CHAPTER 7

SOLUTIONS TO EXERCISES—SET B

EXERCISE 7-1B

1. Establishment of responsibility. The counter clerk is responsible for handling cash. Other employees are responsible for making the food.

2. Segregation of duties. Employees who make the food do not handle cash.

3. Documentation procedures. The counter clerk uses your order invoice (ticket) in registering the sale on the cash register. The cash register produces a tape of all sales.

4. Physical controls. A cash register is used to record the sale.

5. Independent internal verification. The counter clerk, in handling the food, compares the contents of the bag with the items indicated on the order invoice.

6. Human resource controls. No visible application possible.

EXERCISE 7-2B

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | (a) | | |  | (b) |
|  |  |  |  |  |  |  |
| Procedure |  | Weakness |  | Principle |  | Recommended  Change |
|  |  |  |  |  |  |  |
| 1. |  | Inability to  establish  responsibility  for cash with  a specific clerk. |  | Establishment  of responsibility. |  | There should be  separate cash  drawers and  register codes  for each clerk. |
|  |  |  |  |  |  |  |
| 2. |  | Cash is not  adequately protected  from theft. |  | Physical controls. |  | Cash should be  stored in a safe  until it is deposited  in bank. |

EXERCISE 7-2B (Continued)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | (a) | | |  | (b) |
|  |  |  |  |  |  |  |
| Procedure |  | Weakness |  | Principle |  | Recommended  Change |
|  |  |  |  |  |  |  |
| 3. |  | Cash is not  independently  counted. |  | Independent  internal  verification. |  | A cashier office  supervisor should  count cash. |
|  |  |  |  |  |  |  |
| 4. |  | The bookkeeper accountant  should not  handle cash. |  | Segregation  of duties. |  | The cashier’s  department should  make the deposits. |
|  |  |  |  |  |  |  |
| 5. |  | Cashiers do not  take vacations. |  | Human resource controls. |  | All cashiers should  either take vacations or be rotated to other jobs and shifts. |

EXERCISE 7-3B

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | (a) | | |  | (b) |
|  |  |  |  |  |  |  |
| Procedure |  | Weakness |  | Principle |  | Recommended  Change |
|  |  |  |  |  |  |  |
| 1. |  | The approval  and payment  of bills is done by the same individual. |  | Segregation  of duties. |  | The store manager  should approve bills  for payment and the  treasurer should sign and issue checks. |
|  |  |  |  |  |  |  |
| 2. |  | The bank  reconciliation  is not independently prepared. |  | Independent  internal  verification. |  | Someone with no  other cash responsibilities should prepare the bank reconciliation. |
|  |  |  |  |  |  |  |
| 3. |  | Antiques are  not stored in  a secure area. |  | Physical controls. |  | Antiques should be  stored in a locked  storage area. |

EXERCISE 7-3B (Continued)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | (a) | | |  | (b) |
|  |  |  |  |  |  |  |
| Procedure |  | Weakness |  | Principle |  | Recommended  Change |
|  |  |  |  |  |  |  |
| 4. |  | Checks are not  prenumbered. |  | Documentation  procedures. |  | Checks should  be prenumbered  and subsequently  accounted for. |
|  |  |  |  |  |  |  |
| 5. |  | Filing does  not prevent a  bill from being  paid more than once. |  | Human resource controls. |  | Bills should be  stamped PAID after  payment. |

EXERCISE 7-4B

|  |  |  |  |
| --- | --- | --- | --- |
| (a) Weaknesses |  | (b) Suggested Improvement | |
|  |  |  | |
| 1. Checks are not prenumbered. |  | | Use prenumbered checks. |
|  |  | |  |
| 2. The purchasing agent signs checks. |  | | Only the treasurer’s department personnel should sign checks. |
|  |  | |  |
| 3. Unissued checks are stored in unlocked file cabinet. |  | | Unissued checks should be stored in a locked file cabinet with access restricted to authorized personnel. |
|  |  | |  |
| 4. Purchasing agent approves  and pays for goods purchased. |  | | Purchasing should approve bills for payment by the treasurer. |
|  |  | |  |
| 5. After payment, the invoice is filed by payment date. |  | | The invoice should be filed by vendor name in paid invoices file. |
|  |  | |  |
| 6. The purchasing agent records payments in cash disburse­ments journal. |  | | Only accounting department personnel should record cash disbursements. |

|  |  |  |
| --- | --- | --- |
| (a) Weaknesses |  | (b) Suggested Improvement |
|  |  |  |
| 7. The treasurer records the checks in cash disbursements journal. |  | Same as answer to No. 6. |
|  |  |  |
| 8. The treasurer reconciles the bank statement. |  | An internal auditor should reconcile the bank statement. |

(b) To: Treasurer, Noble Company

From: Accounting Student

I have reviewed your cash disbursements system and suggest that you make the following improvements:

1. Noble Company should use prenumbered checks. These should be stored in a locked file cabinet or safe with access restricted to authorized personnel.

1. The purchasing department should approve bills for payment. The treasurer’s department should prepare and sign the checks. The in­voices should be filed by vendor name in a paid invoices file.

3. Only the accounting department personnel should record cash   
disbursements.

4. An internal auditor should reconcile the bank statement.

If you have any questions about implementing these suggestions, please contact me.

EXERCISE 7-5B

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Procedure |  | IC good or weak? |  | Related internal control principle |
| 1. |  | Good |  | Establishment of Responsibility |
| 2. |  | Weak |  | Independent Internal Verification |
| 3. |  | Good |  | Segregation of Duties |
| 4. |  | Weak |  | Segregation of Duties |
| 5. |  | Weak |  | Documentation Procedures |

EXERCISE 7-6B

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Procedure |  | IC good or weak? |  | Related internal control principle |
| 1. |  | Weak |  | Human Resource Controls |
| 2. |  | Good |  | Establishment of Responsibility |
| 3. |  | Good |  | Segregation of Duties |
| 4. |  | Weak |  | Independent Internal Verification |
| 5. |  | Weak |  | Physical Controls |

EXERCISE 7-7B

May 1 Petty Cash 200.00

Cash 200.00

June 1 Delivery Expense 69.30

Postage Expense 75.50

Miscellaneous Expense 40.40

Cash Over and Short 1.80

Cash 187.00

July 1 Delivery Expense 43.00

Entertainment Expense 98.50

Miscellaneous Expense 47.00

Cash 188.50

July 10 Petty Cash 50.00

Cash 50.00

EXERCISE 7-8B

Mar. 1 Petty Cash 150

Cash 150

15 Postage Expense  35

Freight-out  19

Miscellaneous Expense  21

Travel Expense  20

Cash   92

Cash Over and Short 3

20 Petty Cash  50

Cash  50

EXERCISE 7-9B

(a) Cash balance per bank statement $4,714.60

Add: Deposits in transit 730.00

 5,444.60

Less: Outstanding checks 914.00

Adjusted cash balance per bank $4,530.60

Cash balance per books $5,190.60

Less: NSF check $630.00

Bank service charge 30.00 660.00

Adjusted cash balance per books $4,530.60

(b) Accounts Receivable 630.00

Cash 630.00

Miscellaneous Expense  30.00

Cash  30.00

EXERCISE 7-10B

The outstanding checks are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| No. |  |  | Amount |
|  |  |  |  |
| 255  260  264 |  | Total | $  510     550     350  $1,410 |

EXERCISE 7-11B

(a) TIM’S DVD COMPANY

Bank Reconciliation

July 31

Cash balance per bank statement $2,542

Add: Deposits in transit 825

 3,367

Less: Outstanding checks 207

Adjusted cash balance per bank $3,160

Cash balance per books $2,549

Add: Collection of note receivable

($600 plus accrued interest $36,

less collection fee $15) 621

 3,170

Less: Bank service charge 10

Adjusted cash balance per books $3,160

(b) July 31 Cash 621

Miscellaneous Expense  15

Notes Receivable 600

Interest Revenue  36

31 Miscellaneous Expense  10

Cash  10

EXERCISE 7-12B

(a) MORSE COMPANY

Bank Reconciliation

September 30

Cash balance per bank statement $ 9,525

Add: Deposits in transit 2,581

 12,106

Less: Outstanding checks 1,382

Adjusted cash balance per bank $10,724

Cash balance per books $10,094

Add: Collection of note receivable ($850 + $34) $884

Interest earned    26 910

 11,004

Less: NSF check    245

Safety deposit box rent    35 280

Adjusted cash balance per books $10,724

(b) Sept. 30 Cash 884

Notes Receivable 850

Interest Revenue    34

30 Cash    26

Interest Revenue    26

30 Miscellaneous Expense    35

Cash    35

30 Accounts Receivable—J. Jackson   245

Cash   245

EXERCISE 7-13B

(a) Deposits in transit:

Deposits per books in July $18,940

Less: Deposits per bank in July $17,200

Deposits in transit, June 30 (1,100)

July receipts deposited in July 16,100

Deposits in transit, July 31 $  2,840

EXERCISE 7-13B (Continued)

(b) Outstanding checks:

Checks per books in July $17,850

Less: Checks clearing bank in July $17,050

Outstanding checks, June 30 (1,275)

July checks cleared in July 15,775

Outstanding checks, July 31 $ 2,075

(c) Deposits in transit:

Deposits per bank statement in September $25,400

Add: Deposits in transit, September 30 1,900

Total deposits to be accounted for  27,300

Less: Deposits per books 23,950

Deposits in transit, August 31 $ 3,350

(d) Outstanding checks:

Checks clearing bank in September $22,800

Add: Outstanding checks, September 30 3,200

Total checks to be accounted for  26,000

Less: Cash disbursements per books 22,300

Outstanding checks, August 31 $ 3,700

EXERCISE 7-14B

(a) Cash and cash equivalents should be reported at $37,400.

Cash in bank $20,000

Cash on hand 5,000

Petty cash 400

Highly liquid investments   12,000

$37,400

(b) “Cash in plant expansion fund” should be reported as part of long-term investments (a noncurrent asset). “Receivables from customers” should be reported as accounts receivable in the current assets. “Stock investments” should also be reported in the current assets.

(c) Gonzalez should disclose in the financial statements the details about the compensating balances. These are generally minimum cash balances the bank requires the borrower to maintain. They are a restriction on the use of cash that may affect the company’s liquidity.