

Accounting ethics flashcard



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Explain and describe characteristics of an effective system of internal control. An effective system of internal control limits the probability that fraud will take place. Within an effective system on internal control an organization will safeguard their assets, encourage employees to follow company policy, promote operational efficiency, strive towards the most accurate and reliable accounting records, and complies with all legal requirements. Internal controls not only helps to eliminate fraud but also waste and inefficiency. There are five components that are used to break down internal control.

The first is control environment which is at the top such as the managers and CEO's of companies which need to set good examples and have a corporate code of ethics for larger companies. Second is risk assessment where an organization will identify its business risks and do what they can to avoid causing financial harm to the company, its workers, owners, and creditors. Third is an information system where accounting is recorded and information needs to be accurate and recoded in a timely fashion.

Fourth is control procedure which takes into account duties being separate to protect against theft. Lastly is the monitoring of controls which monitors to make sure no individual or special group of people can process transaction from start to finish without being cross checked by others. b.

Explain why separation of duties is often described as the cornerstone of internal control for safeguarding assets. Describe what can happen if the same person has custody of an asset and also accounts for the asset.

Separation of duties is often described as the cornerstone of internal control for safeguarding assets because if one person of a small group of people have total control over transaction from the beginning to the end they can manipulate the books and steal from the organization. For example, if one individual collects checks for an internet DVD business and also accounts for those checks then they can mark the account as paid and then endorse the check to their account while at the same time showing that the money has been accounted for and deposited in the bank by using the lapping method and covering up the shortage by applying collections received later from another customer. You can see how this can be very dangerous to leave people in control of too much of the duties when money is involved.

Learning about fraud; making an ethical judgment related to internal controls. Gretchen Rourke, an accountant for Dublin Limited, discovers that her supervisor, Billy Dunn, made several errors last year. In total, the errors overstated the company's net income by 25%. It is not clear whether the errors were deliberate or accidental. What should Rourke do?

Rourke should immediately confront Dunn in a calm and collected fashion and show Dunn where she sees the errors. She should then work with Dunn to correct the errors and pass the information onto the controller if applicable and necessary in the scenario. If Dunn is not willing to make the appropriate changes or cannot show Rourke where her calculations are incorrect then Rourke should immediately go to Dunn's superior to handle the issue as Rourke would not only be doing the right thing but could be held accountable knowing the information provided on the accounting records is not correct and has been overstated by 25%. Unfortunately, if Rourke is a <https://assignbuster.com/accounting-ethics-flashcard/>

CEO or head of the company it would put you in a really tough spot and the best thing might be to resign or release the information to the appropriate authorities.

Learning about fraud; correcting an internal control weakness: Bobby Flynn served as executive director of Downtown Kalamazoo, an organization created to revitalize Kalamazoo, Michigan. Over the course of 13 years Flynn embezzled \$333, 000. How did Flynn do it? By depositing subscriber cash receipts in his own bank account, writing Downtown Kalamazoo checks to himself and creating phony entities that Downtown Kalamazoo wrote checks to.

Downtown Kalamazoo was led by a board of directors comprised of civic leaders. Flynn's embezzlement went undetected until Downtown Kalamazoo couldn't pay its bills. Give four ways Flynn's embezzlement could have been prevented.

There are four or five ways Flynn's embezzlement or most organizations embezzlements could have been avoided which include smart hiring practices along with separation of duties. Like mentioned earlier no one person or group should have control of transactions from the start to the finish and it is important to do things like background checks when hiring for positions that people would have the ability to commit fraud.

Comparing and monitoring is next on the list which is important because it forces people or departments to cross-check their records, budget their activities, and can be used to audit the organization. Adequate accounting records are also very important as they would be supported along with either

electronic records or hard copies to show everything that has been processed throughout the organization and will make it very easy to check everything quickly when that needs to be done.

Limited access to records and assets can really make it hard for someone in an organization to commit fraud. If the accounting department never has access to the actual money and the people in charge of the money have no access to the accounting of the organization other than sending them the info over that the accounting department needs to see that payments have arrived it will be very hard for someone in an organization to commit fraud without working with people in other parts of the organization to deliberately commit fraud. Another way would be to make sure there is a proper approval system within the organization where managers need to sign off before certain things can be moved through the organization.

Evaluating internal control over cash receipts: McCall stores use point-of-sale terminals as cash registers. The register shows the amount of each sale, the cash received from the customer, and any change returned to the customer. The machine also produces a customer receipt but keeps no record of transactions. At the end of the day, the clerk counts the cash in the register and gives it to the cashier for deposit in the company bank account.

Write a memo to convince the store manager that there is an internal control weakness over cash receipts. Identify the weakness that gives an employee the best opportunity to steal cash and state how to prevent such a theft. We have a major internal weakness with cash receipts because we do not have a system in place that shows how many transactions we are doing per day.

With the current system the clerk can keep the money for themselves anytime they would like because there is no record of the transactions other than the receipts to the customers.

If a customer bought something for \$10 they could easily give the customer that receipt and pocket the money because there is no record of the transaction. A system needs to be put in place so it is logged how many transactions happen per day along with how much of each sale and what was sold along with an inventory system as well that only managers can make changes on and not the clerk taking the order. 5) Learning about fraud; identifying internal control weakness: Each of the following situations reveals an internal control weakness:

In evaluating the internal control over cash payments of Framingham Manufacturing, an auditor learns that the purchasing agent is responsible for purchasing diamonds for use in the company's manufacturing process, approving the invoices for payment and signing the checks. No supervisor reviews the purchasing agent's work. b. Leslie Joyce owns an architectural firm. Joyce's staff consists of 18 professional architects, and Joyce manages the office. Often, Joyce's work requires her to travel to meet with clients.

During the past six months, Joyce has observed that when she returns from a business trip, the architecture jobs in the office have not progressed satisfactorily. Joyce learns that when she is away, two of her senior architects take over office management and neglect their normal duties. One employee could manage the office. c. J. T. Durfee has been an employee of the City of Maron for many years. Because the city is small, Durfee performs

all accounting duties, plus opening the mail, preparing the bank deposit and preparing the bank reconciliation.