

Accounting handout 7.1 flashcard



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Internal controls are designed to safeguard assets, encourage employees to follow company policies, promote operational efficiency, and ensure accurate accounting records. Requirements R1. Which objective is most important?

R2. Which must the internal controls accomplish for the business to survive?

Give your reason. 2. The Sarbanes-Oxley Act affects public companies.

Requirement R1. How does the Sarbanes-Oxley Act relate to internal controls? Be specific. 3. Separation of duties is a key internal control.

Requirement R1.

Explain in your own words 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.

4. There are 5 characteristics identified in the chapter as pitfalls of e-commerce. Requirement R1. List the 5 characteristics identified in the chapter as pitfalls of e-commerce.

5. Answer the following questions about the controls in bank accounts: Requirements R1. Which bank control protects against forgery? R2. Which bank control reports what the bank did with the customer's cash each period?

R3. Which bank control confirms the amount of money put into the bank? 6.

The Cash account of Safe and Secure Security Systems reported a balance of \$2,490 at May 31, 2011. There were outstanding checks totaling \$500 and a May 31 deposit in transit of \$300. The bank statement, which came from Tri Cities Bank, listed the May 31 balance of \$3,360. Included in the bank balance was a collection of \$680 on account from Ryan Saar, a Safe and Secure customer who pays the bank directly. The bank statement also shows

a \$20 service charge and \$10 of interest revenue that Safe and Secure earned on its bank balance.

Requirement R1. Prepare Safe and Secure's bank reconciliation at May 31. 7.

Review your results from preparing Safe and Secure Security Systems' bank reconciliation in problem #6. Requirement R1. Journalize the company's

transactions that arise from the bank reconciliation. Include an explanation with each entry. 1 8. Diedre Chevis sells furniture for DuBois Furniture

Company. Chevis is having financial problems and takes \$500 that she received from a customer. She rang up the sale through the cash register.

Requirement R1. What will alert Betsy DuBois, the controller, that something is wrong? . Review the internal controls over cash receipts by mail presented

in the chapter. Requirement R1. Exactly what is accomplished by the final step in the process, performed by the controller? 10. A purchasing agent for

Westgate Wireless receives the goods that he purchases and also approves payment for the goods. Requirements R1. How could this purchasing agent

cheat his company? R2. How could Westgate avoid this internal control

weakness? 11. The following petty cash transactions of Lexite Laminated Surfaces occurred in August: Requirement R1. Prepare journal entries

without explanations. 12.

Gwen O'Malley, an accountant for Ireland Limited, discovers that her supervisor, Blarney Stone, made several errors last year. Overall, the errors overstated the company's net income by 20%. It is not clear whether the errors were deliberate or accidental. Requirement R1. What should O'Malley

do? 13. The following items could appear on a bank reconciliation:

Requirement R1. Classify each item as (1) an addition to the book balance,

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(2) a subtraction from the book balance, (3) an addition to the bank balance, or (4) a subtraction from the bank balance. 2 14. Louise's Dance Studio created a \$200 imprest petty cash fund.

During the month, the fund custodian authorized and signed petty cash tickets as follows: Requirement R1. Make the general journal entries to a. create the petty cash fund and b. record its replenishment. Cash in the fund totals \$15, so \$10 is missing. Include explanations. 15. Each of the following situations has an internal control weakness. Requirements R1. Identify the missing internal control characteristics in each situation. R2. Identify the possible problem caused by each control weakness. R3. Propose a solution to each internal control problem. 16. The April cash records of Donald Insurance follow:

Donald Insurance's Cash account shows a balance of \$17, 040 at April 30. On April 30, Donald Insurance received the following bank statement: 3

Additional data for the bank reconciliation: Requirements R1. Prepare the bank reconciliation of Donald Insurance at April 30, 2011. R2. Journalize any required entries from the bank reconciliation. 17. On November 1, Fab Salad Dressings creates a petty cash fund with an imprest balance of \$400. During November, Sunny Lewis, the fund custodian, signs the following petty cash tickets: On November 30, prior to replenishment, the fund contains these tickets plus cash of \$245.

The accounts affected by petty cash payments are Office supplies expense, Travel expense, Delivery expense, Entertainment expense, and Inventory.

Requirements R1. Explain the characteristics and the internal control

features of an imprest fund. R2. On November 30, how much cash should the petty cash fund hold before it is replenished? R3. Journalize all required entries to create the fund and replenish it. Include explanations. R4. Make the December 1 entry to increase the fund balance to \$450. Include an explanation, and briefly describe what the custodian does. 4