

CHAPTER 8

FRAUD, INTERNAL CONTROL, AND CASH

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	K	9.	2	C	17.	3	C	25.	6	C	^{sg} 33.	2	C
2.	1	C	10.	2	C	18.	4	K	26.	7	K	^{sg} 34.	3	K
3.	1	K	11.	2	C	19.	4	C	27.	7	C	^{sg} 35.	4	K
4.	1	K	12.	2	C	20.	4	AP	28.	7	K	^{sg} 36.	5	C
5.	2	C	13.	2	K	21.	4	K	29.	8	K	^{sg} 37.	6	K
6.	2	K	14.	2	C	22.	5	C	30.	8	K	^{sg} 38.	7	K
7.	2	K	15.	3	C	23.	5	C	^{sg} 31.	1	K			
8.	2	K	16.	3	K	24.	6	K	^{sg} 32.	2	K			
Multiple Choice Questions														
39.	1	K	65.	2	C	91.	5	K	117.	7	C	143.	7	AP
40.	1	K	66.	2	C	92.	5	C	118.	7	K	144.	8	C
41.	1	K	67.	2	K	93.	5	K	119.	7	K	145.	8	C
42.	1	K	68.	2	K	94.	5	C	120.	7	C	146.	8	C
43.	1	K	69.	2	K	95.	5	C	121.	7	AP	st 147.	2	K
44.	1	K	70.	2	C	96.	5	C	122.	7	C	^{sg} 148.	2	C
45.	1	K	71.	2	C	97.	5	C	123.	7	AP	st 149.	3	K
46.	1	C	72.	2	K	98.	5	C	124.	7	K	^{sg} 150.	3	K
47.	1	C	73.	2	C	99.	6	K	125.	7	AP	st 151.	4	K
48.	1	C	74.	2	C	100.	6	K	126.	7	AP	^{sg} 152.	4	C
49.	1	K	75.	3	C	101.	6	K	127.	7	K	^{sg} 153.	5	K
50.	1	K	76.	4	C	102.	6	K	128.	7	C	st 154.	6	K
51.	1	C	77.	4	C	103.	6	C	129.	7	AP	^{sg} 155.	6	K
52.	1	K	78.	4	C	104.	6	C	130.	7	AP	st 156.	7	K
53.	1	K	79.	4	C	105.	6	K	131.	7	AP	^{sg} 157.	9	K
54.	1	C	80.	4	K	106.	6	K	132.	7	AP	158.	9	K
55.	1	C	81.	4	C	107.	6	K	133.	7	AP	159.	9	K
56.	2	K	82.	4	K	108.	6	C	134.	7	AP	160.	9	K
57.	2	C	83.	4	C	109.	7	AP	135.	7	AP	161.	9	K
58.	2	C	84.	5	K	110.	7	AP	136.	7	AP	162.	9	K
59.	2	C	85.	5	C	111.	7	AP	137.	7	AP	163.	9	K
60.	2	C	86.	5	K	112.	7	AP	138.	7	AP	164.	9	K
61.	2	K	87.	5	C	113.	7	AP	139.	7	AP	165.	9	K
62.	2	K	88.	5	K	114.	7	AP	140.	7	AP	166.	9	K
63.	2	C	89.	5	K	115.	7	AP	141.	7	AP	167.	9	K
64.	2	K	90.	5	C	116.	7	AP	142.	7	AP			
Brief Exercises														
168.	2	C	171.	4	C	174.	7	K	177.	7	K			
169.	2	C	172.	5	AP	175.	7	K	178.	7	AP			
170.	3	C	173.	7	K	176.	7	AP	179.	7	AP			

^{sg} This question also appears in the Study Guide.

st This question also appears in a self-test at the student companion website.

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Exercises														
180.	2	C	186.	5	AP	192.	7	AN	198.	7	AN	204.	7	AN
181.	2	C	187.	5	AP	193.	7	AN	199.	7	AN	205.	7	AN
182.	2	C	188.	5	AP	194.	7	AN	200.	7	AN			
183.	2	C	189.	5	AP	195.	7	AP	201.	7	AN			
184.	3	C	190.	7	AN	196.	7	AP	202.	7	AN			
185.	4	C	191.	7	AP	197.	7	C	203.	7	C			
Completion Statements														
206.	1	K	210.	2	K	214.	4	K	218.	6	K	222.	7	AP
207.	2	K	211.	2	K	215.	4	K	219.	6	K			
208.	2	K	212.	2	K	216.	4	K	220.	7	K			
209.	2	K	213.	2	K	217.	5	K	221.	7	K			
Matching Statements														
223.	2	K												
Short-Answer Essay														
224.	1	K	226.	1	K	228.	7	K	230.	2	K			
225.	2	K	227.	5	K	229.	1	K						

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning objective 1													
1.	TF	31.	TF	42.	MC	46.	MC	50.	MC	54.	MC	224.	SA
2.	TF	39.	MC	43.	MC	47.	MC	51.	MC	55.	MC	226.	SA
3.	TF	40.	MC	44.	MC	48.	MC	52.	MC	206.	C	229.	SA
4.	TF	41.	MC	45.	MC	49.	MC	53.	MC	207.	C		
Learning Objective 2													
5.	TF	12.	TF	58.	MC	65.	MC	72.	MC	180.	Ex	210.	C
6.	TF	13.	TF	59.	MC	66.	MC	73.	MC	181.	Ex	211.	C
7.	TF	14.	TF	60.	MC	67.	MC	74.	MC	182.	Ex	212.	C
8.	TF	32.	TF	61.	MC	68.	MC	147.	MC	183.	Ex	213.	C
9.	TF	33.	TF	62.	MC	69.	MC	148.	MC	207.	C	223.	MA
10.	TF	56.	MC	63.	MC	70.	MC	168.	BE	208.	C	225.	SA
11.	TF	57.	MC	64.	MC	71.	MC	169.	BE	209.	C	230.	SA
Learning Objective 3													
15.	TF	17.	TF	75.	MC	150.	MC	184.	Ex				
16.	TF	34.	TF	149.	MC	170.	BE						
Learning Objective 4													
18.	TF	21.	TF	77.	MC	80.	MC	83.	MC	171.	BE	215.	C
19.	TF	35.	TF	78.	MC	81.	MC	151.	MC	185.	Ex	216.	C
20.	TF	76.	MC	79.	MC	82.	MC	152.	MC	214.	C		

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Learning Objective 5													
22.	TF	85.	MC	89.	MC	93.	MC	97.	MC	186.	Ex	217.	C
23.	TF	86.	MC	90.	MC	94.	MC	98.	MC	187.	Ex	227.	SA
36.	TF	87.	MC	91.	MC	95.	MC	153.	MC	188.	Ex		
84.	MC	88.	MC	92.	MC	96.	MC	172.	BE	189.	Ex		
Learning Objective 6													
24.	TF	99.	MC	102.	MC	105.	MC	108.	MC	218.	C		
25.	TF	100.	MC	103.	MC	106.	MC	154.	MC	219.	C		
37.	TF	101.	MC	104.	MC	107.	MC	155.	MC				
Learning Objective 7													
26.	TF	115.	MC	125.	MC	135.	MC	173.	BE	193.	Ex	203.	Ex
27.	TF	116.	MC	126.	MC	136.	MC	174.	BE	194.	Ex	204.	Ex
28.	TF	117.	MC	127.	MC	137.	MC	175.	BE	195.	Ex	205.	Ex
38.	TF	118.	MC	128.	MC	138.	MC	176.	BE	196.	Ex	220.	C
109.	MC	119.	MC	129.	MC	139.	MC	177.	BE	197.	Ex	221.	C
110.	MC	120.	MC	130.	MC	140.	MC	178.	BE	198.	Ex	222.	C
111.	MC	121.	MC	131.	MC	141.	MC	179.	BE	199.	Ex	228.	SA
112.	MC	122.	MC	132.	MC	142.	MC	190.	Ex	200.	Ex		
113.	MC	123.	MC	133.	MC	143.	MC	191.	Ex	201.	Ex		
114.	MC	124.	MC	134.	MC	156.	MC	192.	Ex	202.	Ex		
Learning Objective 8													
29.	TF	145.	MC	158.	MC	161.	MC	164.	MC	167.	MC		
30.	TF	146.	MC	159.	MC	162.	MC	165.	MC				
144.	MC	157.	MC	160.	MC	163.	MC	166.	MC				
Learning Objective 9													
158.	MC	160.	MC	162.	MC	164.	MC	166.	MC				
159.	MC	161.	MC	163.	MC	165.	MC	167.	MC				

Note: TF = True-False BE = Brief Exercise C = Completion
 MC = Multiple Choice Ex = Exercise MA = Matching
 SA = Short-answer Essay

CHAPTER LEARNING OBJECTIVES

- 1. Define fraud and internal control.** A fraud is a dishonest act by an employee that results in personal benefit to the employee at a cost to the employer. The fraud triangle refers to the three factors that contribute to fraudulent activity by employees: opportunity, financial pressure, and rationalization. Internal control consists of all the related methods and measures adopted within an organization to safeguard its assets, enhance the reliability of its accounting records, increase efficiency of operations, and ensure compliance with laws and regulations.
- 2. Identify the principles of internal control.** The principles of internal control are establishment of responsibility; segregation of duties; documentation procedures; physical controls; independent internal verification; and human resource controls such as bonding and requiring employees to take vacations.

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3. **Explain the applications of internal control principles to cash receipts.** Internal controls over cash receipts include (a) designating specific personnel to handle cash; (b) assigning different individuals to receive cash, record cash, and maintain custody of cash; (c) using remittance advices for mail receipts, cash register tapes for over-the-counter receipts, and deposit slips for bank deposits; (d) using company safes and bank vaults to store cash with access limited to authorized personnel, and using cash registers in executing over-the-counter receipts; (e) making independent daily counts of register receipts and daily comparison of total receipts with total deposits; and (f) bonding personnel that handle cash and requiring them to take vacations.
4. **Explain the applications of internal control principles to cash disbursements.** Internal controls over cash disbursements include (a) having specific individuals such as the treasurer authorized to sign checks and approve invoices; (b) assigning different individuals to approve items for payment, pay the items, and record the payment; (c) using prenumbered checks and accounting for all checks, with each check supported by an approved invoice; (d) storing blank checks in a safe or vault with access restricted to authorized personnel, and using a check-writing machine to imprint amounts on checks; (e) comparing each check with the approved invoice before issuing the check, and making monthly reconciliations of bank and book balances; and (f) bonding personnel who handle cash, requiring employees to take vacations, and conducting background checks.
5. **Describe the operation of a petty cash fund.** Companies operate a petty cash fund to pay relatively small amounts of cash. They must establish the fund, make payments from the fund, and replenish the fund when the cash in the fund reaches a minimum level.
6. **Indicate the control features of a bank account.** A bank account contributes to good internal control by providing physical controls for the storage of cash. It minimizes the amount of currency that a company must keep on hand, and it creates a double record of a depositor's bank transactions.
7. **Prepare a bank reconciliation.** It is customary to reconcile the balance per books and balance per bank to their adjusted balances. The steps in the reconciling process are to determine deposits in transit, outstanding checks, errors by the depositor or the bank, and unrecorded bank memoranda.
8. **Explain the reporting of cash.** Companies list cash first in the current assets section of the balance sheet. In some cases, they report cash together with cash equivalents. Cash restricted for a special purpose is reported separately as a current asset or as a noncurrent asset, depending on when the cash is expected to be used.

TRUE-FALSE STATEMENTS

1. Internal control is mainly concerned with the amount of authority a supervisor exercises over a subordinate.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

2. A highly automated computerized system of accounting eliminates the need for internal control.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Technology, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

3. The safeguarding of assets is an objective of a company's system of internal control.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

4. Management is responsible for establishing a system of internal control.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

5. Internal control is most effective when several people are responsible for a given task.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

6. The responsibility for keeping the records for an asset should be separate from the physical custody of that asset.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

7. Requiring employees to take vacations is a weakness in the system of internal controls because it does not promote operational efficiency.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

8. The extent of internal control features adopted by a company must be evaluated in terms of cost-benefit.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

9. An effective system of internal control requires that at least two individuals be assigned to one cash drawer so that each can serve as check on the other.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

10. Only large companies need to be concerned with a system of internal control.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

11. The responsibility for ordering, receiving, and paying for merchandise should be assigned to different individuals.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

12. In order to prevent a transaction from being recorded more than once, a company should maintain only one book of original entry.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

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13. Firms use physical controls primarily to safeguard their assets.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

14. A segregation of duties among employees eliminates the possibility of collusion.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

15. For efficiency of operations and better control over cash, a company should maintain only one bank account.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

16. Cash registers are an important internal control device used in controlling over-the-counter receipts.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

17. Checks received in the mail should be immediately stamped "NSF" to prevent unauthorized cashing of the check.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

18. Control over cash disbursements is improved if major expenditures are paid by check.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

19. In a voucher system, vouchers are prepared in the accounts receivable department.

Ans: F, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

20. Electronic Funds Transfer (EFT) is a disbursement system that uses telephone or computer to transfer cash from one location to another.

Ans: T, LO: 4, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Technology, AICPA BB: Resource Management, AICPA FN: None, AICPA PC: Project Management, IMA: Business Economics

21. A voucher system is used by many large companies as a means of controlling cash receipts.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

22. The petty cash fund eliminates the need for a bank checking account.

Ans: F, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

23. Cash register overages are deposited in the petty cash fund and cash shortages are made-up from the petty cash fund.

Ans: F, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

24. A deposit ticket is a negotiable instrument that can be transferred to another party by endorsement.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: None, AICPA PC: None, IMA: Business Economics

25. If a company deposits all its receipts in the bank and pays all its bills by check, then the monthly bank statement balance will always agree with the company's record of its checking account balance.

Ans: F, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

26. Checks from customers who pay their accounts promptly are called outstanding checks.

Ans: F, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: None, AICPA PC: Communications, IMA: Business Economics

27. All reconciling items in determining the adjusted cash balance per books require the depositor to make adjusting journal entries to the Cash account.

Ans: T, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

28. A bank reconciliation is generally prepared by the bank and sent to the depositor along with cancelled checks.

Ans: F, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

29. Cash equivalents are highly liquid investments that can be converted into a specific amount of cash.

Ans: T, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

30. Cash which is restricted for a specific use should be separately reported.

Ans: T, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

31. Internal control consists of the plan of organization and all of the related methods and measures adopted within a business to (a) safeguard its assets, and (b) enhance the accuracy and reliability of its accounting records.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

32. In general, documents should be prenumbered and all documents should be accounted for.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: Project Management, IMA: Internal Controls

33. Collusion may result when one individual circumvents prescribed controls and may significantly impair the effectiveness of a system.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

34. Personnel who handle cash receipts should have the option of taking a vacation or not.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

35. The duties of approving an item for payment and paying the item should be done by different departments or individuals.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

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36. The custodian of the petty cash fund has the responsibility of recording a journal entry every time cash is used from the fund.

Ans: F, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Internal Controls

37. A debit memorandum could show the collection of a note receivable by the bank.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

38. To obtain maximum benefit from a bank reconciliation, the reconciliation should be prepared by an employee who has no other responsibilities pertaining to cash.

Ans: T, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	7.	F	13.	T	19.	F	25.	F	31.	T	37.	F
2.	F	8.	T	14.	F	20.	T	26.	F	32.	T	38.	T
3.	T	9.	F	15.	F	21.	F	27.	T	33.	F		
4.	T	10.	F	16.	T	22.	F	28.	F	34.	F		
5.	F	11.	T	17.	F	23.	F	29.	T	35.	T		
6.	T	12.	F	18.	T	24.	F	30.	T	36.	F		

MULTIPLE CHOICE QUESTIONS

39. Which one of the following is **not** an objective of a system of internal controls?
- Safeguard company assets
 - Overstate liabilities in order to be conservative
 - Enhance the accuracy and reliability of accounting records
 - Reduce the risks of errors

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

40. Internal controls are concerned with
- only manual systems of accounting.
 - the extent of government regulations.
 - safeguarding assets.
 - preparing income tax returns.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

41. Which of the following is **not** one of the main factors that contribute to fraudulent activity?
- Opportunity.
 - Incompatible duties.
 - Financial Pressure.
 - Rationalization.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Global Business

42. Internal control is defined, in part, as a plan that safeguards
- all balance sheet accounts.
 - assets.
 - liabilities.
 - capital stock.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

43. The most important element of the fraud triangle is
- financial pressure.
 - incompatible duties.
 - opportunity.
 - rationalization.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Global Business

44. Companies that are subject to, but fail to comply with, the Foreign Corrupt Practices Act of 1977
- may do so legally by obtaining an exemption.
 - will be automatically dissolved.
 - may be subject to fines and officer imprisonment.
 - may be forced to sell their foreign subsidiaries.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Global Business

45. Internal controls are **not** designed to safeguard assets from
- natural disasters.
 - employee theft.
 - robbery.
 - unauthorized use.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

46. Having one person post entries to accounts receivable subsidiary ledger and a different person post to the Accounts Receivable Control account in the general ledger is an example of
- inadequate internal control.
 - duplication of effort.
 - external verification.
 - segregation of duties.

Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

47. Having one person responsible for the related activities of ordering merchandise, receiving goods, and paying for them
- increases the potential for errors and fraud.
 - decreases the potential for errors and fraud.
 - is an example of good internal control.
 - is a good example of safeguarding the company's assets.

Ans: A, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

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48. The custodian of a company asset should
- have access to the accounting records for that asset.
 - be someone outside the company.
 - not have access to the accounting records for that asset.
 - be an accountant.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

49. Internal auditors
- are hired by CPA firms to audit business firms.
 - are employees of the IRS who evaluate the internal controls of companies filing tax returns.
 - evaluate the system of internal controls for the companies that employ them.
 - cannot evaluate the system of internal controls of the company that employs them because they are not independent.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

50. When two or more people get together for the purpose of circumventing prescribed controls, it is called
- a fraud committee.
 - collusion.
 - a division of duties.
 - bonding of employees.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

51. From an internal control standpoint, the asset most susceptible to improper diversion and use is
- prepaid insurance.
 - cash.
 - buildings.
 - land.

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

52. The principle of establishing responsibility does *not* include
- one person being responsible for one task.
 - authorization of transactions.
 - independent internal verification.
 - approval of transactions.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

53. The control principle related to not having the same person authorize and pay for goods is known as
- establishment of responsibility.
 - independent internal verification.
 - segregation of duties.
 - rotation of duties.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

54. Two individuals at a retail store work the same cash register. You evaluate this situation as
- a violation of establishment of responsibility.
 - a violation of segregation of duties.
 - supporting the establishment of responsibility.
 - supporting internal independent verification.

Ans: A, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

55. An accounts payable clerk also has access to the approved supplier master file for purchases. The control principle of
- establishment of responsibility is violated.
 - independent internal verification is violated.
 - documentation procedures is violated.
 - segregation of duties is violated.

Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

56. Controls that enhance the accuracy and reliability of the accounting records are
- automated controls.
 - external controls.
 - mechanical and electronic controls.
 - physical controls.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

57. Related selling activities do **not** include
- ordering the merchandise.
 - making a sale.
 - shipping the goods.
 - billing the customer.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

58. The independent internal verification principle involves each of the following **except** the _____ of data prepared by other employees.
- comparison
 - reconciliation
 - review
 - segregation

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

59. Related buying activities include
- ordering, receiving, paying.
 - ordering, selling, paying.
 - ordering, shipping, billing.
 - selling, shipping, paying.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

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60. Jolene is warehouse custodian and also maintains the accounting record of the inventory held at the warehouse. An assessment of this situation indicates
- documentation procedures are violated.
 - independent internal verification is violated.
 - segregation of duties is violated.
 - establishment of responsibility is violated.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

61. Physical controls to safeguard assets do **not** include
- cashier department supervisors.
 - vaults.
 - employee identification badges.
 - security guards.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

62. In large companies, the independent internal verification procedure is often assigned to
- computer operators.
 - management.
 - internal auditors.
 - outside CPAs.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

63. Maximum benefit from independent internal verification is obtained when
- it is made on a pre-announced basis.
 - it is done by the employee possessing custody of the asset.
 - discrepancies are reported to management.
 - it is done at the time of the audit.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

64. If employees are bonded
- it means that they are not allowed to handle cash.
 - they have worked for the company for at least 10 years.
 - they have been insured against misappropriation of assets.
 - it is impossible for them to steal from the company.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

65. Rebekah Grace has worked for Specoly Inc., for 20 years without taking a vacation. An internal control feature that would address this situation would be
- other controls.
 - establishment of responsibility.
 - physical controls.
 - documentation procedures.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

66. A system of internal control
- is infallible.
 - can be rendered ineffective by employee collusion.
 - invariably will have costs exceeding benefits.
 - is premised on the concept of absolute assurance.

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

67. For accounting purposes, postdated checks (checks payable in the future) are considered to be
- money orders.
 - cash.
 - petty cash.
 - accounts receivable.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

68. Postage stamps on hand are considered to be
- cash.
 - petty cash.
 - cash equivalents.
 - a prepaid expense.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

69. Which one of the following items would **not** be considered cash?
- Coins
 - Money orders
 - Currency
 - Postdated checks

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

70. Checks received through the mail should
- immediately be endorsed "For Deposit Only."
 - be sent to the accounts receivable subsidiary ledger clerk for immediate posting to the customer's account.
 - be cashed at the bank as soon as possible.
 - be "rung up" on a cash register immediately.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

71. Proper control for over-the-counter cash receipts includes
- a cash register with totals visible to the customer.
 - using electronic cash registers with no tapes.
 - cash count sheets requiring only the supervisor's signature.
 - cash count sheets requiring only the cashier's signature.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

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72. A company stamps checks received in the mail with the words "For Deposit Only". This endorsement is called a(n)
- blank endorsement.
 - rubber stamp.
 - restrictive endorsement.
 - operational endorsement.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

73. The daily cash count of cash register receipts made by department supervisors is an example of
- other controls.
 - independent internal verification.
 - establishment of responsibility.
 - segregation of duties.

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

74. The use of remittance advices for mail receipts is an example of
- documentation procedures.
 - other controls.
 - physical controls.
 - independent internal verification.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

75. Allowing only designated personnel to handle cash receipts is an example of
- establishment of responsibility.
 - segregation of duties.
 - documentation procedures.
 - independent internal verification.

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

76. Control over cash disbursements is generally more effective when
- all bills are paid in cash.
 - disbursements are made by the accounts payable subsidiary clerk.
 - payments are made by check.
 - all purchases are made on credit.

Ans: C, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

77. Reconciling the bank statement monthly is an example of
- segregation of duties.
 - independent internal verification.
 - establishment of responsibility.
 - documentation procedures.

Ans: B, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

78. An exception to disbursements being made by check is acceptable when cash is paid
- to an owner.
 - to employees as wages.
 - from petty cash.
 - to employees as loans.

Ans: C, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

79. Allowing only the treasurer to sign checks is an example of
- documentation procedures.
 - segregation of duties.
 - other controls.
 - establishment of responsibility.

Ans: D, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

80. Blank checks
- should be safeguarded.
 - should be pre-signed.
 - do not need to be safeguarded since they must be signed to be valid.
 - should not be prenumbered.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

81. An employee authorized to sign checks should **not** record
- owner cash contributions.
 - mail receipts.
 - cash disbursement transactions.
 - sales transactions.

Ans: C, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

82. A voucher system is a series of prescribed control procedures
- to check the credit worthiness of customers.
 - designed to assure that disbursements by check are proper.
 - which eliminates the need for a sales journal.
 - specifically designed for small firms who may not have checking accounts.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

83. Under a voucher system, a prenumbered voucher is prepared for every
- cash receipt, regardless of source.
 - transaction entered into by the business.
 - expenditure except those made from petty cash.
 - journal entry.

Ans: C, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

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84. A credit balance in Cash Over and Short is reported as a(n)
- asset.
 - liability.
 - miscellaneous expense.
 - miscellaneous revenue.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

85. The entry to replenish a petty cash fund includes a credit to
- Petty Cash.
 - Cash.
 - Freight-in.
 - Postage Expense.

Ans: B, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

86. A debit balance in Cash Over and Short is reported as a
- contra asset.
 - miscellaneous asset.
 - miscellaneous expense.
 - miscellaneous revenue.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

87. A petty cash fund of \$100 is replenished when the fund contains \$4 in cash and receipts for \$93. The entry to replenish the fund would
- credit Cash Over and Short for \$3.
 - credit Miscellaneous Revenue for \$3.
 - debit Cash Over and Short for \$3.
 - debit Miscellaneous Expense for \$3.

Ans: C, LO: 5, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

88. A petty cash fund is generally established in order to
- pay for all merchandise purchased on account.
 - pay employees' wages.
 - make loans internally to employees.
 - pay relatively small expenditures.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

89. A petty cash fund should be replenished
- every day.
 - at the end of every accounting period.
 - once a year.
 - as soon as an expense is paid from the fund.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

90. A petty cash fund should **not** be used for
- postage due.
 - loans to the petty cash custodian.
 - taxi fares.
 - customer lunches.

Ans: B, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

91. The size of the petty cash fund is dependent on
- the wishes of the custodian of the fund.
 - anticipated disbursements for the year.
 - anticipated disbursements for a three- to four-week period.
 - the size of the regular cash account.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

92. Replenishing the petty cash fund requires
- a debit to Cash.
 - a credit to Petty Cash.
 - a debit to various expense accounts.
 - no accounting entry.

Ans: C, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

93. Entries are made to the Petty Cash account when
- establishing the fund.
 - making payments out of the fund.
 - recording shortages in the fund.
 - replenishing the fund.

Ans: A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

94. A \$100 petty cash fund has cash of \$12 and receipts of \$85. The journal entry to replenish the account would include a credit to
- Cash for \$88.
 - Petty Cash for \$88.
 - Cash Over and Short for \$2.
 - Cash for \$85.

Ans: A, LO: 5, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$100 - \$12 = \$88$

95. A \$100 petty cash fund has cash of \$16 and receipts of \$82. The journal entry to replenish the account would include a
- debit to Cash for \$82.
 - credit to Petty Cash for \$84.
 - debit to Cash Over and Short for \$2.
 - credit to Cash for \$82.

Ans: C, LO: 5, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(\$100 - \$16) - \$82 = \2

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96. A \$100 petty cash fund has cash of \$17 and receipts of \$86. The journal entry to replenish the account would include a
- debit to Cash for \$86.
 - credit to Petty Cash for \$86.
 - credit to Cash Over and Short for \$3.
 - credit to Cash for \$86.

Ans: C, LO: 5, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(\$17 + \$86) - \$100 = \3

97. If a petty cash fund is established in the amount of \$200, and contains \$119 in cash and \$84 in receipts for disbursements when it is replenished, the journal entry to record replenishment should include credits to the following accounts
- Petty Cash, \$84.
 - Petty Cash, \$81.
 - Cash, \$81; Cash Over and Short, \$3.
 - Cash, \$81.

Ans: C, LO: 5, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(\$119 + \$84) - \$200 = \3

98. If a petty cash fund is established in the amount of \$250, and contains \$153 in cash and \$94 in receipts for disbursements when it is replenished, the journal entry to record replenishment should include credits to the following accounts
- Petty Cash, \$94.
 - Petty Cash, \$97.
 - Cash, \$94; Cash Over and Short, \$3.
 - Cash, \$97.

Ans: D, LO: 5, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$250 - \$153 = \$97$

99. All of the following are parties to a check **except** the
- bank.
 - Federal Reserve.
 - maker.
 - payee.

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

100. When opening a bank checking account, a signature card
- indicates to whom money is to be paid.
 - indicates each person authorized to sign checks on the account.
 - is attached to all pre-printed checks.
 - is required only when dealing with an out-of-state bank.

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

101. Which one of the following is **not** necessarily a party to a check?
- Maker
 - Buyer
 - Payee
 - Payer

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

102. A bank statement
- lets a depositor know the financial position of the bank as of a certain date.
 - is a credit reference letter written by the depositor's bank.
 - is a bill from the bank for services rendered.
 - shows the activity which increased or decreased the depositor's account balance.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

103. Which one of the following would *not* cause a bank to debit a depositor's account?
- Bank service charge
 - Collection of a note receivable
 - Wiring of funds to other locations
 - Checks marked NSF

Ans: B, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

104. A company maintains the asset account, Cash in Bank, on its books, while the bank maintains a reciprocal account which is
- a contra-asset account.
 - a liability account.
 - also an asset account.
 - an owner's equity account.

Ans: B, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

105. A remittance advice attached to a company check provides
- details about the running cash balance in the checking account.
 - the magnetic bank routing numbers.
 - the explanation of the purpose of the check.
 - the signature space for the maker.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Internal Controls

106. A deposit made by a company will appear on the bank statement as a
- debit.
 - credit.
 - debit memorandum.
 - credit memorandum.

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

107. A check returned by the bank marked "NSF" means
- no service fee.
 - no signature found.
 - not satisfactorily filled-out.
 - not sufficient funds.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

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108. A debit memorandum would *not* be issued by the bank for
- a bank service charge.
 - the issuance of traveler's checks.
 - the wiring of funds.
 - the collection of a notes receivable.

Ans: D, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

109. If the month-end bank statement shows a balance of \$54,000, outstanding checks are \$15,000, a deposit of \$6,000 was in transit at month end, and a check for \$900 was erroneously charged by the bank against the account, the correct balance in the bank account at month end is
- \$44,100.
 - \$45,000.
 - \$45,900.
 - \$62,100.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$54,000 - \$15,000 + \$6,000 + \$900 = \$45,900$

110. In preparing its bank reconciliation for the month of April 2014, Delano, Inc. has available the following information.

Balance per bank statement, 4/30/14	\$78,600
NSF check returned with 4/30/14 bank statement	940
Deposits in transit, 4/30/14	10,000
Outstanding checks, 4/30/14	10,400
Bank service charges for April	60

What should be the adjusted cash balance at April 30, 2014?

- \$77,260.
- \$77,600.
- \$78,020.
- \$78,200.

Ans: D, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$78,600 + \$10,000 - \$10,400 = \$78,200$

111. The cash account shows a balance of \$90,000 before reconciliation. The bank statement does not include a deposit of \$5,000 made on the last day of the month. The bank statement shows a collection by the bank of \$2,400 and a customer's check for \$640 was returned because it was NSF. A customer's check for \$900 was recorded on the books as \$1,080, and a check written for \$138 was recorded as \$192. The correct balance in the cash account was
- \$91,580.
 - \$91,634.
 - \$92,400.
 - \$96,634.

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$90,000 + \$2,400 - \$640 - (\$1,080 - \$900) + (\$192 - \$138) = \$91,634$

112. The cash account shows a balance of \$40,000 before reconciliation. The bank statement does not include a deposit of \$9,200 made on the last day of the month. The bank statement shows a collection by the bank of \$3,960 and a customer's check for \$1,300 was returned because it was NSF. A customer's check for \$1,380 was recorded on the books as \$1,920, and a check written for \$318 was recorded as \$390. The correct balance in the cash account was
- \$42,048.
 - \$42,192.
 - \$43,128.
 - \$51,392.

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$40,000 + \$3,960 - \$1,300 - (\$1,920 - \$1,380) + (\$390 - \$318) = \$42,192$

113. If the month-end bank statement shows a balance of \$72,000, outstanding checks are \$54,000, a deposit of \$15,000 was in transit at month end, and a check for \$3,000 was erroneously charged by the bank against the account, the correct balance in the bank account at month end is
- \$33,000.
 - \$36,000.
 - \$72,000.
 - \$114,000.

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$72,000 - \$54,000 + \$15,000 + \$3,000$

114. In preparing its bank reconciliation for the month of April 2014, Haskins, Inc. has available the following information.

Balance per bank statement, 4/30/14	\$40,920
NSF check returned with 4/30/14 bank statement	1,350
Deposits in transit, 4/30/14	10,500
Outstanding checks, 4/30/14	15,600
Bank service charges for April	60

What should be the adjusted cash balance at April 30, 2014?

- \$34,410.
- \$34,470.
- \$35,760.
- \$35,820.

Ans: D, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$40,920 + \$10,500 - \$15,600 = \$35,820$

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115. In preparing its August 31, 2014 bank reconciliation, Annie Corp. has available the following information:

Balance per bank statement, 8/31/14	\$64,950
Deposit in transit, 8/31/14	11,700
Return of customer's check not sufficient funds, 8/30/14	1,800
Outstanding checks, 8/31/14	8,250
Bank service charges for August	300

At August 31, 2014, Annie's adjusted cash balance is

- \$56,700.
- \$56,400.
- \$68,400.
- \$61,500.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$64,950 + \$11,700 - \$8,250 = \$68,400$

116. Trudy, Inc. had the following bank reconciliation at March 31, 2014:

Balance per bank statement, 3/31/14	\$37,200
Add: Deposit in transit	<u>6,300</u>
	43,500
Less: Outstanding checks	<u>8,600</u>
Balance per books, 3/31/14	<u>\$34,900</u>

Data per bank for the month of April 2014 follow:

Deposits	\$46,700
Disbursements	49,700

All reconciling items at March 31, 2014 cleared the bank in April. Outstanding checks at April 30, 2014 totaled \$6,000. There were no deposits in transit at April 30, 2014. What is the cash balance per books at April 30, 2014?

- \$25,900
- \$31,900
- \$34,200
- \$38,500

Ans: A, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Solution: $\$34,900 - \$6,000 - (\$49,700 - \$46,700) = \$25,900$

117. On a bank reconciliation, deposits in transit are

- added to the bank balance.
- deducted from the bank balance.
- added to the book balance.
- deducted from the book balance.

Ans: A, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

118. A bank reconciliation should be prepared
- whenever the bank refuses to lend the company money.
 - when an employee is suspected of fraud.
 - to explain any difference between the depositor's balance per books and the balance per bank.
 - by the person who is authorized to sign checks.

Ans: C, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

119. Deposits in transit
- have been recorded on the company's books but not yet by the bank.
 - have been recorded by the bank but not yet by the company.
 - have not been recorded by the bank or the company.
 - are checks from customers which have not yet been received by the company.

Ans: A, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

120. In preparing a bank reconciliation, outstanding checks are
- added to the balance per bank.
 - deducted from the balance per books.
 - added to the balance per books.
 - deducted from the balance per bank.

Ans: D, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

121. If a check correctly written and paid by the bank for \$427 is incorrectly recorded on the company's books for \$472, the appropriate treatment on the bank reconciliation would be to
- add \$45 to the bank's balance.
 - add \$45 to the book's balance.
 - deduct \$45 from the bank's balance.
 - deduct \$427 from the book's balance.

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$472 - \$427 = \$45$

122. Notification by the bank that a deposited customer check was returned NSF requires that the company make the following adjusting entry:
- Accounts Receivable
Cash
 - Cash
Accounts Receivable
 - Miscellaneous Expense
Accounts Receivable
 - No adjusting entry is necessary.

Ans: A, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

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123. Jukebox Company had checks outstanding totaling \$10,800 on its June bank reconciliation. In July, Jukebox Company issued checks totaling \$77,800. The July bank statement shows that \$76,600 in checks cleared the bank in July. A check from one of Jukebox Company's customers in the amount of \$1,000 was also returned marked "NSF." The amount of outstanding checks on Jukebox Company's July bank reconciliation should be
- \$1,200.
 - \$11,000.
 - \$12,000.
 - \$13,000.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$77,800 - (\$76,600 - \$10,800) = \$12,000$

124. Each of the following items affect the cash balance per books *except*
- bank service charges.
 - notes collected by the bank.
 - NSF checks.
 - outstanding checks.

Ans: D, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

125. Electric Sunset Company gathered the following reconciling information in preparing its July bank reconciliation:

Cash balance per books, 7/31	\$22,000
Deposits in transit	1,200
Notes receivable and interest collected by bank	4,400
Bank charge for check printing	80
Outstanding checks	8,000
NSF check	680

The adjusted cash balance per books on July 31 is

- \$17,640.
- \$18,840.
- \$25,640.
- \$26,840.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$22,000 + \$4,400 - \$80 - \$680 = \$25,640$

126. Unicycle Company developed the following reconciling information in preparing its September bank reconciliation:

Cash balance per bank, 9/30	\$24,000
Note receivable collected by bank	12,000
Outstanding checks	14,000
Deposits in transit	7,000
Bank service charge	150
NSF check	2,400

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Determine the cash balance per books (before adjustments) for Unicycle Company.

- a. \$2,450.
- b. \$7,550.
- c. \$9,550.
- d. \$17,000.

Ans: B, LO: 7, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$24,000 - \$14,000 + \$7,000 = \$17,000$; $\$17,000 - \$12,000 + \$150 + \$2,400 = \$7,550$

127. Bank errors

- a. occur because of time lags.
- b. must be corrected by debits.
- c. are infrequent in occurrence.
- d. are corrected by making an adjusting entry on the depositor's books.

Ans: C, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

128. An adjusting entry is **not required for**

- a. outstanding checks.
- b. collection of a note by the bank.
- c. NSF checks.
- d. bank service charges.

Ans: A, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

129. Winter Gloves Company had checks outstanding totaling \$12,800 on its May bank reconciliation. In June, Winter Gloves Company issued checks totaling \$79,800. The July bank statement shows that \$71,400 in checks cleared the bank in July. A check from one of Winter Gloves Company's customers in the amount of \$2,000 was also returned marked "NSF." The amount of outstanding checks on Winter Gloves Company's July bank reconciliation should be

- a. \$8,400.
- b. \$19,200.
- c. \$21,200.
- d. \$23,200.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$79,800 - (\$71,400 - \$12,800) = \$21,200$

130. Candy Claws Company gathered the following reconciling information in preparing its August bank reconciliation:

Cash balance per books, 8/31	\$19,500
Deposits in transit	900
Notes receivable and interest collected by bank	4,800
Bank charge for check printing	120
Outstanding checks	12,000
NSF check	1,020

The adjusted cash balance per books on August 31 is

- a. \$11,160.
- b. \$12,060.

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- c. \$23,160.
- d. \$24,060.

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$19,500 + \$4,800 - \$120 - \$1,020 = \$23,160$

131. Shane Company gathered the following reconciling information in preparing its April bank reconciliation:

Cash balance per books, 4/30	\$19,800
Deposits in transit	2,700
Notes receivable and interest collected by bank	6,600
Bank charge for check printing	150
Outstanding checks	13,500
NSF check	1,260

The adjusted cash balance per books on April 30 is

- a. \$12,930.
- b. \$14,190.
- c. \$23,730.
- d. \$24,990.

Ans: D, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$19,800 + \$6,600 - \$150 - \$1,260 = \$24,990$

132. Bacher Company developed the following reconciling information in preparing its September bank reconciliation:

Cash balance per bank, 9/30	\$6,160
Note receivable collected by bank	3,360
Outstanding checks	3,200
Deposits in transit	2,520
Bank service charge	42
NSF check	672

Using the above information, determine the cash balance per books (before adjustments) for the Jeter Company.

- a. \$2,834
- b. \$5,480
- c. \$8,148
- d. \$8,828

Ans: A, LO: 7, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$6,160 - \$3,200 + \$2,520 = \$5,480$; $\$5,480 - \$3,360 + \$42 + \$672 = \$2,834$

133. In the month of November, Kinsey Company Inc. wrote checks in the amount of \$18,500. In December, checks in the amount of \$25,316 were written. In November, \$16,936 of these checks were presented to the bank for payment, and \$21,766 were presented in December. What is the amount of outstanding checks at the end of November?
- \$1,564
 - \$4,830
 - \$5,114
 - \$6,816

Ans: A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$18,500 - \$16,936 = \$1,564$

134. In the month of November, Kinsey Company Inc. wrote checks in the amount of \$27,750. In December, checks in the amount of \$37,974 were written. In November, \$25,404 of these checks were presented to the bank for payment, and \$32,649 were presented in December. What is the amount of outstanding checks at the end of December?
- \$2,346
 - \$7,245
 - \$7,671
 - \$10,224

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$27,750 + \$37,974 - (\$25,404 + \$32,649) = \$7,671$

135. At April 30, Yaddof Company has the following bank information: cash balance per bank \$2,300; outstanding checks \$390; deposits in transit \$275; credit memo for interest \$50; bank service charge \$10. What is Mareska's adjusted cash balance on April 30?
- \$2,185
 - \$2,245
 - \$2,300
 - \$2,340

Ans: A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$2,300 - \$390 + \$275 = \$2,185$

136. At June 30, Yaddof Company has the following bank information: cash balance per bank \$1,800; outstanding checks \$340; deposits in transit \$275; credit memo for interest \$75; bank service charge \$10. What is Mareska's adjusted cash balance on June 30?
- \$1,735
 - \$1,800
 - \$1,810
 - \$1,865

Ans: A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$1,800 - \$340 + \$275 = \$1,735$

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137. Hoppmann Company wrote checks totaling \$25,620 during October and \$27,975 during November. \$24,360 of these checks cleared the bank in October, and \$27,330 cleared the bank in November. What was the amount of outstanding checks on November 30?
- \$645
 - \$1,260
 - \$1,905
 - \$2,355

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$25,620 + \$27,975 - (\$27,330 + \$24,360) = \$1,905$

138. Fitzgerald Company wrote checks totaling \$34,160 during October and \$37,300 during November. \$32,480 of these checks cleared the bank in October, and \$36,440 cleared the bank in November. What was the amount of outstanding checks on November 30?
- \$2,860
 - \$1,680
 - \$2,540
 - \$3,140

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$34,160 + \$37,300 - (\$36,440 + \$32,480) = \$2,540$

139. Carothers Company assembled the following information in completing its March bank reconciliation: balance per bank \$7,640; outstanding checks \$1,550; deposits in transit \$2,500; NSF check \$160; bank service charge \$50; cash balance per books \$8,800. As a result of this reconciliation, Carothers will
- reduce its cash account by \$50.
 - reduce its cash account by \$210.
 - reduce its cash account by \$950.
 - increase its cash account by \$110.

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $\$160 + \$50 = \$210$

140. Macrinez Company assembled the following information in completing its July bank reconciliation: balance per bank \$22,920; outstanding checks \$4,650; deposits in transit \$7,500; NSF check \$480; bank service charge \$150; cash balance per books \$26,400. As a result of this reconciliation, Macrinez will
- reduce its cash account by \$150.
 - reduce its cash account by \$630.
 - reduce its cash account by \$2,850.
 - increase its cash account by \$330.

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$480 + \$150 = \$630$

141. If a check correctly written and paid by the bank for \$584 is incorrectly recorded on the company's books for \$548, the appropriate treatment on the bank reconciliation would be to
- deduct \$36 from the book's balance.
 - add \$36 to the book's balance.
 - deduct \$36 from the bank's balance.
 - deduct \$584 from the book's balance.

Ans: A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$584 - \$548 = \$36$

142. In the month of May, Kijak Company Inc. wrote checks in the amount of \$84,000. In June, checks in the amount of \$114,000 were written. In May, \$75,000 of these checks were presented to the bank for payment, and \$99,000 in June. What is the amount of outstanding checks at the end of May?
- \$9,000
 - \$15,000
 - \$24,000
 - \$30,000

Ans: A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$84,000 - \$75,000 = \$9,000$

143. In the month of May, Kijak Company Inc. wrote checks in the amount of \$56,000. In June, checks in the amount of \$76,000 were written. In May, \$50,000 of these checks were presented to the bank for payment, and \$66,000 in June. What is the amount of outstanding checks at the end of June?
- \$6,000
 - \$10,000
 - \$16,000
 - \$20,000

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $\$56,000 + \$76,000 - (\$50,000 + \$66,000) = \$16,000$

144. Cash equivalents include each of the following **except**
- bank certificates of deposit.
 - money market funds.
 - petty cash.
 - U.S. Treasury bills.

Ans: C, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

145. Which of the following would **not** be reported on the balance sheet as a cash equivalent?
- Money market fund
 - Sixty-day certificate of deposit
 - Six-month Treasury bill
 - Money market savings certificate

Ans: C, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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146. Compensating balances are a restriction on the use of a company's cash and should be
- reported as a current asset.
 - reported as a noncurrent asset.
 - disclosed in the financial statements.
 - reported as a reduction of cash.

Ans: C, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

147. The principles of internal control include all of the following *except*
- establishment of responsibility.
 - combining of duties.
 - physical, mechanical, and electronic controls.
 - independent internal verification.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

148. An example of poor internal control is
- The accountant should not have physical custody of the asset nor access to it.
 - The custodian of an asset should not maintain or have access to the accounting records.
 - One person should be responsible for handling related transactions.
 - A salesperson makes the sale, and a different person ships the goods.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

149. Having different individuals receive cash, record cash receipts, and hold the cash is an example of
- establishment of responsibility.
 - segregation of duties.
 - documentation procedures.
 - independent internal verification.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

150. Storing cash in a company safe is an application of which internal control principle?
- Segregation of duties
 - Documentation procedures
 - Physical controls
 - Establishment of responsibility

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

151. Using prenumbered checks and having an approved invoice for each check is an example of
- establishment of responsibility.
 - segregation of duties.
 - documentation procedures.
 - independent internal verification.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

152. An application of good internal control over cash disbursements is
- following payment, the approved invoice should be stamped PAID.
 - blank checks should be stored in the treasurer's desk.
 - each check should be compared with the approved invoice after the check is issued.
 - check signers should record the cash disbursements.

Ans: A, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

153. When making a payment from the petty cash fund for postage stamps, the following journal entry is made.
- Supplies..... XXXX
 Petty Cash..... XXXX
 - Postage Expense XXXX
 Petty Cash..... XXXX
 - Miscellaneous Expense XXXX
 Petty Cash..... XXXX
 - No entry is made.

Ans: D, LO: 5, Bloom: K, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

154. All of the following would involve a debit memorandum **except**
- a bank service charge.
 - an NSF check.
 - the cost of printing checks.
 - interest earned.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

155. A bank may issue a credit memorandum for
- a bank service charge.
 - an NSF (not sufficient funds) check from a customer.
 - the collection of a note receivable for the depositor by the bank.
 - the cost of printing checks.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

156. Journal entries are required by the depositor for all of the following **except**
- collection of a note receivable.
 - bank errors.
 - bank service charges.
 - an NSF check.

Ans: B, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

157. Cash equivalents are highly liquid investments that can be converted into a specific amount of cash with maturities of
- 1 month or less when purchased.
 - 3 months or less when purchased.
 - 6 months or less when purchased.
 - 1 year or less when purchased.

Ans: B, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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158. The principles of internal control activities are used in the
- U.S. but not globally.
 - internationally but not in the U.S.
 - in the U.S. and Canada but not globally.
 - globally.

IFRS Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

159. Sarbanes Oxley applies to
- U.S companies but not international companies.
 - international companies but not U.S. companies.
 - U.S. and Canadian companies but not other international companies.
 - U.S and international companies.

IFRS Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

160. The fraud triangle applies to
- U.S companies but not international companies.
 - international companies but not U.S. companies.
 - U.S. and Canadian companies but not other international companies.
 - U.S and international companies.

IFRS Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

161. What percentage of companies worldwide have experienced fraud in a recent two-year period?
- 1%
 - 10%
 - 50%
 - 100%

IFRS Ans: C, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

162. Tangible frauds include
- asset misappropriation.
 - false pretenses.
 - counterfeiting.
 - all of the above.

IFRS Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

163. IFRS, compared to GAAP, tends to be more
- detailed.
 - rules-based.
 - principles-based.
 - full of disclosures requirements.

IFRS Ans: C, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

164. GAAP, compared to IFRS, tends to be more
- simple in accounting requirements.
 - rules-based.
 - principles-based.
 - simple in disclosures requirements.

IFRS Ans: B, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

FOR INSTRUCTOR USE ONLY

165. GAAP's, accounting and internal control procedures related to cash and the definition of cash equivalents, as compared to IFRS are:

<u>Accounting and internal control procedures</u>	<u>Definition of cash equivalents</u>
a. essentially similar	essentially similar
b. essentially different	essentially similar
c. essentially similar	essentially different
d. essentially different	essentially different

IFRS Ans: A, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

166. Cash is defined by IFRS as

- a. cash on hand.
- b. demand deposits.
- c. cash on hand and demand deposits.
- d. cash on hand, demand deposits, and highly liquid investments.

IFRS Ans: C, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

167. Cash equivalents are defined by IFRS as

- a. cash on hand.
- b. demand deposits.
- c. cash on hand and demand deposits.
- d. short-term, highly liquid investments that are readily convertible into known amounts of cash.

IFRS Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
39.	b	58.	d	77.	b	96.	c	115.	c	134.	c	153.	d
40.	c	59.	a	78.	c	97.	c	116.	a	135.	a	154.	d
41.	b	60.	c	79.	d	98.	d	117.	a	136.	a	155.	c
42.	b	61.	a	80.	a	99.	b	118.	c	137.	c	156.	b
43.	c	62.	c	81.	c	100.	b	119.	a	138.	c	157.	b
44.	c	63.	c	82.	b	101.	b	120.	d	139.	b	158.	d
45.	a	64.	c	83.	c	102.	d	121.	b	140.	b	159.	d
46.	d	65.	a	84.	d	103.	b	122.	a	141.	a	160.	d
47.	a	66.	b	85.	b	104.	b	123.	c	142.	a	161.	c
48.	c	67.	d	86.	c	105.	c	124.	d	143.	c	162.	d
49.	c	68.	d	87.	c	106.	b	125.	c	144.	c	163.	c
50.	b	69.	d	88.	d	107.	d	126.	b	145.	c	164.	b
51.	b	70.	a	89.	b	108.	d	127.	c	146.	c	165.	a
52.	c	71.	a	90.	b	109.	c	128.	a	147.	b	166.	c
53.	c	72.	c	91.	c	110.	d	129.	c	148.	c	167.	d
54.	a	73.	b	92.	c	111.	b	130.	c	149.	b		
55.	d	74.	a	93.	a	112.	b	131.	d	150.	c		
56.	c	75.	a	94.	a	113.	b	132.	a	151.	c		
57.	a	76.	c	95.	c	114.	d	133.	a	152.	a		

BRIEF EXERCISES

BE 168

Match the principle of internal control to each of the following cases.

- a) Establishment of responsibility
 - b) Segregation of duties
 - c) Accountability for assets
 - d) Documentation procedures
 - e) Physical controls
- _____ 1. Cash is locked in a safe overnight.
- _____ 2. Employees who receive shipments of goods do not have access to the accounting records for merchandise.
- _____ 3. Shipping documents are prenumbered.
- _____ 4. The bookkeeper does not have physical custody of assets.
- _____ 5. Only the treasurer of the company can sign checks.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Medium, Min: 4, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Solution 168 (4 min.)

- 1. e
- 2. b
- 3. d
- 4. b
- 5. a

BE 169

Identify which principle of internal control is being followed in each of the following cases.

- 1. Warehouse employees do not have access to the accounting records.
- 2. Prenumbered shipping documents are prepared for each shipment of goods.
- 3. The locked warehouse is accessible only by warehouse employees with keys.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Solution 169 (3 min.)

- 1. Segregation of duties
- 2. Documentation procedures
- 3. Physical controls

BE 170

Identify the internal control procedures applicable to cash receipts for Ferguson Company in each of the following cases.

1. All cashiers are bonded.
2. The treasurer compares the total cash receipts to the bank deposit daily.
3. The bookkeeper records cash receipts which are held by the treasurer.
4. Only the treasurer holds cash receipts.
5. Deposit slips are completed for each deposit.

Ans: N/A, LO: 3, Bloom: C, Difficulty: Easy, Min: 4, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Solution 170 (4 min.)

1. Human resource controls
2. Independent internal verification
3. Segregation of duties
4. Establishment of responsibility
5. Documentation procedures.

BE 171

Identify the internal control procedures applicable to cash disbursements followed by Downey Company in each of the following cases.

1. Company checks are prenumbered.
2. Only the treasurer is authorized to sign checks.
3. All employees are required to take vacations.
4. Blank checks are stored in a locked safe.
5. The bookkeeper, not the treasurer, records cash disbursements.

Ans: N/A, LO: 4, Bloom: C, Difficulty: Easy, Min: 4, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Solution 171 (4 min.)

1. Documentation procedures
2. Establishment of responsibility
3. Human resource controls
4. Physical controls
5. Segregation of duties

BE 172

On October 1, Head and Heart Company's petty cash fund of \$150 is replenished. The fund contains cash of \$30, and receipts for supplies of \$75 and postage of \$45. Prepare the journal entry to record the replenishment of the petty cash fund.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 172 (3 min.)

Supplies	75	
Postage Expense.....	45	
Cash.....		120

BE 173

Identify whether each of the following items would be (a) added to the book balance, or (b) deducted from the book balance in a bank reconciliation.

1. EFT transfer to a supplier
2. Bank service charge
3. Check printing charge
4. Error recording check # 214 which was written for \$450 but recorded for \$540
5. Collection of note and interest by bank on company's behalf

Ans: N/A, LO: 7, Bloom: K, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

Solution 173 (3 min.)

1. b
2. b
3. b
4. a
5. a

BE 174

Identify whether each of the following items would be (a) added to the book balance, (b) deducted from the book balance in a bank reconciliation, (c) added to the bank balance, or (d) deducted from the bank balance.

1. Deposits in transit
2. Bank service charge
3. Collection of note and interest by bank on company's behalf
4. NSF check
5. Outstanding checks

Ans: N/A, LO: 7, Bloom: K, Difficulty: Medium, Min: 4, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

Solution 174 (4 min.)

1. c
2. b
3. a
4. b
5. d

BE 175

Identify which of the following reconciling items would require an adjusting entry to be made by Danielle Doyle Company.

1. Deposits in transit totaled \$2,000.
2. A check written to the company for \$415 by Cartography Company was returned NSF.
3. The bank charged the company \$25 for printing checks.
4. Outstanding checks totaled \$3,300
5. A debit memorandum reported an EFT of \$178 to Salome Utilities

Ans: N/A, LO: 7, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 175 (3 min.)

Adjusting entries would be required for: 2, 3, and 5 because they are reconciling items for the books.

BE 176

Harnish Company needs to make adjusting entries for each of the following reconciling items. Identify the account to be debited and the account to be credited in each case.

1. A check for \$127 written to the company by J. Chandler was returned NSF.
2. The monthly service charge by the bank was \$20.
3. The bank collected a \$1,000 note plus interest of \$100 on the company's behalf. The company had not accrued the interest.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 176 (4 min.)

- | | |
|---------------------------------|---|
| 1. Debit: Accounts Receivable | Credit: Cash |
| 2. Debit: Miscellaneous Expense | Credit: Cash |
| 3. Debit: Cash | Credit: Note Receivable, Interest Revenue |

BE 177

The following reconciling items are applicable to the bank reconciliation for the Spahn Company. Indicate how each item should be shown on a bank reconciliation.

- a. Outstanding checks.
- b. Bank credit memorandum for collecting a note for the depositor.
- c. Bank debit memorandum for service charge.
- d. Deposit in transit.

Ans: N/A, LO: 7, Bloom: K, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 177 (4 min.)

- a. Outstanding checks should be deducted from the balance per bank.
- b. Bank credit memorandum should be added to the balance per books.
- c. Bank debit memorandum should be deducted from the balance per books.
- d. Deposits in transit should be added to the balance per bank.

BE 178

At August 31, Coffman Company has this bank information: cash balance per bank \$6,450; outstanding checks \$2,762; deposits in transit \$1,700; and a bank service charge \$20. Determine the adjusted cash balance per bank at August 31, 2012.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 178 (5 min.)

Coffman Company
Partial Bank Reconciliation
August 31, 2012

Cash balance per bank	\$6,450
Add: Deposit in transit	<u>1,700</u>
	8,150
Less: Outstanding checks	<u>2,762</u>
Adjusted cash balance per bank	<u>\$5,388</u>

BE 179

Given the following information, determine the adjusted cash balance per books from the following information:

- a. Balance per books as of June 30, \$8,600.
- b. Outstanding checks, \$820.
- c. NSF check returned with bank statement, \$130.
- d. Deposit mailed the afternoon of June 30, \$300.
- e. Check printing charges, \$30.
- f. Interest earned on checking account, \$12.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 179 (4 min.)

\$8,452: (\$8,600 – \$130 – \$30 + \$12)

EXERCISES

Ex. 180

Match each of the following principles of internal control with the appropriate description below.

- A. Establishment of responsibility
- B. Segregation of duties
- C. Documentation procedures
- D. Physical controls
- E. Independent internal verification
- F. Human resource controls

- _____ 1. Involves the review, comparison, and reconciliation of data prepared by other employees.
- _____ 2. Provide evidence that transactions and events have occurred.
- _____ 3. Includes the authorization and approval of transactions.
- _____ 4. Rotating employees' duties and requiring employees to take vacations.
- _____ 5. Related activities should be assigned to different individuals.
- _____ 6. Using garment sensors to deter theft.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Solution 180 (5 min.)

- | | | |
|------|------|------|
| 1. E | 3. A | 5. B |
| 2. C | 4. F | 6. D |

Ex. 181

Below are descriptions of internal control problems. In the space to the left of each item, enter the code letter of the one best internal control principle that is related to the problem described.

Internal Control Principles

- A. Establishment of responsibility
- B. Segregation of duties
- C. Physical controls
- D. Documentation procedures
- E. Independent internal verification
- F. Human resource controls

- _____ 1. The same person opens incoming mail and posts the accounts receivable subsidiary ledger.
- _____ 2. Three people handle cash sales from the same cash register drawer.
- _____ 3. A clothing store is experiencing a high level of inventory shortages because people try on clothing and walk out of the store without paying for the merchandise.
- _____ 4. The person who is authorized to sign checks approves purchase orders for payment.
- _____ 5. Some cash payments are not recorded because checks are not prenumbered.
- _____ 6. Cash shortages are not discovered because there are no daily cash counts by supervisors.
- _____ 7. The treasurer of the company has not taken a vacation for over 20 years.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Solution 181 (5 min.)

- | | |
|------|------|
| 1. B | 5. D |
| 2. A | 6. E |
| 3. C | 7. F |
| 4. B | |

Ex. 182

Joe Foss has worked for Dr. Sam Milton for several years. Joe demonstrates a loyalty that is rare among employees. He hasn't taken a vacation in the last three years. One of Joe's primary duties at the medical office is to open the mail and list the checks received. He also takes cash from patients at the cashier window as patients leave. At times it is so hectic that Joe doesn't bother with giving each patient a receipt for the cash paid on their accounts. He assures them he will see to it that they receive the proper credit. When the traffic is slow in the office, Joe offers to help Ann post the payments to the patients' accounts receivable. She is always happy to receive his help, because he is a very conscientious worker.

Ex. 182 (Cont.)

Instructions

Identify any principles of internal control that may be violated in this medical office situation.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Easy, Min: 10, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Solution 182 (10 min.)

Violations:

1. It is Ann's responsibility to post payments to patient accounts. In allowing Joe to assist her, the establishment of responsibility principle is violated.
2. Although it appears to be a small office, it is not appropriate that Joe both opens the mail, receives and records cash receipts from patients, and also appears to have custody of cash. This situation violates the segregation of duties principle. By posting to patients' accounts, it would be possible to post credits to patient accounts and pocket the cash.
3. The documentation principle is violated when patients are not given cash receipts. Although many professional offices do not have cash registers, computerized or manual receipts are customary and necessary.
4. Independent internal verification is also being violated. There is no independent counting of the cash and comparison to total receipts.
5. Human resource controls are being violated. There is no mention of Joe being bonded. Also, personnel should be required to take vacations.

Ex. 183

Listed below are seven errors or problems which might occur in the processing of cash transactions. Also shown is a list of internal control principles. Evaluate each possible error and cite a principle that is listed that would reduce the probability of the error occurring. If none of the principles given will correct the problem, write "None." If you think more than one principle is appropriate, list all principles that apply.

Possible Errors or Problems

1. An employee steals the cash collected from a customer for an account receivable and conceals this theft by issuing a credit memorandum indicating that the customer returned the merchandise.
2. A small fire destroys 3 days of cash receipts.
3. The official designated to sign checks is able to steal blank checks and issue them without fear of detection.
4. A salesclerk in serving customers often rings up a sale for less than the actual amount and then keeps the additional cash collected from the customer.
5. Three cashiers use one cash register drawer and the cash in the drawer is often short of the balance kept on hand.
6. Each cashier counts his own register drawer each day and verbally reports the results to the supervisor.
7. Cashiers with over 5 years' experience are not bonded.

Ex. 183 (Cont.)

Internal Control Principles

- a. Establishment of responsibility
- b. Segregation of duties
- c. Physical controls
- d. Documentation procedures
- e. Independent internal verification
- f. Human resource controls

Ans: N/A, LO: 2, Bloom: C, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Solution 183 (10 min.)

- 1. b
- 2. c
- 3. c
- 4. c
- 5. a and e
- 6. d and e
- 7. f

Ex. 184

Match the internal control principle below with the appropriate cash receipts procedure described.

- a. Documentation procedures
- b. Establishment of responsibility
- c. Independent internal verification
- d. Human resource controls
- e. Physical controls
- f. Segregation of duties

- _____ 1. Only designated personnel are authorized to handle cash receipts.
- _____ 2. Different individuals receive cash and record cash receipts.
- _____ 3. Use remittance advice and cash register tapes.
- _____ 4. Store cash in safes and bank vaults.
- _____ 5. Treasurer compares total receipts to bank deposits daily.
- _____ 6. Bonding of employees that handle cash.

Ans: N/A, LO: 3, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Solution 184 (5 min.)

- 1. b
- 2. f
- 3. a
- 4. e
- 5. c
- 6. d

Ex. 185

Match the internal control principle below with the appropriate cash disbursements procedure described.

- a. Establishment of responsibility
- b. Segregation of duties
- c. Documentation procedures
- d. Physical controls
- e. Independent internal verification
- f. Human resource controls

- _____ 1. Compare checks to invoices.
- _____ 2. Different individuals approve and make payments.
- _____ 3. Print check amounts by machine with indelible ink.
- _____ 4. Only designated personnel are authorized to sign checks.
- _____ 5. Each check must have approved invoice.
- _____ 6. Requiring employees to take vacations.

Ans: N/A, LO: 4, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Solution 185 (5 min.)

- 1. e 3. d 5. c
- 2. b 4. a 6. f

Ex. 186

The petty cash fund of \$200 for Ginther Company appeared as follows on December 31, 2014:

Cash	\$61.60
Petty cash vouchers	
Freight in	\$27.40
Postage	45.00
Balloons for a special occasion	63.00

Instructions

1. Briefly describe when the petty cash fund should be replenished. Because there is cash on hand, is there a need to replenish the fund at year end on December 31? Explain.
2. Prepare in general journal form the entry to replenish the fund.
3. On December 31, the office manager gives instructions to increase the petty cash fund by \$50. Make the appropriate journal entry.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Easy, Min: 10, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Solution 186 (10 min.)

1. Petty cash should be replenished on a periodic basis or when the cash is low. It must be replenished on the balance sheet date so that the expenses represented by the petty cash vouchers can be recorded in the proper accounting period.

2. Freight-In.....	27.40	
Postage Expense	45.00	
Miscellaneous Expense.....	63.00	
Cash Over and Short.....	3.00	
Cash.....		138.40
3. Petty Cash	50.00	
Cash.....		50.00

Ex. 187

Prepare the entry to replenish the \$200 petty cash fund of Erin Company, assuming the fund has receipts for: freight-out \$60, postage \$105, and miscellaneous expense \$25. The fund contains \$8 in cash.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 187 (5 min.)

Freight-Out.....	60	
Postage Expense.....	105	
Miscellaneous Expense	25	
Cash Over and Short	2	
Cash (\$200 – \$8).....		192

Ex. 188

On October 1, 2014, Ellington Company establishes an imprest petty cash fund by issuing a check for \$200 to Erin Angelo, the custodian of the petty cash fund. On October 31, 2014, Erin Angelo submitted the following paid petty cash receipts for replenishment of the petty cash fund when there is \$32 cash in the fund:

Freight-In	\$28
Supplies Expense	42
Entertainment of Clients	65
Postage Expense	30

Instructions

Prepare the journal entries required to establish the petty cash fund on October 1 and the replenishment of the fund on October 31.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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Solution 188 (10 min.)

Oct. 1	Petty Cash	200	
	Cash.....		200
	(To establish a petty cash fund)		
31	Cash Over and Short	3	
	Freight-In	28	
	Supplies Expense	42	
	Entertainment Expense.....	65	
	Postage Expense.....	30	
	Cash.....		168
	(To record expenses for October and to replenish the petty cash fund)		

Ex. 189

Ernest Company uses an imprest petty cash system. The fund was established on March 1 with a balance of \$200. During March the following petty cash receipts were found in the petty cash box.

Receipt			
<u>Date</u>	<u>No.</u>	<u>For</u>	<u>Amount</u>
3/5	1	Stamp Inventory	\$74
7	2	Freight-Out	42
9	3	Miscellaneous Expense	22
11	4	Travel Expense	49

The fund was replenished on March 15 when the fund contained \$9 in cash. On March 20, the amount in the fund was increased to \$300.

Instructions

Journalize the entries in March that pertain to the operation of the petty cash fund.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 189 (5 min.)

Mar. 1	Petty Cash	200	
	Cash.....		200
15	Postage Expense	74	
	Freight-Out.....	42	
	Miscellaneous Expense	22	
	Travel Expense	49	
	Cash Over and Short	4	
	Cash.....		191
20	Petty Cash	100	
	Cash.....		100

Ex. 190

Sky Company is unable to reconcile the bank balance at January 31. Sky's reconciliation is as follows.

Cash balance per bank	\$5,300
Add: NSF check	1,570
Less: Bank service charge	<u>35</u>
Adjusted balance per bank	<u>\$6,835</u>
Cash balance per books	\$5,705
Less: Deposits in transit	750
Add: Outstanding checks	<u>1,950</u>
Adjusted balance per books	<u>\$6,905</u>

Instructions

- (a) Prepare a correct bank reconciliation.
- (b) Journalize the entries required by the reconciliation.

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Medium, Min: 8, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Internal Controls

Solution 190 (8 min.)

(a) Cash balance per bank statement.....		\$5,300
Add: Deposits in transit		<u>750</u>
		6,050
Less: Outstanding checks		<u>1,950</u>
Adjusted cash balance per bank		<u>\$4,100</u>
Cash balance per books.....		\$5,705
Less: NSF check.....	1,570	
Bank service charge.....	<u>35</u>	<u>1,605</u>
Adjusted cash balance per books.....		<u>\$4,100</u>
(b) Accounts Receivable.....	1,570	
Cash.....		1,570
Miscellaneous Expense.....	35	
Cash.....		35

Ex. 191

On April 30, the bank reconciliation of Baxter Company shows three outstanding checks: no. 354, \$650, no. 355, \$820, and no. 357, \$615. The May bank statement and the May cash payments journal show the following.

Bank Statement Checks Paid			Cash Payments Journal Checks Issued		
Date	Check No.	Amount	Date	Check No.	Amount
5/4	354	650	5/2	358	159
5/2	355	820	5/5	359	275
5/17	358	159	5/10	360	890
5/12	359	275	5/15	361	850
5/20	360	890	5/22	362	750
5/29	363	480	5/24	363	480
5/30	362	750	5/29	364	870

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Ex. 191 (Cont.)

Instructions

Using step 2 in the reconciliation procedure, list the outstanding checks at May 31.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 191 (3 min.)

The outstanding checks are as follows:

<u>No.</u>	<u>Amount</u>
357	\$ 615
361	850
364	<u>870</u>
Total	<u>\$2,335</u>

Ex. 192

The information below relates to the Cash account in the ledger of Lee Company.

Balance September 1—\$25,725; Cash deposited—\$96,000.
Balance September 30—\$22,225; Checks written—\$99,500.

The September bank statement shows a balance of \$24,635 on September 30 and the following memoranda.

Credits	Debits
Collection of \$4,250 note plus interest \$50 \$4,300	NSF check: J. E. Hoover \$735
Interest earned on checking account \$40	Safety deposit box rent \$75

At September 30, deposits in transit were \$4,695, and outstanding checks totaled \$3,575.

Instructions

Prepare the bank reconciliation at September 30.

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 192 (10 min.)

(a)

LEE COMPANY
Bank Reconciliation
September 30

Cash balance per bank statement		\$24,635
Add: Deposits in transit.....		<u>4,695</u>
		29,330
Less: Outstanding checks.....		<u>3,575</u>
Adjusted cash balance per bank.....		<u>\$25,755</u>
Cash balance per books		\$22,225
Add: Collection of note receivable (\$4,250 + \$50)	\$4,300	
Interest earned.....	<u>40</u>	<u>4,340</u>
		26,565

FOR INSTRUCTOR USE ONLY

Solution 192 (cont.)

Less: NSF check.....	735	
Safety deposit box rent.....	<u>75</u>	<u>810</u>
Adjusted cash balance per books.....		<u>\$25,755</u>

Ex. 193

The cash records of Jasmin Company show the following four situations.

1. The June 30 bank reconciliation indicated that deposits in transit total \$2,110. During July the general ledger account Cash shows deposits of \$23,620, but the bank statement indicates that only \$23,400 in deposits were received during the month.
2. The June 30 bank reconciliation also reported outstanding checks of \$1,250. During the month of July, Jasmin Company books show that \$25,800 of checks were issued. The bank statement showed that \$24,600 of checks cleared the bank in July.
3. In September, deposits per the bank statement totaled \$40,100, deposits per books were \$38,100, and deposits in transit at September 30 were \$2,900.
4. In September, cash disbursements per books were \$36,550, checks clearing the bank were \$37,500, and outstanding checks at September 30 were \$3,200.

There were no bank debit or credit memoranda. No errors were made by either the bank or Jasmin Company.

Instructions

Answer the following questions.

- (a) In situation (1), what were the deposits in transit at July 31?
- (b) In situation (2), what were the outstanding checks at July 31?
- (c) In situation (3), what were the deposits in transit at August 31?
- (d) In situation (4), what were the outstanding checks at August 31?

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Hard, Min: 12, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 193 (12 min.)

(a) Deposits in transit:		
Deposits per books in July.....		\$23,620
Less: Deposits per bank in July.....	\$23,400	
Deposits in transit, June 30.....	<u>(2,110)</u>	
July receipts deposited in July.....		<u>21,290</u>
Deposits in transit, July 31.....		<u>\$ 2,330</u>
(b) Outstanding checks:		
Checks per books in July.....		\$25,800
Less: Checks clearing bank in July.....	\$24,600	
Outstanding checks, June 30.....	<u>(1,250)</u>	
July checks cleared in July.....		<u>23,350</u>
Outstanding checks, July 31.....		<u>\$ 2,450</u>

FOR INSTRUCTOR USE ONLY

Solution 192 (cont.)

(c) Deposits in transit:

Deposits per bank statement in September	\$40,100
Add: Deposits in transit, September 30	<u>2,900</u>
Total deposits to be accounted for	43,000
Less: Deposits per books.....	<u>38,100</u>
Deposits in transit, August 31	<u>\$ 4,900</u>

(d) Outstanding checks:

Checks clearing bank in September.....	\$37,500
Add: Outstanding checks, September 30	<u>3,200</u>
Total checks to be accounted for	40,700
Less: Cash disbursements per books	<u>36,550</u>
Outstanding checks, August 31.....	<u>\$ 4,150</u>

Ex. 194

Lyleen Boat Company's bank statement for the month of September showed a balance per bank of \$7,000. The company's Cash account in the general ledger had a balance of \$5,459 at September 30. Other information is as follows:

- (1) Cash receipts for September 30 recorded on the company's books were \$5,700 but this amount does not appear on the bank statement.
- (2) The bank statement shows a debit memorandum for \$40 for check printing charges.
- (3) Check No. 119 payable to Mann Company was recorded in the cash payments journal and cleared the bank for \$248. A review of the accounts payable subsidiary ledger shows a \$36 credit balance in the account of Mann Company and that the payment to them should have been for \$284.
- (4) The total amount of checks still outstanding at September 30 amounted to \$5,000.
- (5) Check No. 138 was correctly written and paid by the bank for \$409. The cash payment journal reflects an entry for Check No. 138 as a debit to Accounts Payable and a credit to Cash in Bank for \$490.
- (6) The bank returned an NSF check from a customer for \$360.
- (7) The bank included a credit memorandum for \$2,560 which represents collection of a customer's note by the bank for the company; principal amount of the note was \$2,500 and interest was \$60. Interest has not been accrued.

Instructions

- (a) Prepare a bank reconciliation for Lyleen Boat Company at September 30.
- (b) Prepare any adjusting entries necessary as a result of the bank reconciliation.

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Hard, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 194 (25 min.)

(a) LYLEEN BOAT COMPANY Bank Reconciliation September 30			
Cash balance per bank			\$ 7,000
Add: (1) Deposit in transit			<u>5,700</u>
			12,700
Less: (4) Outstanding checks			<u>5,000</u>
Adjusted cash balance per books			<u>\$ 7,700</u>
Cash balance per books			\$ 5,459
Add: (5) Accounts Payable Error		\$ 81	
(7) Collect \$2,500 note and interest \$60		<u>2,560</u>	<u>2,641</u>
			8,100
Less: (2) Check printing		40	
(6) NSF Check		<u>360</u>	<u>400</u>
Adjusted cash balance per books			<u>\$ 7,700</u>

Note: Item (3) is not a reconciling item.

(b)			
Sept. 30	Cash	81	
	Accounts Payable		81
	(To correct error in recording Check No. 138)		
30	Cash	2,560	
	Notes Receivable		2,500
	Interest Revenue		60
	(To record collection of note receivable and interest by the bank)		
30	Miscellaneous Expense	40	
	Cash		40
	(To record check printing charges)		
30	Accounts Receivable	360	
	Cash		360
	(To record NSF check)		

Ex. 195

Bell Food Store developed the following information in recording its bank statement for the month of March.

Balance per books March 31	\$ 3,664
Balance per bank statement March 31	\$10,900

- (1) Checks written in March but still outstanding \$7,000.
- (2) Checks written in February but still outstanding \$3,100.
- (3) Deposits of March 30 and 31 not yet recorded by bank \$5,200.
- (4) NSF check of customer returned by bank \$1,200.
- (5) Check No. 210 for \$593 was correctly issued and paid by bank but incorrectly entered in the cash payments journal as payment on account for \$539.

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Ex. 195 (Cont.)

- (6) Bank service charge for March was \$50.
- (7) A payment on account was incorrectly entered in the cash payments journal and posted to the accounts payable subsidiary ledger for \$824 when Check No. 318 was correctly prepared for \$284. The check cleared the bank in March.
- (8) The bank collected a note receivable for the company for \$3,000 plus \$100 interest revenue.

Instructions

Prepare a bank reconciliation at March 31.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Hard, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 195 (20 min.)

BELL FOOD STORE			
Bank Reconciliation			
March 31			
Cash balance per books	\$3,664	Cash balance per bank	\$10,900
Add:		Add:	
(7) Error on Check No. 318 \$ 540		(3) Deposit in transit	<u>5,200</u>
(8) Collect \$3,000 note and interest \$100	<u>3,100</u>		<u>16,100</u>
	<u>3,640</u>		
	7,304		
Less:		Less:	
(4) NSF Check 1,200		(1) Mar. outstanding checks (\$7,000)	
(5) Error on Check No. 210 54		(2) Feb. outstanding checks (\$3,100)	<u>10,100</u>
(6) Bank Service Charge 50	<u>1,304</u>		
Adjusted cash balance per books	<u>\$6,000</u>	Adjusted cash balance per bank	<u>\$ 6,000</u>

Ex. 196

Using the code letters below, indicate how each of the items listed would be handled in preparing a bank reconciliation. Enter the appropriate code letter in the space to the left of each item.

Code

- A Add to cash balance per books
- B Deduct from cash balance per books
- C Add to cash balance per bank
- D Deduct from cash balance per bank
- E Does not affect the bank reconciliation

Items:

- ___ 1. Outstanding checks.
- ___ 2. Bank service charge.
- ___ 3. Check for \$420 correctly written and paid by the bank but incorrectly entered in the cash payments journal for \$240.
- ___ 4. Deposit in transit.
- ___ 5. Bank returns deposited check marked NSF.

Ex. 196 (Cont.)

- ___ 6. Bank collects notes receivable and interest for depositor.
- ___ 7. Bank debit memorandum for check printing fees.
- ___ 8. Petty cash custodian has \$91 in paid petty cash vouchers that have not been reimbursed.
- ___ 9. Bank charged a check against the company which should have been charged to another company.
- ___ 10. A check for \$246 was correctly paid by the bank but was incorrectly entered in the cash payments journal for \$264.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 196 (10 min.)

- | | |
|------|-------|
| 1. D | 6. A |
| 2. B | 7. B |
| 3. B | 8. E |
| 4. C | 9. C |
| 5. B | 10. A |

Ex. 197

The following adjusting entries for Donkey Company were prepared after completing a bank reconciliation. For each of the following adjustments, prepare a probable explanation for the adjusting entry.

1. Supplies	180	
Cash		180
2. Accounts Receivable—B. Borke	460	
Cash		460
3. Cash	2,240	
Notes Receivable		2,000
Interest Revenue		240
4. Sales	72	
Cash		72
5. Miscellaneous Expense	18	
Cash		18

Ans: N/A, LO: 7, Bloom: C, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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Solution 197 (10 min.)

1. To adjust book balance for error in recording supplies.
2. To record an NSF check returned with the bank statement.
3. To record collection of Notes Receivable and interest upon notification by bank through bank statement.
4. To adjust book balance for transposition error in recording sales.
5. To reduce the book balance for bank service or check printing charges.

Ex. 198

The cash balance per books for Feagen Company on September 30, 2012 is \$10,740.93. The following checks and receipts were recorded for the month of October, 2012:

Checks				Receipts	
No.	Amount	No.	Amount	Amount	Date
17	\$372.96	22	\$ 578.84	\$843.86	10/ 5
18	\$780.62	23	\$1,687.50	\$941.54	10/21
19	\$157.00	24	\$ 921.30	\$808.58	10/27
20	\$587.50	25	\$ 246.03	\$967.00	10/30
21	\$234.15				

In addition, the bank statement for the month of October is presented below:

Balance	Deposits and Credits		Checks and Debits		Balance			
Last Statement	No.	Total Amount	No.	Total Amount	This Statement			
\$5,404.84	5	\$9,178.36	10	\$3,632.19	\$10,951.01			
Checks and other debits			Deposits		Date	Balance		
No.	Amount	No.	Amount	No.	Amount			
14	148.29	17	372.96	22	578.84	5,484.38	10/ 1	\$9,875.31
18	708.62	24	921.30			843.86	10/ 8	\$9,219.03
19	157.00	25	246.03			941.54	10/23	\$9,541.58
21	234.15		25.00 SC			808.58	10/29	\$10,101.01
	240.00 NSF					1,100.00 CM	10/31	\$10,951.01
Symbols: NSF (Not sufficient funds) SC (Service charge) CM (Credit Memo)								

Check No. 18 was correctly written for \$708.62 for a payment on account. The NSF check was from S. Long, a customer, in settlement of an accounts receivable. An entry had not been made for the NSF check. The credit memo is for the collection of a note receivable including interest of \$60 which has not been accrued. The bank service charge is \$25.00.

Ex. 198 (Cont.)

Instructions

- (a) Prepare a bank reconciliation at October 31.
- (b) Prepare the adjusting journal entries required by the bank reconciliation.

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Hard, Min: 30, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 198 (30–35 min.)

(a)

FEAGEN COMPANY			
Bank Reconciliation			
October 31, 2014			
Cash balance per bank statement.....			\$10,951.01
Add: Deposits in transit.....		967.00	
		11,918.01	
Less: Outstanding checks			
No. 20	\$ 587.50		
No. 23	1,687.50	2,275.00	
		\$ 9,643.01	
Adjusted cash balance per bank.....			
Cash balance per books.....			\$ 8,736.01*
Add: Error in recording check No. 18.....	\$ 72.00		
Note collected by bank	1,100.00	1,172.00	
		9,908.01	
Less: Bank service charge.....	25.00		
NSF check	240.00	265.00	
		\$ 9,643.01	
Adjusted cash balance per books.....			
*9/30 balance per books + Receipts – Checks written = 10/31 balance per books			
\$10,740.93	+ \$3,560.98	– \$5,565.90	= \$8,736.01

(b)

Oct.	31	Cash	72.00	
		Accounts Payable		72.00
		(To correct recording error on check No. 18)		
		31 Cash	1,100.00	
		Notes Receivable		1,040.00
		Interest Revenue.....		60.00
		(To record collection of note and interest)		
		31 Miscellaneous Expense	25.00	
		Cash		25.00
		(To record bank service charge for the month of October)		
		31 Accounts Receivable—S. Long.....	240.00	
		Cash		240.00
		(To record NSF check)		

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Ex. 199

Riley Company received a notice with its bank statement that the bank had collected a note receivable for \$5,000 plus \$150 of interest. The bank had credited these amounts to Riley's account less a collection fee of \$10. Riley Company had already accrued the interest for this note on its books.

- (a) How will these items affect Riley Company's bank reconciliation?
- (b) Prepare the journal entry that Riley Company will make to record this information on its books.

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 199 (5 min.)

- (a) Riley Company must add the amount of the note plus interest less the collection charge to its cash balance per books on the bank reconciliation.

Add: Collection of note receivable \$5,140

(b) Cash	5,140	
Miscellaneous Expense	10	
Note Receivable.....		5,000
Interest Receivable		150

Ex. 200

The cash records of Mercury Company show the following:

1. The June 30 bank reconciliation indicated that deposits in transit totaled \$790. During July the general ledger account Cash shows deposits of \$9,800, but the bank statement indicates that only \$8,240 in deposits were received during the month.
2. The June 30 bank reconciliation also reported outstanding checks of \$1,200. During the month of July, Mercury Company books show that \$11,570 of checks were issued, yet the bank statement showed that \$11,100 of checks cleared the bank in July.

There were no bank debit or credit memoranda and no errors were made by either the bank or Mercury Company.

Answer the following questions:

- (a) What were the deposits in transit at July 31?
- (b) What were the outstanding checks at July 31?

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 200 (10 min.)

- (a) Deposits in Transit:

Deposits per books in July		\$ 9,800
Deposits per the bank in July	\$ 8,240	
Less: June 30 deposits in transit.....	790	
July receipts deposited in July		7,450
Deposits in transit, July 31		\$ 2,350

Solution 200 (Cont.)

(b) Outstanding Checks:

Checks per books in July.....		\$11,570
Checks clearing the bank in July	\$11,100	
Less: Outstanding checks, June 30	<u>1,200</u>	
July checks clearing in July		<u>9,900</u>
Outstanding checks, July 31		<u>\$ 1,670</u>

Ex. 201

Indicate how each of the following items would be shown on a bank reconciliation.

1. Bank error (The bank charged our account with another company's check)
2. Check printing charge
3. Deposits in transit
4. Note collected by the bank
5. NSF checks
6. Outstanding checks

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Medium, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 201 (7 min.)

1. Added to balance per bank
2. Deducted from balance per books
3. Added to balance per bank
4. Added to balance per books
5. Deducted from balance per books
6. Deducted from balance per bank

Ex. 202

The cash records of Barry Company show the following:

1. In September, deposits per the bank statement totaled \$38,600; deposits per books \$39,000; and deposits in transit at September 30 were \$4,600.
2. In September, cash disbursements per books were \$36,500; checks clearing the bank were \$39,800; and outstanding checks at September 30 were \$3,100.

There were no bank debit or credit memoranda and no errors were made by either the bank or Barry Company.

Answer the following questions:

- (a) What were the deposits in transit at August 31?
- (b) What were the outstanding checks at August 31?

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 202 (10 min.)

(a) Deposits in Transit:

Deposits per bank statement in September	\$38,600
Add: Deposits in transit, September 30	<u>4,600</u>
Total deposits to be accounted for	43,200
Less: Deposits per books.....	<u>39,000</u>
Deposits in transit, August 31	<u>\$ 4,200</u>

(b) Outstanding Checks:

Checks clearing the bank in September.....	\$39,800
Add: Outstanding checks, September 30	<u>3,100</u>
Total checks to be accounted for	42,900
Less: Cash disbursements per books	<u>36,500</u>
Outstanding checks, August 31	<u>\$ 6,400</u>

Ex. 203

Listed below are items that may be useful in preparing the March 2014, bank reconciliation for Walker Machine Works.

Using the following code, insert in the space before each item the letter where the amount would be located or otherwise treated in the bank reconciliation process.

<u>Code</u>	<u>Located or Treated</u>
A	Add to the cash balance per books
B	Deduct from the cash balance per books
C	Add to the cash balance per bank
D	Deduct from the cash balance per bank
E	Does not affect the bank reconciliation

- _____ 1. Included with the bank statement materials was a check from Bob Simpson for \$40 stamped "account closed."
- _____ 2. A personal deposit by Annie Walker to her personal account in the amount of \$300 for dividends on her General Electric common stock was credited to the company account.
- _____ 3. The bank statement included a debit memorandum for \$22.00 for two books of blank checks for Walker Machine Works.
- _____ 4. The bank statement contains a credit memorandum for \$24.75 interest on the average checking account balance.
- _____ 5. The daily deposits of March 30 and March 31, for \$3,362 and \$3,125 respectively, were not included in the bank statement postings.
- _____ 6. Two checks totaling \$316.86, which were outstanding at the end of February, cleared in March and were returned with the March statement.
- _____ 7. The bank statement included a credit memorandum dated March 28, 2014, for \$45.00 for the monthly interest on a 6-month, \$15,000 certificate of deposit that the company owns.

Ex. 203 (Cont.)

- _____ 8. Four checks, #8712, #8716, #8718, #8719, totaling \$5,369.65, did not clear the bank during March.
- _____ 9. On March 24, 2014, Walker Machine Works delivered to the bank for collection a \$2,500, 3-month note from Don Decker. A credit memorandum dated March 29, 2014, indicated the collection of the note and \$90.00 of interest.
- _____ 10. The bank statement included a debit memorandum for \$25.00 for the collection service on the above note and interest.

Ans: N/A, LO: 7, Bloom: C, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution 203 (10 min.)

- | | |
|------|-------|
| 1. B | 6. E |
| 2. D | 7. A |
| 3. B | 8. D |
| 4. A | 9. A |
| 5. C | 10. B |

Ex. 204

The following information was used to prepare the March 2014, bank reconciliation for Walker Machine Works. Identify the items that require adjustment to the cash balance per books and prepare the appropriate adjusting entries.

1. Included with the bank statement materials was a check from Bob Simpson for \$40 stamped "NSF."
2. A personal deposit by Annie Walker to her personal account in the amount of \$300 for dividends on her General Electric common stock was credited to the company account.
3. The bank statement included a debit memorandum for \$22.00 for two books of blank checks for Walker Machine Works.
4. The bank statement contains a credit memorandum for \$24.75 interest on the average checking account balance.
5. The daily deposits of March 30 and March 31, for \$3,362 and \$3,125 respectively, were not included in the bank statement postings.
6. Two checks totaling \$316.86, which were outstanding at the end of February, cleared in March and were returned with the March statement.
7. The bank statement included a credit memorandum dated March 28, 2012, for \$45.00 for the monthly interest on a 6-month, \$15,000 certificate of deposit that the company owns.
8. Four checks, #8712, #8716, #8718, #8719, totaling \$5,369.65, did not clear the bank during March.
9. On March 24, 2012, Walker Machine Works delivered to the bank for collection a \$4,500, 3-month note from Don Decker. A credit memorandum dated March 29, 2012, indicated the collection of the note and \$90.00 of interest.
10. The bank statement included a debit memorandum for \$25.00 for the collection service on the above note and interest.

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Hard, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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Solution 204 (20 min.)

Item #1	Accounts Receivable.....	40.00	
	Cash.....		40.00
Item #3	Miscellaneous Expense	22.00	
	Cash.....		22.00
Item #4	Cash	24.75	
	Interest Revenue		24.75
Item #7	Cash	45.00	
	Interest Revenue		45.00
Item #9	Cash	4,590	
	Note Receivable		4,500
	Interest Revenue		90
Item #10	Miscellaneous Expense	25.00	
	Cash.....		25.00

Ex. 205

Compute Whiz Company's adjusted cash balance per books based on the following information:

Beginning cash balance per books	\$4,200
Deposit in transit	900
Check printing charge	20
Note collected by bank for Whiz	1,600

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 205 (5 min.)

Beginning cash balance per books	\$4,200
Add: Collection of note	<u>1,600</u>
	5,800
Less: Check printing charge	<u>20</u>
Adjusted cash balance per books	<u>\$5,780</u>

COMPLETION STATEMENTS

206. Internal control consists of the related methods and measures adopted to _____ its assets and enhance the _____ and _____ of its accounting records.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

207. The three main factors that contribute to fraudulent activity are depicted by the _____.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

208. The principle of internal control that prevents one individual from being responsible for all the related activities of a given task is _____.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

209. The _____ of an asset should not have access to the accounting records of that asset.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

210. Employees of a company who evaluate the effectiveness of the company's system of internal controls on a year-round basis are called _____.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

211. Using _____ documents is a control measure which helps in accounting for all documents in a series and also prevents a document from being recorded more than once.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

212. Employees who handle cash should be _____ in order to protect against misappropriation of assets by dishonest employees.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

213. Two limitations of systems of internal control are the concept of _____ and the _____.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

214. Internal control over cash disbursements is more effective when payments are made by _____, rather than by _____.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

215. A disbursement system that uses wire, telephone, computers, etc., to transfer cash from one location to another is referred to as _____.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

216. A voucher is recorded in the _____ and filed according to the date on which it is to be paid.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

FOR INSTRUCTOR USE ONLY

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217. A _____ fund is used to pay relatively small expenditures.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

218. A debit memorandum issued by the bank _____ the cash balance in the depositor's account.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

219. There are three parties to a check: (1) _____, (2) _____, and the (3) _____.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

220. The difference between the cash in bank balance shown on the company's books and the cash balance shown on the bank statement may be caused by _____ and by _____ in recording transactions by either party.

Ans: N/A, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

221. In preparing a bank reconciliation, outstanding checks are _____ from the cash balance per _____.

Ans: N/A, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

222. A check correctly written for \$270 was incorrectly entered in the cash payments journal for \$720. In preparing a bank reconciliation, \$ _____ must be _____ the cash balance per _____.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Answers to Completion Statements

- | | |
|--|--------------------------------------|
| 206. safeguard, accuracy, reliability | 215. electronic funds transfer (EFT) |
| 207. fraud triangle | 216. voucher register |
| 208. segregation of duties | 217. petty cash |
| 209. custodian | 218. reduces |
| 210. internal auditors | 219. maker, payer, payee |
| 211. prenumbered | 220. time lags, errors |
| 212. bonded | 221. deducted, bank |
| 213. reasonable assurance, human element | 222. \$450, added to, books |
| 214. check, cash | |

MATCHING

223. Match the items below by entering the appropriate code letter in the space provided.

- | | |
|---|------------------------|
| A. Prenumbered documents | G. Bank signature card |
| B. Custody of an asset should be kept separate from the record-keeping for that asset | H. Payee |
| C. Cash registers, garment sensors and burglar alarms are examples | I. Maker |
| D. Bonding employees | J. Canceled checks |
| E. Collusion | K. NSF checks |
| F. Cash | L. Outstanding checks |
| | M. Petty cash receipt |
| | N. Cash equivalents |
| | O. Voucher system |

- ___ 1. Segregation of duties.
- ___ 2. One to whom a check is payable.
- ___ 3. Two or more employees circumventing prescribed procedures.
- ___ 4. Prevent a transaction from being recorded more than once.
- ___ 5. Checks which have been returned by the maker's bank for lack of funds.
- ___ 6. Checks which have been paid by the depositor's bank.
- ___ 7. Indicates those people authorized to sign checks.
- ___ 8. Anything that a bank will accept for deposit.
- ___ 9. Mechanical and electronic control devices.
- ___ 10. One who issues a check.
- ___ 11. Insurance protection against misappropriation of assets.
- ___ 12. An extensive network of approvals by authorized individuals.
- ___ 13. Document indicating the purpose of a petty cash expenditure.
- ___ 14. Issued checks that have not been paid by the bank.
- ___ 15. Highly liquid investments.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 8, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Internal Controls

Answers to Matching

- | | | |
|------|-------|-------|
| 1. B | 6. J | 11. D |
| 2. H | 7. G | 12. O |
| 3. E | 8. F | 13. M |
| 4. A | 9. C | 14. L |
| 5. K | 10. I | 15. N |

SHORT-ANSWER ESSAY QUESTIONS

S-A E 224

Fraud experts often say that there are three primary factors that contribute to employee fraud. Identify the three factors and explain what is meant by each.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: Communications, IMA: Internal Controls

Solution 224

The three main factors that contribute to employee fraud are opportunity, financial pressure, and rationalization. Opportunities that an employee can take advantage of occur when the workplace lacks sufficient controls to deter and detect fraud. Financial pressure occurs when employees want to lead a lifestyle that they cannot afford on their current salary. Rationalization involves employees justifying fraud because they believe they are underpaid while their employer is making lots of money.

S-A E 225

Important objectives of a system of internal controls are to safeguard assets and to enhance the accuracy and reliability of the accounting records. Briefly discuss how (1) cost-benefit considerations, (2) the human element, and (3) the size of the business, affect the implementation of a system of internal controls.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: Communications, IMA: Internal Controls

Solution 225

The implementation of a system of internal controls is affected by cost benefit considerations, the human element, and the size of the business. A company's system of internal control can provide reasonable assurance, but not absolute assurance, that assets are properly safeguarded and that the accounting records are reliable. The concept of reasonable assurance rests on the premise that the costs of establishing control procedures should not exceed their expected benefit. A very costly set of safeguards may produce something approaching absolute assurance, but the value of the benefits received would not come close to outweighing the costs.

The human element can cause a good system of internal control to become ineffective due to employee fatigue, carelessness, or indifference. Additionally, collusion between two or more employees to circumvent prescribed controls may significantly impair the effectiveness of the system.

The size of a business impacts internal control because a smaller business may not have the necessary resources available to affect the implementation of desirable controls.

S-A E 226

Your friend, Dean, has opened a movie theater. Dean states that he does not have time to develop and implement a system of internal controls.

- a. Provide Dean with the objectives of a system of internal controls.
- b. Explain to Dean why he should develop a system of internal controls.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: Communications, IMA: Internal Controls

Solution 226

- a. The objectives of a system of internal controls include:
 - 1. safeguarding assets from employee theft, robbery, and unauthorized use
 - 2. enhancing the accuracy and reliability of its accounting records by reducing the risk of errors and irregularities in the accounting process.

- b. Dean, here are some reasons why you must develop a system of internal controls:
 - 1. You will not be able to oversee every function of your business. For this reason, you must establish policies and procedures for your employees to follow. By designing these policies and procedures around the principles of internal control, you have a foundation for safeguarding assets and enhancing the accuracy and reliability of the accounting records.
 - 2. A good system of internal controls will help you attract investors and creditors because they will value the rewards of the system.
 - 3. A good system of internal controls works to eliminate fraud. No business can assume that fraud will not take place.

S-A E 227

(a) Identify the three activities that pertain to a petty cash fund, and indicate an internal control principle that is applicable to each activity. (b) When are journal entries required in the operation of a petty cash fund?

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: Communications, IMA: Internal Controls

Solution 227

The activities in a petty cash system and the related principles are:

- | | |
|------------------------------------|---|
| (a) (1) Establishing the fund. | * Establishment of responsibility for custody of fund. |
| (2) Making payments from the fund. | * Documentation procedures because the custodian must use a prenumbered petty cash receipt. |
| (3) Replenishing the fund. | * Independent internal verification because the request for replenishment must be approved before the check is written. |

(b) Journal entries are required for a petty cash fund when it is established and replenished. Entries are also required when the size of the fund is increased or decreased.

S-A E 228

The preparation of a bank reconciliation is an important cash control procedure. If a company deposits cash receipts daily and makes all cash disbursements by check, explain why the cash balance per books might not agree with the cash balance shown on the bank statement. Identify specific examples that may cause differences between the cash balance per books and the cash balance per bank.

Ans: N/A, LO: 7, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Communications, IMA: Business Economics

Solution 228

The cash balance per books will not agree with the cash balance shown on the bank statement due to time lags and errors by either party. A time lag could mean the bank records a transaction in a period later than the company records it (outstanding checks, deposits-in-transit) or the company records a transaction in a period later than the bank records it (NSF check, collection of a note, etc.). A common error is transposition of amounts in the recording process.

S-A E 229 (Ethics)

Moyer Instruments is a rapidly growing manufacturer of medical devices. As a result of its growth, the company's management recently modified several of its procedures and practices to improve internal control. Some employees are upset with the changes. They have complained that all these changes just show that the company no longer trusts them.

Required:

"Internal controls exist because most people can't be trusted." Is this true? Explain.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: Communications, IMA: Internal Controls

Solution 229

Internal controls exist, not because most people can't be trusted, but to protect the company's assets from those few who can't be trusted. If it were a perfect world, and everyone could be trusted, internal controls would not be needed. However, it does not follow that internal controls indicate the opposite.

It is true that anyone is capable of practically any action, if motivation and opportunity are both present. Since it is extremely difficult to measure motivation to directly or indirectly harm the company, let alone to monitor changes in motivation, a company's best recourse is to prevent opportunity.

Rather than feel threatened by internal control measures, honest employees should feel grateful. When responsibility for all activities is clearly defined and when access to company assets is carefully controlled, the honest employees can demonstrate their honesty. When all employees are considered to be honest, on the other hand, and no controls exist, all employees are unfairly tainted when one among them is dishonest.

S-A E 230 (Communication)

Medaid is a medical office management franchise. There are currently twenty-five medical offices managed by a Medaid franchisee. One of the services provided to franchisees is assistance in training various staff members.

Medaid is preparing a manual for the front office staff to use as a reference guide. It will be used in training new employees as well. One of the reasons the manual is being prepared is to stress the importance of strong internal controls.

Required:

Prepare a short paragraph, to be included in the training materials, describing the benefits of sound internal control, from the viewpoint of the employee.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: Communications, IMA: Internal Controls

Solution 230

All the controls discussed in this manual may seem unnecessary to you. It may also seem that management trusts no one. However, these practices and procedures actually benefit you, the employee. First, internal control policies clearly outline who is to be responsible for various activities, such as making the daily deposit of cash in the bank. If a problem arises regarding a deposit, it is very clear to whom the company should turn to resolve the problem. If correct procedures were not followed, blame is not placed on all employees. Only those who did not follow correct procedures are held accountable for their actions. Also, strong internal controls discourage many opportunistic people, who find such opportunities to harm the company are extremely limited. Finally, all these systems, practices, and procedures result in a well-managed company that is less likely to suffer unnecessary losses, and a much better place for you to work and build a career.