measures the remaining cash to be \$125. Then, the amount needed to replenish is:

$$\$200 \text{ (original)} - \$125 \text{ (cash on hand)} = \$75$$

The company writes a check for \$75 to restore the petty cash fund to its original balance.

Accounting for Petty Cash Transactions

Recording Replenishment

When replenishing, Zardo Inc. records the expenses as follows:

Journal Entry:

Date	Account Title	Debit	Credit
March 31	Office Supplies	\$30	
	Postage Expense	\$20	
	Repairs Expense	\$15	
	Reimbursed Expenses (Total)		\$75
	Cash		\$75

This entry accounts for the expenses paid from petty cash and the cash used to replenish the fund.

End-of-Month Petty Cash Balance

After recording all expenses and replenishment, the petty cash account reflects the correct balance. The physical count confirms the cash remaining matches the recorded amount, ensuring internal controls are maintained.

What Does the Petty Cash Balance on March 31 Indicate?

Understanding the balance in the petty cash box on March 31 provides insights into:

- Total expenses incurred during the month
- Proper documentation and control over petty cash
- The accuracy of the company's financial records

If the petty cash box contained \$125 at month-end, as in our example, it signals that \$75 was spent during March, matching the documented expenses.

Best Practices for Managing Petty Cash

To maintain effective control over petty cash, organizations should adopt best practices, including:

- **Designate a Custodian:** Assign responsibility to a trusted employee for disbursing and reconciling petty cash.
- **Use Petty Cash Vouchers:** Require receipts and vouchers for all disbursements to track expenses accurately.
- **Perform Regular Reconciliations:** Reconcile the petty cash fund periodically, such as weekly or monthly, to detect discrepancies early.
- **Limit Fund Size:** Keep petty cash amounts small to minimize risk and simplify management.
- **Establish Clear Policies:** Define allowable expenses, documentation requirements, and reimbursement procedures.

Conclusion

The example of Zardoz Inc. establishing a \$200 petty cash fund on March 1 and reconciling it on March 31 illustrates fundamental principles of petty cash management. Proper setup, documentation, and reconciliation ensure that petty cash serves its purpose efficiently while maintaining accurate financial records. Organizations adopting these practices can prevent misuse, streamline expense handling, and enhance overall financial control.

By understanding how to record petty cash transactions and reconcile balances, businesses can improve their internal controls and financial transparency, ultimately supporting smoother daily operations and more accurate reporting.

Frequently Asked Questions

What was the initial purpose of Zardoz Inc. establishing a \$200 petty cash fund on March 1?

The purpose was to have a readily available amount of cash for small miscellaneous expenses and to streamline the process of handling minor transactions within the company.

How does Zardoz Inc. record the establishment of the petty cash fund on March 1?

They record a debit to petty cash and a credit to cash for \$200, indicating the transfer of funds from the main cash account to the petty cash fund.

What is typically included in the petty cash box at Zardoz Inc. on March 31?

The petty cash box generally includes cash on hand, receipts for expenses paid out of petty cash, and any vouchers or supporting documents for petty cash transactions.

How does Zardoz Inc. verify the petty cash balance on March 31?

They perform a physical count of the cash in the petty cash box and compare it to the recorded receipts and vouchers to ensure the balance matches the expected amount.

What is the significance of the petty cash fund balance on March 31 for Zardoz Inc.?

The balance indicates how much cash remains after petty cash expenses have been paid, helping to ensure accurate accounting and control over petty cash usage.

If the petty cash box contains less than \$200 on March 31, what might that indicate?

It could indicate that petty cash expenses have been paid out, and the remaining cash plus receipts should total \$200; if not, it may suggest missing funds or unrecorded transactions.

What journal entry is made when petty cash is replenished at Zardoz Inc. on March 31?

The company debits various expense accounts for the receipts and credits cash for the total amount of replenishment, restoring the petty cash fund to its original amount.

Why is it important for Zardoz Inc. to regularly

reconcile the petty cash fund?

Regular reconciliation helps prevent theft, errors, and ensures accurate financial reporting of expenses paid out of petty cash.

How does the petty cash system benefit Zardoz Inc. in managing small expenses?

It provides a convenient, efficient way to handle minor expenses without frequent trips to the main cash account, while maintaining control through proper documentation and reconciliation.

Additional Resources

Zardoz Inc. Established A \$200 Petty Cash Fund On March 1. This decision marks a significant step in streamlining the company's day-to-day financial operations. Petty cash funds are essential tools for managing small expenses that are impractical to pay through checks or electronic transfers. For Zardoz Inc., establishing a petty cash fund not only improves efficiency but also provides better control over minor expenditures, fostering a more organized financial environment.

Overview of Zardoz Inc.'s Petty Cash Fund Initiative

On March 1, Zardoz Inc. officially set up a petty cash fund of \$200. This move reflects a proactive approach to managing small, incidental expenses that frequently arise in business operations. By pre-establishing a petty cash fund, the company aims to expedite routine payments, reduce administrative burdens, and maintain an accurate record of minor expenditures.

Key Objectives of Establishing the Petty Cash Fund:

- Facilitate quick payments for minor expenses such as office supplies, postage, or employee reimbursements.
- Minimize delays associated with issuing checks or making electronic transfers.
- Improve record-keeping and accountability for small cash disbursements.
- Control and monitor petty cash activity through periodic reconciliations.

Initial Setup Process:

- Cash of \$200 was physically placed into a designated petty cash box.
- An authorized employee was designated as the petty cash custodian.
- A petty cash voucher system was implemented for recording disbursements.
- Policies were established outlining permissible expenses and procedures for

replenishment.

Details of the March 31 Petty Cash Status

At the end of the first month, on March 31, the petty cash box balance was carefully examined and recorded. The contents of the cash box are critical for assessing the accuracy of petty cash management, ensuring that the system functions as intended, and identifying any discrepancies that could indicate theft, errors, or mismanagement.

Petty Cash Reconciliation on March 31:

- The petty cash box was physically counted.
- The total cash present was recorded.
- Receipts and vouchers for disbursed funds were reviewed.
- The remaining cash balance was compared against expected balances.

Reported Contents of the Petty Cash Box:

- Cash remaining: \$150
- Vouchers and receipts for disbursements totaling: \$50

This implies that during March, Zardoz Inc. disbursed \$50 for various small expenses. The detailed analysis of these expenses provides insights into the company's spending habits and the effectiveness of the petty cash system.

Analysis of March 31 Petty Cash Balance

The \$50 in vouchers and receipts indicates active use of the petty cash fund. The remaining cash balance of \$150 suggests that the company has effectively used only a quarter of the initial fund, which aligns with typical usage patterns for small, routine expenses.

Advantages of the petty cash system as evidenced by this scenario:

- Efficiency: Employees can quickly access cash for minor expenses without procedural delays.
- Accountability: Every disbursement is documented through receipts or vouchers, fostering transparency.
- Ease of Reconciliation: The periodic count and review help detect discrepancies early.

Potential concerns or issues to watch for:

- Loss or theft: Cash can be stolen if controls are lax.

- Misrecorded expenses: Inaccurate documentation may lead to misstatements.
- Overuse: Excessive or unauthorized disbursements could deplete the fund prematurely.

Features and Best Practices for Petty Cash Management

Implementing a petty cash fund involves several features and best practices to maximize benefits and minimize risks:

- Designated Custodian: Assign a responsible individual to oversee the fund.
- Clear Policies: Define permissible expenses, limits, and documentation requirements.
- Replenishment Procedures: Regularly review fund levels and replenish as needed, usually based on receipts and vouchers.
- Record Keeping: Maintain detailed logs for each disbursement, including date, amount, purpose, and recipient.
- Periodic Reconciliation: Conduct monthly or bi-weekly counts to ensure accuracy.

Pros:

- Quick access to cash for small expenses.
- Reduced administrative burden for minor disbursements.
- Improved control through documentation and oversight.

Cons:

- Risk of misappropriation if controls are weak.
- Potential for errors or misrecording.
- The need for regular reconciliation and oversight.

Implications of the March 1 and March 31 Data for Zardoz Inc.

The establishment and initial reconciliation of the petty cash fund offer valuable insights into Zardoz Inc.'s operational efficiency and financial discipline.

Positive indicators:

- Proper setup of the petty cash fund indicates good internal control.
- The use of vouchers suggests accountability.
- Remaining balance implies prudent use of funds.

Areas for improvement:

- Need for strict adherence to policies to prevent misuse.
- Regular audits to prevent discrepancies.
- Training staff on proper disbursement procedures.

Strategic benefits:

- Streamlined expense management enhances overall operational efficiency.
- Accurate petty cash tracking supports better financial reporting.
- The initial setup lays the foundation for scalable cash management as the company grows.

Conclusion

Zardo Inc.'s decision to establish a \$200 petty cash fund on March 1 exemplifies forward-thinking in financial management. The careful reconciliation on March 31, with a remaining cash balance of \$150 and vouchers totaling \$50, demonstrates a functioning system that balances convenience with accountability. As the company continues to utilize and monitor the petty cash fund, adhering to established policies and conducting regular reconciliations will ensure the system remains effective.

By maintaining diligent oversight, Zardo Inc. can prevent potential issues such as theft or misrecording, thereby safeguarding company assets and ensuring accurate financial reporting. The initial success of this initiative indicates a positive trajectory toward robust internal controls and operational efficiency. As the company grows, scaling and refining petty cash procedures will be essential for maintaining the integrity and usefulness of the petty cash system.

In summary:

- Establishing a petty cash fund simplifies small expense management.
- Proper documentation and regular reconciliation are vital.
- Ongoing oversight ensures accountability and minimizes risks.
- The initial data from March 31 provides a solid foundation for future financial control initiatives.

Adopting these best practices will help Zardo Inc. sustain effective cash management and support its broader financial health and operational goals.

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