

C.1

Best Practices for Using Cash in Your Business

Cash may still play a role in your business.

- Cash sales at a farmers' market or a farmstand
- Miscellaneous cash sales to other farmers such as for used equipment
- Paying workers in cash, making workers cash loans against future pay

There are smart ways to use cash in your business and ways that can get you in trouble.

Things that will get you in trouble:

- If you do not report cash income but use the cash to pay for expenses which you do report your financial information will be inaccurate, and a reader who understands your business will be able to see that your income is under-stated. This will make it difficult to get a loan.
- If discovered, under-reporting income on your tax returns could subject you to underpayment and accuracy-related penalties, and would give the IRS reason to audit your tax returns going back as many years as you have been in business (if there were no evidence of deliberate under-reporting of income they would only be able to go back three years).
- Using cash without a good method to ensure that the cash is all accurately reported in your bookkeeping system will cause your records to be incorrect even if it was not your intention. You may accidentally over- or under-report income and expenses. You will have difficulty explaining your business to yourself, any advisers who try to help you, a loan officer who wants to make you a loan, or an auditor who may think you have deliberately under-reported taxable income.

Good methods for ensuring that cash used in your business is accurately reported

For cash receipts

1. Get an envelope, count cash, write down the total on the envelope, put cash in the envelope.
2. Prepare a bank deposit

3. Deposit cash in a business bank and get a deposit receipt, check the deposit receipt total is the same as the total on the envelope. Re-count with the banker if the totals are not the same. Write the corrected total on the envelope if needed. Put the bank deposit receipt in the envelope.
4. Make any additional notes about sales on the envelope and give the envelope with the deposit receipt to your bookkeeper.
5. Review the books each month and pay particular attention to cash receipts being recorded correctly.

For cash paid out

1. Have a set "petty cash / cash on hand" amount - say \$100
2. Put \$100 in a coffee can or a zippered cash bag - this is called "petty cash"
3. Take cash needed from petty cash - say \$20
4. Spend the cash as needed and get a receipt
5. Return the change and the receipt to the petty cash location
6. At least once a month:
 - a. Reconcile the coffee can/cash bag once a week (or month) by adding all the receipts and all the change. The total of all the receipts plus all the change should equal the original total of cash in the coffee can or cash bag. If it does not, you are missing a receipt.
 - i. Total of all bills and change equals \$49.75. Total of all receipts equals \$20.25. Total cash plus receipts equals \$70.00. The total should be \$100 - you are missing receipts totalling \$30.00.
 - ii. You can use a hand-written note to re-create the missing receipt – something like "Bought extra tomato starts from River Farm \$30.00, no receipt."
 - iii. Now if you re-add all receipts and all cash you will total \$100.00
 - b. Give all the receipts to the bookkeeper
 - c. Bring the cash in the coffee can or cash bag back to the set amount
 - i. Determine how much cash to add by subtracting the total cash remaining in the coffee can/cash bag from the set amount: \$100.00 original amount, less \$49.75 remaining = \$50.25 needed to restore the original balance. This should also be the same as the total of all the receipts.
 - ii. Decide the source of the cash you will use to restore the balance:
 1. Bank: Write a check for "cash" for the amount needed and cash it at your bank. Put the needed amount of cash back in the coffee can or envelope. Your bookkeeper will know this is the amount needed to restore the petty cash account.

2. Cash Sales: See instructions for cash sales above. After you have added total cash sales and written the total for cash sales on the envelope, write "Less: Petty Cash" and the amount taken out of the deposit for petty cash. Subtract petty cash from total sales to get the amount of your deposit to the bank. Write this total on the envelope. Prepare the bank deposit and follow the instructions above for cash sales.