

Accounting case study

Business



Included with the statement as a credit memorandum of \$1 75 indicating the collection of a note receivable for elite service Company by the bank on mar 21st. This memorandum has not been recorded by Elite service. The company's ledger showed one cash account with a balance of \$6, 889. 53. The balance included undigested cash on hand. Because of the lack of the internal control, Steve took for personal use all of the undigested receipts in excess of \$1591. 63.

He then prepared the following back reconciliation In an effort to conceal his theft of cash. Cash Balance Per Books, Mar 31 \$6, 889.

53 Add: Outstanding Checks NO 781 \$286. 00 NO 782 \$ 7, 698. 4 Less: Undigested Receipts Unadjusted Balance Per Bank , March 31 1, 591. 63 \$ 6, 106. 51 Less: sank 175. 00 Cash Balance per Bank Credit Memorandum Statement, March 31 Instructions: \$ 5, 931.

51 a) Prepare a correct bank reconciliation (Hint' . Deduct the amount of the theft from the adjusted balance per books) (The check Figure for the bank reconciliation is \$5, 681. 0) b) Indicate the three ways that Steve attempted to conceal the theft and the dollar amount involved in each method. C) What principles of internal control were violated in this case? Answer a) Bank Reconciliation Cash balance as per books, March 31, 2012 NO. 206 292.

00 NO. 590 \$286. 00 NO. 782 \$6, 889. 53 Add: Outstanding checks \$ 358. 53 NO.

441 \$283. 00 NO. 781 \$319. 47 NO. 783 \$303. 14 \$ 1842.

14 Total \$ 7, 698. 14 Less : Undigested Receipts 6, 106. 51 Add : Bank credit Memorandum 175. 0 Cash Balance per Bank Statement, March 31 Less: Amount of Cash Stolen Balance per bank Statement, March 31 b). Steve concealed the theft by: \$ 6281, 51 Cash \$ 350 1) Not showing the entries of 3 checks No.

206, No. 441 and No. 590 and the total amount of checks were \$933. 53 2) Even adding the outstanding checks amount, No 781, No 782 and No 783, he has shown the amount 808. 61, which actually comes \$908.

1. So there is \$100 Difference. 3) Instead of adding the Bank credit received of \$175 to cash balance, Steve less the amount of credit received.

C) The principles of Internal control were violated: 1) First comes the establishment of responsibility, that was not done properly. 2) There were no maintenance of adequate records and documentation.

3) Job of cashier and bookkeeper was given to same person. Actually there has to be two employees for these 2 departments. 4) There was no verification on accounting records. Entries should have been check by supervisor. 5) There was no technological control or independent review of records.