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## Accounting chapter 4 answers

Questions - Why should a company establish an internal control structure? - Why are mechanical devices used in an internal control structure? - Identify some features that could strengthen an internal control structure. - Name several control documents used in goods transactions. - What are the four objectives pursued in effective cash management? - Lists four essential features of internal control over cash receipts. - The accountant of a particular company was stealing cash received from customers to pay for their accounts. To conceal the theft, the accountant made false credit memos indicating returns and allowances made or granted to customers. What feature of internal control would have prevented theft? - List six essential features of internal control over cash disbursement. - What types of items cause the ledger balance and bank statement balance to disagree? - The difference between a company's cash account balance and the balance of its bank statement is usually a matter of timing. Do you agree or disagree? Because? - Explain how transfer bank accounts can help to achieve effective cash management. - Describe the operation of a small cash fund and its advantages. Indicate how control over small cash transactions is maintained. - When are entries made to the petty cash account? Exercise Exercise A State if each of the following internal control declarations is true or false: employees responsible for safeguarding a fixed asset must keep the ledgers for that asset. Complete, accurate and up-to-date accounting records must be kept. Where possible, responsibilities should be assigned and tasks divided in such a way that only one employee is responsible for a given function. Employees must be assigned to a single job and remain in that job so that the levels of competence are as high as possible. We recommend the use of control protectors, cash registers and watches. An internal control function should not be implemented because it leads employees to believe that management does not trust them. One of the best protections against theft is hiring honest and competent employees. An infallible internal control structure can be conceived if the management makes the effort. Exercise B As far as internal control is concerned, which of the following statements is correct? Explain. In principle, an internal control structure is only needed in large organisations. The purpose of internal control is to verify safeguard resources from theft, promote the efficiency of operations and ensure that management policies are followed. Once an internal control structure has been established, it should be effective as long as the formal organization remains unchanged. An example of internal control have an employee count the receipts of the day and compare the total with the total tapes of the register. Exercise C The bank statement for Yarley Company at the end of August showed a balance of \$12,862. The checks in place amounted to \$3,937, and transit deposits were \$5,990. If these amounts are the only relevant data at your disposal, what was the adjusted cash balance at the end of August? Exercise D From the following data, prepare a bank reconciliation and determine the correct available cash balance for Reed Company as of October 31, 2010. Balance per bank statement, October 2010 31 \$13,974 General account balance. October 31, 2010 8,088 Proceeds from a note collected by a bank not yet entered in the general ledger (including \$500 in interest) 6,000 bank service charges not yet entered by Reed Company 18 Transit Deposit 1,680 Outstanding Checks: No. 327 654 No 328 288 No 329 390 No 331 252 Exercise E The following is a bank reconciliation for Brian Company as of August 31. Balance per bank statement, August 31 \$7,470 Add: Transit deposit \$5,676 \$13,146 Less: pending checks 6,024 Adjusted balance, August 31 \$7,122 Ledger Balance, August 31 \$7,248 Add: Error Correction \* \$54 \$7,302 Less: NSF Checks \$150 Service Charges and Inc. 30,180 Adjusted Balance, August 31 \$7,122 Prepare journal entry or entries needed to adjust or correct cash account. Exercise F On March 1 of this year, Shelby Company had outstanding checks of \$15,000. In March, the company issued an additional \$57,000 in checks. As of March 31, the statement showed that \$48,000 of checks had settled the bank during the month. What is the amount of pending checks on March 31st? Exercise G Matson Company's bank statement as of August 31 shows total deposits to the company's account of \$15,000 and a total of 14 separate deposits. On July 31, deposits of \$410 and \$330 were in transit. Total cash income for August was \$19,000, and the company's records show 13 deposits made in August. What is the amount of deposits in transit as of August 31st? Exercise H Holder Company deposits all cash receipts intact every day and makes all payments by check. On October 31, after all registrations were completed, his cash account had a debt balance of \$4,325. The bank statement of the month ended October 31 showed a balance of \$3,988. Other Data Are: Total Pending Checks \$425. October 31 cash receipts of \$838 were placed in the bank's overnight deposit and do not appear on the bank statement. Bank service charges for October of \$14. Check #772 for store supplies on hand was entered at \$405, but paid by the bank at its actual amount of \$315. Prepare a bank reconciliation for the holding company starting October 31. Also prepare all required journal entries or entries. Exercise I On 31 August, the small cash fund of the Brighton Company Company coins and currency of \$260, an IOU from an employee of \$30, and vouchers showing charges of \$120 for postage, \$52 for taxi fare, and \$138 for entertaining a customer. Petty Cash account shows a balance of \$600. The fund is reconstituted on 31 August because financial statements must be prepared. Which journal entry is required on August 31st? Exercise J Use data from the previous year. What item would have been required if the amount of money and currency had been \$247.20? Which of the accounts charged would not appear in the income statement? Exercise K Rock Company has a small \$450 cash fund. The following transactions occurred in December: December 2 The small cash fund was increased to \$1,350. 8 Small cash voucher #318 for \$14.20 delivery fees was prepared and paid for. At the moment the fund has not been replenished. 20 The company decided the fund was too large and reduced it to \$1,120. Prepare all journal entries that are required for these transactions. Issues The following June 30, 2010, bank reconciliation concerns Tiffany Company: Cash Bank Amount Statement Balance, June 30 \$29,143.36 \$28,644.31 Add: Bank Uncredited Deposit 942.60 Total \$29,586.91 Less: Outstanding Checks: No. 724 \$18.45 No. 886 15.00 No. 896 143.55 No 897 187.65 #898 78.90 899 6:86 PM To 900 1,349.55 N.902 946.92 No 904 44.01 \$2,787.89 NSF Check of Starr Company 139.98 2,927.87 Bank statement balance, July 31 \$31,158.38 Cash receipts filed in July, including July 31 receipts, amounted to \$5,178.30. Tiffany wrote these checks in July: #899 \$18.86 No. 900 1,349.55 No. 901 27.75 No. 902 946.92 No 903 59.70 No 904 44.01 No 905 1,093.50 No 906 15.00 The cash balance for the ledger as of July 31, 2010 was \$30,766.37. Prepare a bank reconciliation starting July 31, 2010, and all entries or journal entries that are required to correct the accounts. Issue B The following information concerns Hughes Company as of May 31, 2010: Balance per bank statement as of May 31, 2010, was \$59,410. Hughes Company's cash balance as of May 31, 2010 was \$60,904. A late deposit on May 31 did not appear on the bank statement, \$4,275. Pending checks as of May 31 amounted to \$7,614. In May, the bank credited Hughes Company with the proceeds, \$6,795, of a note it had collected for the company. Interest income was \$45 of the Bank service and collection fees for May amounted to \$18. Comparing the cancelled checks to the check register revealed that a check in the amount of \$1,458 had been recorded in the books as \$1,539. The cheque had been issued for a fee of one Payable. A review of the deposit slips with the bank statement showed that a deposit for \$2,250 from a company with a similar account number had been credited to the Hughes Company account by mistake. A \$270 check received from a customer, R. Petty, was returned with the NSF-marked bank statement. In May, the bank paid a \$13,500 note from Hughes Company plus interest of \$135 and charged it to the company's account for instructions received. Hughes Company had not registered the payment of this note. An examination of cash receipts and deposit tickets revealed that the accountant mistakenly recorded a check from a customer, C. Parker, of \$1,458 as \$1,944. The statement showed a credit to the company's account for interest accrued on the account balance in May of \$450. Prepare a bank reconciliation in May 2010 may 31. Prepare the journal entry or entries that are required to adjust the accounts in May 2010 to May 31. Problem C The following transactions concern the small cash fund of the Carrington Company: 2 November It is withdrawn, collected and cash put under the care of the deputy director of the office to be used as a small cash fund. 17 Dec. A fund analysis shows: Coins and currency \$147.40 Small cash vouchers for: Delivery fees 173.48 Transportation-In 111.12 Stamps purchased 15.00 31 The end of the accounting period falls on this date. The fund has not been replenished. The contents of the fund on this date consist of: Coins and currency \$352.05 Small cash vouchers for: Delivery fees 31.65 Stamps purchased 36.30 IUS of employees 30.00 Present journal entries to post these transactions. Use the Cash Short and Over account for any deficiencies or overcapacity in the fund. Issue D The following transactions refer to the Jarvis Wrecking Company's small cash fund Apr. 19 Since the fund's money has dropped to \$70.20, the fund is replenished. Small cash vouchers as follows:

Flowers per hospitalized employee (miscellaneous expenses) \$84.38 Stamps 135.00 Office supplies 46.71 30 Money in the fund is \$193.07. The fund is reconstituted to include small cash payments in the financial statements of this period. Small cash vouchers are for the following: Transportation -in \$64.12 Office Supplies May 92.81 May 1. The small cash fund balance increased to \$400. Prepare journal entries to post these transactions. Alternative Issues Alternative Issue A The following data relates to England Company: The balance for the bank statement dated June 30, 2010 is \$30,000. The balance of the Cash in Bank account in the company's accountants as of June 30, 2010 is \$8,795. Pending checks as of June 30, 2010, total \$14,300. The June 30 bank deposit for \$2,735 was not included in bank statement deposits. The bank had raised the proceeds of a \$22,612 (of which \$112 was interest), which he credited to the England Company account. The bank charged the company a \$15 collection fee on the banknote. The bank incorrectly charged the England Company account a \$10,500 debit note from another company that had a similar name. Bank service charges for June, net of collection fees, amounted to \$95. Among the cancelled checks was one for \$700 given in payment of an account. The accountant had posted the check at \$920 in business records. A check from Crosby, a customer, for \$2,447, deposited June 20, was returned by the bank marked NSF. No entry was made to reflect the check returned in the company records. A check of \$1,435 from Malcolm, a client, who had been deposited in the bank, was incorrectly registered by the accountant as \$1,570. The check had been received as payment to the customer's account to be received. Prepare a bank reconciliation starting June 30, 2010, and all journal entries or entries that are required to correct the accounts. Alternative Issue B The Irish Company's bank statement with the 2nd National Bank shows: Balance, 2010 June 30 \$166,118 Deposits 245,700 411,818 Less: Deducted checks \$243,001 Service charges 67 243,068 Balance, July 31, 2010 \$168,750 The following additional data is available: Balance per coGe account as of July 31 was \$128,209. A credit memo included in the bank statement indicated the bank's collection of a note for Irish Company. Proceeds were \$13,500, of which \$375 was interest. An NSF check worth \$6,210 was returned by the bank and included in the total checks deducted from the bank statement. Deposits in transit as of July 31 amounted to \$33,750. The pending checks as of July 31 were \$55,350. The bank added another company's \$29,025 deposit to the Irish account by mistake. The bank deducts one of the Irish cheques as \$20,250 instead of the correct amount of \$2,025. The July 21 filing was registered by the company as \$4,299.75 and by the bank to the actual amount of \$4,542.75. Receipts for the day come from receipts in vain. The amount of deposits listed in the bank statement includes \$675 of interest earned by Irish on his bank account with the bank. Prepare a bank reconciliation starting July 31, 2010 for Irish Company. Prepare any entries or journal entries that are required as of July 31, 2010. Alternative Issue C Transactions involving the Sonar Company's small cash fund are as follows: Mar. 1 It has set up a small cash fund of \$750, which will be control of the deputy director of the office. 31 The Fund was reconstituted on that date. Before refueling, the fund consisted of the following: coins and currency \$491.50 Small cash voucher indicating outlays for: stamps \$82.00 Supplier money for office employees working overtime 36.00 Office supplies 32.70 Window wash 60.00 Flowers per wedding employee 15.00 Flower per hospitalized employee 15.00 IOU of the employee 15.00 Present journal entries for these transactions. Use the Cash Short and Over account for any deficiencies or overcapacity in the fund. Alternative problem D Sun Company decided to use a small cash fund. Following are transactions involving this fund: June 4 Creation of a small cash fund of \$225. 22 When the fund had a cash amount of \$31.35, the fund custodian was reimbursed for expenses made, including: Transportation - \$82.50 Postage 27.00 Office Supplies \$1.75 30 The fund was repaid to include small cash items in the financial statement prepared for the fiscal year ending this date. The fund had the following cash and vouchers before repayment: coins and currency \$174.00 Small cash vouchers for: Employee's IOU 15.00 Postage 27.00 Office Supplies July 11.10 July 1 The small cash fund balance increased to \$300. Prepare journal entries for all of these transactions. In addition to numbers: Critical thinking Business decision-making case A During a national emergency, a management accountant was recalled to active duty with the U.S. Army. An acquaintance of the accountant falsified documents and assumed the identity of the accountant. He obtained a position in a small company as the sole accountant. In the end he took over from the manager the functions of approving invoices for the payment, preparation and signing of checks and almost all other financial duties. On a weekend, he went to some nearby towns and sent invoices made to the company he worked for. On Monday morning, he returned to work and began receiving, approving and paying the bills he had prepared. The following weekend he returned to nearby towns and cashed in and deposited checks into bank accounts under his own name. After continuing this practice for several months, he withdrew all funds and was never heard from again. Prepare a written list of the steps I would take to prevent this theft. Remember that this small company had limited financial resources. Business decision case B John Billings was created in business by his father, who bought the business of an elderly acquaintance who wanted to retire. One of the few changes billings staff made was to install a college classmate as office-accountant-cashier-sales manager. Later this year, Billings borrowed money from the bank with his father as a co-signer. Although his business seemed profitable, there was a shortage of cash. The company's investments in inventories and receivables have grown Finally, after a year, Billings' father hired her, a certified public accountant, to check the records of his business. You reported that the director of the accounting-cashier-sales office had been embezzling funds and had used a schemes to cover his actions. More specifically, it had: ced cash receipts from sales and underestimated cash register readings at the end of the day or altered copies of stored sales tickets. Stolen checks sent to the company in payment of credits, credited the correct accounts and then charged fictitious credits to keep the records in balance. He issued checks to fictitious suppliers and deposited them into accounts bearing those names with himself as a signer of cheques taken from those accounts; ledgers have been kept in balance by debiting the Purchases account. I stole small cash funds from fake vouchers that claimed to cover a variety of expenses incurred. False prepared sales return vouchers that indicate the return of cash sales to cover further theft of cash receipts. For each item on the previous list, describe in writing at least one characteristic of good internal control that would have avoided losses due to dishonesty. Business Decision Case C Brothers Company's pending checks as of November 30, 2010, were: No. 229 \$1,000 No.263 \$1,089 No.3678 \$679 No.3679 \$809 No. 3680 \$1,400 In December, Brothers issued numbered checks 3681-3720; and all these checks cleared the bank except 3719 and 3720 respectively for \$963 and \$726. Checks 3678, 3679 and 3680 also cleared the bank. The December 31 bank statement showed a balance of \$23,944. Service fees amounted to \$20, and two checks were returned by the bank, one marked NSF for an amount of \$114, and the other marked No Account for an amount of \$2,000. Brian Askew recently retired as office director-cashier-accountant of brothers company and was replaced by Fred Hannah. Hannah noticed the absence of an internal control structure, but was momentarily disased from embezzlement for lack of a concealment scheme. Finally, it hit several patterns. The \$2,000 check marked no account from the bank is the product of a scheme. Hannah took the cash receipts and replaced them with a check taken from a non-existent account to make it look like a client had given the company a useless check. The other pattern was thinner. Hannah cashied cash receipts for an amount equal to two un listed pending checks and prepared the following bank reconciliation: Balance for bank statement, December 31 31 \$23,944.00 Add: Transit Deposit \$2,837.80 \$26,781.80 Less: Outstanding Checks No. 3719 \$963.00 No. 3720 726.00 1,689.00 Adjusted balance, December 2010 \$25,092.80 Balance per ledger, December 2010 31 \$2 7,226.80 Add : Useless check \$2,000.00 NSF check 114.00 Expenses service 20.00 2,134.00 Adjusted balance, December 31, 2010 \$25,092.80 State the nature of the second scheme affected by Hannah. How much in total does it look like he stole using the two schemes together? Prepare for a proper bank reconciliation from December 2010 After your analysis in (a) and (b), describe several procedures that would defeat Fred Hannah's attempts to misappropriate funds and hide these actions. \*Note: This challenging issue has not been specifically illustrated in the chapter, but can be solved by applying the principles discussed in the chapter. Annual report analysis D In reader's digest annual report, which underseds Report of Management, the chairman and ceo and executive vice president and chief financial officer said: The company maintains an internal accounting audit system designed to provide reasonable assurance, at reasonable cost, that transactions and events are properly recorded and that assets are safeguarded. The internal control system is supported by written policies and procedures and careful selection, training and supervision of qualified personnel and is monitored by an internal audit function. What is the purpose of this statement? What basic elements of the internal control structure does the instruction refer to? Annual report analysis And Get an annual report for a company (the library may have some annual reports). Determine quick reports for the two most recent years for your business. Comment on the results. Ethical Case - Writing Experience F After reading the ethical case, discuss the ethical situation at the City Club Restaurant. Describe the steps landlords could take to end John Blue's pay supplement scheme. Group Project G With a small group of students, visit a large local company to inquire about its internal control structure. In particular, learn how it protects its assets from theft and waste, ensures compliance with company policies and federal laws, evaluates the performance of its staff, and ensures accurate and reliable operational data and accounting reports. If there is an internal audit staff, inquire about some of its activities. Write a report to your instructor that summarizes your results and get ready to make a short presentation to the class. Group Project H With one or two other students, locate and visit two companies that maintain small cash funds. Interview the depositors of these funds to identify the controls used to manage these funds. Write a report to the instructor comparing the controls used, highlighting any differences between the control systems and any shortcomings in the systems. Get ready to make a short presentation to the class. The Group I Kiting bank account project has been used to hide shortfalls in bank accounts. With one or two other students, search the library for this topic. Write a document to your instructor that describes how this technique and the steps that can be taken to detect it once it occurs and to prevent it in the future. Using the Internet: Viewing the real world Visit the following site: is the vanity fair audit mall website. Click on the visitor center, CCA Studio, Tool Box, Job Shop, Tek Shak, Risk Depot, Contact Plaza and Arcade. After browsing the site write a one-page reminder about what you learned about internal control. Visit the Securities and Exchange Web site and find the EDGAR database at: EDGAR stands for Electronic Data Gathering, Analysis, and Retrieval system. What is its purpose? What kind of information can be found on this site? Select a company of your choice and search for company information in the EDGAR database. Write a report to your instructor summarizing your results. Results.

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