

checks and uncleared deposits. The record balance is adjusted for service charges and interest earned.

- The bank reconciliation is an internal control document that ensures transactions to the bank account are properly recorded, and allows for verification of transactions.

8.7 Describe Fraud in Financial Statements and Sarbanes-Oxley Act Requirements

- Financial statement fraud has occurred when financial statements intentionally hide illegal transactions or fail to accurately reflect the true financial condition of an entity.
- Cooking the books can be used to create false records to present to lenders or investors. It also is used to hide corporate looting of funds and other resources, or to increase stock prices. Cooking the books is an intentional action and is often achieved through the manipulation of the entity's revenues or accounts receivable.
- Health South and Enron were used as examples of past corporate financial fraud.
- The section takes a brief look at the current state of SOX compliance.



Multiple Choice

1. **LO 8.1** Which of the following would a fraudster perceive as a pressure?
 - A. lack of management oversight
 - B. everyone does it
 - C. living beyond one's means
 - D. lack of an internal audit function
2. **LO 8.2** Internal control is said to be the backbone of all businesses. Which of the following is the best description of internal controls?
 - A. Internal controls ensure that the financial statements published are correct.
 - B. The only role of internal controls is to protect customer data.
 - C. Internal controls and company policies are important to protect and safeguard assets and to protect all company data and are designed to protect the company from fraud.
 - D. Internal controls are designed to keep employees from committing fraud against the company.
3. **LO 8.3** What is the best way for owners of small businesses to maintain proper internal controls?
 - A. The owner must have enough knowledge of all aspects of the company and have controls in place to track all assets.
 - B. Small businesses do not need to worry about internal controls.
 - C. Small businesses should make one of their employees in charge of all aspects of the company, giving the owner the ability to run the company and generate sales.
 - D. Only managers need to be concerned about internal controls.
4. **LO 8.3** Which of the following is *not* considered to be part of the internal control structure of a company?
 - A. Ensure that assets are kept secure.
 - B. Monitor operations of the organization to ensure maximum efficiency.
 - C. Publish accurate financial statements on a regular basis.
 - D. Ensure assets are properly used.

5. **LO 8.3** There are several elements to internal controls. Which of the following would not address the issue of having cash transactions reported in the accounting records?
- A. One employee would have access to the cash register.
 - B. The cash drawer should be closed out, and cash and the sales register should be reconciled on a prenumbered form.
 - C. Ask customers to report to a manager if they do not receive a sales receipt or invoice.
 - D. The person behind the cash register should also be responsible for making price adjustments.
6. **LO 8.3** A company is trying to set up proper internal controls for their accounts payable/inventory purchasing system. Currently the purchase order is generated by the same person who receives the inventory. Together the purchase order and the receiving ticket are sent to accounts payable for payment. What changes would you make to improve the internal control structure?
- A. No changes would be made since the person paying the bills is different from the person ordering the inventory.
 - B. The person in accounts payable should generate the purchase order.
 - C. The person in accounts payable should generate the receiving ticket once the invoice from the supplier is received.
 - D. The responsibilities of generating the purchase order and receiving the inventory should be separated among two different people.
7. **LO 8.3** There are three employees in the accounting department: payroll clerk, accounts payable clerk, and accounts receivable clerk. Which one of these employees should *not* make the daily deposit?
- A. payroll clerk
 - B. account payable clerk
 - C. accounts receivable clerk
 - D. none of them
8. **LO 8.3** Which one of the following documents is *not* needed to process a payment to a vendor?
- A. vendor invoice
 - B. packing slip
 - C. check request
 - D. purchase order
9. **LO 8.3** What is the advantage of using technology in the internal control system?
- A. Passwords can be used to allow access by employees.
 - B. Any cash received does not need to be reconciled because the computer tracks all transactions.
 - C. Transactions are easily changed.
 - D. Employees cannot steal because all cash transactions are recorded by the computer/cash register.
10. **LO 8.3** Which of the following assets require the strongest of internal controls?
- A. inventory
 - B. credit cards
 - C. computer equipment
 - D. cash

11. **L0 8.4** Which of the following is true about the Sarbanes-Oxley Act?
- It was passed to ensure that internal controls are properly documented and tested by public companies.
 - It applies to both public and smaller companies.
 - It requires all companies to report their internal control policies to the US Securities and Exchange Commission.
 - It does not require additional costs or resources to have adequate controls.
12. **L0 8.4** The external auditor of a company has certain requirements due to Sarbanes-Oxley. Which of the following best describes these requirements?
- The auditor is required to only report weaknesses in the internal control design of the company he or she is auditing.
 - The auditor must issue an internal control report on the evaluation of internal controls overseen by the Public Company Accounting Oversight Board
 - The auditor in charge can serve for a period of only two years.
 - The Public Company Accounting Oversight Board reviews reports submitted by the auditors when no evaluations have been performed.
13. **L0 8.4** Petty cash is used to _____.
- avoid having to use checks frequently
 - make small payments
 - avoid having to retain receipts because the amounts are very small
 - avoid having to get approvals due to the small amount of cash being paid
14. **L0 8.4** A company has decided to start a petty cash fund for \$150. Which of the following is the correct journal entry?
- | | | |
|------------|-----|-----|
| Petty Cash | 150 | |
| Cash | | 150 |
 - | | | |
|------------|-----|-----|
| Cash | 150 | |
| Petty Cash | | 150 |
 - No entry is required.
 - | | | |
|------------|-----|-----|
| Expenses | 150 | |
| Petty Cash | | 150 |
15. **L0 8.6** Which of the following items are found on a book side of the bank reconciliation?
- beginning bank balance
 - outstanding checks
 - interest income
 - error made by bank

16. **LO 8.6** Which of the following are found on the bank side of the bank reconciliation?

- A. NSF check
- B. interest income
- C. wire transfer into client's account
- D. deposit in transit

17. **LO 8.7** What would be a reason a company would want to understate income?

- A. to help nudge its stock price higher
- B. to lower its tax bill
- C. to show an increase in overall profits
- D. to increase investor confidence

18. **LO 8.7** What would be a reason a company would want to overstate income?

- A. to help nudge its stock price higher
- B. to lower its tax bill
- C. to show a decrease in overall profits
- D. none of the above

19. **LO 8.7** At what point does revenue recognition occur?

- A. When the purchase order is received
- B. When the seller receives the money for the job
- C. When the seller has met "performance"
- D. When the purchaser makes payment



Questions

1. **LO 8.1** What is an example of *perceived opportunity* as one of the three elements causing a person to commit fraud?

2. **LO 8.1** What is an example of *rationalization* as one of the three elements causing a person to commit fraud?

3. **LO 8.1** What is an example of *incentive* as one of the three elements causing a person to commit fraud?

4. **LO 8.2** Why is it important to have a very sound and well-developed internal control structure?

5. **LO 8.2** The information technology departments of all companies have significant and important roles in the internal control systems. Discuss them and their importance.

6. **LO 8.2** What are the functions of the internal control?

7. **LO 8.3** Discuss the importance of a company having proper insurance and bonding its employees.

8. **LO 8.4** What is the role of the Sarbanes-Oxley Act and the Public Company Accounting Oversight Board?

9. **LO 8.4** Why is it important to have a petty cash fund available in a company?

10. **LO 8.3 LO 8.4** Is it required to have only one petty cashier or should the company appoint more than one person to administer the fund? Why?

11. **LO 8.5** Technology can be used to support a strong internal control system. Discuss how technology has improved the point-of-sale transactions.

12. **L0** 8.6 What is the purpose of the bank reconciliation?

13. **L0** 8.6 What should be done if differences are found between the bank statement and the book account?



Exercise Set A

EA1. **L0** 8.4 Record the following transactions:

- A. Started a petty cash fund in the amount of \$300.
- B. Replenished petty cash fund using the following expenses: Auto \$18, Office Expenses \$35, Postage Expense \$56, Miscellaneous Expenses \$67. Cash on hand is \$124.
- C. Increased petty cash by \$50.

EA2. **L0** 8.4 Record the following transactions:

- A. Started a petty cash fund in the amount of \$200.
- B. Replenished petty cash fund using the following expenses: Auto \$15, Office Expenses \$20, Postage Expense \$81, Miscellaneous Expenses \$66. Cash on hand is \$10.
- C. Increased petty cash by \$75.

EA3. **L0** 8.4 Record the following transactions:

- A. Started a petty cash fund in the amount of \$300.
- B. Replenished petty cash fund using the following expenses: Auto \$69, Office Expenses \$77, Postage Expense \$56, Miscellaneous Expenses \$98. Cash on hand is \$6.
- C. Increased petty cash by \$60.

EA4. **L0** 8.4 Record the following transactions:

- A. Started a petty cash fund in the amount of \$500.
- B. Replenished petty cash fund using the following expenses: Auto \$24, Office Expenses \$43, Postage Expense \$19, Miscellaneous Expenses \$25. Cash on hand is \$389.
- C. The company has decided to reduce the petty cash fund to \$300.

EA5. **L0** 8.6 The bank reconciliation shows the following adjustments:

- Deposits in transit: \$1,234
- Outstanding checks: \$558
- Bank service charges: \$50
- NSF checks: \$250

Prepare the correcting journal entry.

EA6. **L0** 8.6 The bank reconciliation shows the following adjustments:

- Deposits in transit: \$852
- Notes receivable collected by bank: \$1,000; interest: \$20
- Outstanding checks: \$569
- Error by bank: \$300
- Bank charges: \$30

Prepare the correcting journal entry.

EA7. [LO 8.6](#) Using the following information, prepare a bank reconciliation.

- Bank balance: \$3,678
- Book balance: \$2,547
- Deposits in transit: \$321
- Outstanding checks: \$108 and \$334
- Bank charges: \$25
- Notes receivable: \$1,000; interest: \$35

EA8. [LO 8.6](#) Prepare the journal entry to reconcile the bank statement in [EA7](#).

EA9. [LO 8.6](#) Using the following information, prepare a bank reconciliation.

- Bank balance: \$4,587
- Book balance: \$5,577
- Deposits in transit: \$1,546
- Outstanding checks: \$956
- Interest income: \$56
- NSF check: \$456

EA10. [LO 8.6](#) Prepare the journal entry to reconcile the bank statement in [EA9](#).

EA11. [LO 8.6](#) Using the following information, prepare a bank reconciliation.

- Bank balance: \$6,988
- Book balance: \$6,626
- Deposits in transit: \$1,600
- Outstanding checks: \$599 and \$1,423
- Bank charges: \$75
- Bank incorrectly charged the account \$75. The bank will correct the error next month.
- Check number 2456 correctly cleared the bank in the amount of \$234 but posted in the accounting records as \$324. This check was expensed to Utilities Expense.

EA12. [LO 8.6](#) Prepare the journal entry to reconcile the bank statement in [EA11](#).



Exercise Set B

EB1. [LO 8.4](#) Record the following transactions:

- Started a petty cash fund in the amount of \$575
- Replenished petty cash fund using the following expenses: Auto \$18, Office Expenses \$35, Postage Expense \$56, Miscellaneous Expenses \$67. Cash on hand is \$399.
- Increased petty cash by \$25.

EB2. [LO 8.4](#) Record the following transactions:

- Started a petty cash fund in the amount of \$260.
- Replenished petty cash fund using the following expenses: Auto \$15, Office Expenses \$20, Postage Expense \$81, Miscellaneous Expenses \$104. Cash on hand is \$37.
- Increased petty cash by \$80.

EB3. [LO 8.4](#) Record the following transactions:

- A. Started a petty cash fund in the amount of \$340.
- B. Replenished petty cash fund using the following expenses: Auto \$69, Office Expenses \$77, Postage Expense \$56, Miscellaneous Expenses \$98. Cash on hand is \$45.
- C. Increased petty cash by \$65.

EB4. [LO 8.4](#) Record the following transactions:

- A. Started a petty cash fund in the amount of \$1,000.
- B. Replenished petty cash fund using the following expenses: Auto \$61, Office Expenses \$23, Postage Expense \$57, Miscellaneous Expenses \$30.
- C. The company has decided to reduce the petty cash fund to \$600.

EB5. [LO 8.6](#) The bank reconciliation shows the following adjustments.

- Deposits in transit: \$526
- Outstanding checks: \$328
- Bank charges: \$55
- NSF checks: \$69

Prepare the correcting journal entry.

EB6. [LO 8.6](#) The bank reconciliation shows the following adjustments.

- Deposits in transit: \$1,698
- Notes receivable collected by bank: \$2,500; interest: \$145
- Outstanding checks: \$987
- Error by bank: \$436
- Bank charges: \$70

Prepare the correcting journal entry.

EB7. [LO 8.6](#) Using the following information, prepare a bank reconciliation.

- Bank balance: \$4,021
- Book balance: \$2,928
- Deposits in transit: \$1,111
- Outstanding checks: \$679
- Bank charges: \$35
- Notes receivable: \$1,325; interest: \$235

EB8. [LO 8.6](#) Prepare the journal entry to reconcile the bank statement in [EB7](#).

EB9. [LO 8.6](#) Using the following information, prepare a bank reconciliation.

- Bank balance: \$7,651
- Book balance: \$10,595
- Deposits in transit: \$2,588
- Outstanding checks: \$489
- Interest income: \$121
- NSF check: \$966

EB10. [LO 8.6](#) Prepare the journal entry to reconcile the bank statement in [EB9](#).

EB11. [LO 8.6](#) Using the following information, prepare a bank reconciliation.

- Bank balance: \$12,565.
- Book balance: \$13,744.
- Deposits in transit: \$2,509.
- Outstanding checks: \$1,777.
- Bank charges: \$125.
- Bank incorrectly charged the account for \$412. The bank will correct the error next month.
- Check number 1879 correctly cleared the bank in the amount of \$562 but posted in the accounting records as \$652. This check was expensed to Utilities Expense.

EB12. [LO 8.6](#) Prepare the journal entry to reconcile the bank statement in [EB11](#).



Problem Set A

PA1. [LO 8.4](#) On September 1, French company has decided to initiate a petty cash fund in the amount of \$800. Prepare journal entries for the following transactions:

- On September 5, the petty cash fund needed replenishment, and the following are the receipts: Auto Expense \$37, Supplies \$124, Postage Expense \$270, Repairs and Maintenance Expense \$168, Miscellaneous Expense \$149. The cash on hand at this time was \$48.
- On September 14, the petty cash fund needed replenishment and the following are the receipts: Auto Expense \$18, Supplies \$175, Postage Expense \$50, Repairs and Maintenance Expense \$269, Miscellaneous Expense \$59. The cash on hand at this time was \$210.
- On September 23, the petty cash fund needed replenishment and the following are the receipts: Auto Expense \$251, Supplies \$88, Postage Expense \$63, Repairs and Maintenance Expense \$182, Miscellaneous Expense \$203. The cash on hand at this time was \$20.
- On September 29, the company determined that the petty cash fund needed to be increased to \$1,000.
- On September 30, the petty cash fund needed replenishment as it was month end. The following are the receipts: Auto Expense \$18, Supplies \$15, Postage Expense \$57, Repairs and Maintenance Expense \$49, Miscellaneous Expense \$29. The cash on hand at this time was \$837.

PA2. [LO 8.4](#) On May 2 Kellie Company has decided to initiate a petty cash fund in the amount of \$1,200.

Prepare journal entries for the following transactions:

- On July 5, the petty cash fund needed replenishment, and the following are the receipts: Auto Expense \$125, Supplies \$368, Postage Expense \$325, Repairs and Maintenance Expense \$99, Miscellaneous Expense \$259. The cash on hand at this time was \$38.
- On June 14, the petty cash fund needed replenishment, and the following are the receipts: Auto Expense \$425, Supplies \$95, Postage Expense \$240, Repairs and Maintenance Expense \$299, Miscellaneous Expense \$77. The cash on hand at this time was \$80.
- On June 23, the petty cash fund needed replenishment, and the following are the receipts: Auto Expense \$251, Supplies \$188, Postage Expense \$263, Repairs and Maintenance Expense \$182, Miscellaneous Expense \$203. The cash on hand at this time was \$93.
- On June 29, the company determined that the petty cash fund needed to be decreased to \$1,000.
- On June 30, the petty cash fund needed replenishment as it was month-end. The following are the receipts: Auto Expense \$114, Supplies \$75, Postage Expense \$50, Repairs and Maintenance Expense \$121, Miscellaneous Expense \$39. The cash on hand at this time was \$603.

PA3. [LO 8.4](#) Domingo Company started its business on January 1, 2019. The following transactions occurred during the month of May. Prepare the journal entries in the journal on Page 1.

- A. The owners invested \$10,000 from their personal account to the business account.
- B. Paid rent \$500 with check #101.
- C. Initiated a petty cash fund \$500 with check #102.
- D. Received \$1,000 cash for services rendered.
- E. Purchased office supplies for \$158 with check #103.
- F. Purchased computer equipment \$2,500, paid \$1,350 with check #104, and will pay the remainder in 30 days.
- G. Received \$800 cash for services rendered.
- H. Paid wages \$600, check #105.
- I. Petty cash reimbursement: office supplies \$256, maintenance expense \$108, postage expense \$77, miscellaneous expense \$55. Cash on hand \$11. Check #106.
- J. Increased petty cash by \$30, check #107.

PA4. [LO 8.4](#) Prepare a trial balance using the journal entries in [PA3](#).

PA5. [LO 8.4](#) Inner Resources Company started its business on April 1, 2019. The following transactions occurred during the month of April. Prepare the journal entries in the journal on Page 1.

- A. The owners invested \$8,500 from their personal account to the business account.
- B. Paid rent \$650 with check #101.
- C. Initiated a petty cash fund \$550 check #102.
- D. Received \$750 cash for services rendered.
- E. Purchased office supplies for \$180 with check #103.
- F. Purchased computer equipment \$8,500, paid \$1,600 with check #104 and will pay the remainder in 30 days.
- G. Received \$1,200 cash for services rendered.
- H. Paid wages \$560, check #105.
- I. Petty cash reimbursement office supplies \$200, Maintenance Expense \$140, Miscellaneous Expense \$65. Cash on Hand \$93. Check #106.
- J. Increased Petty Cash by \$100, check #107.

PA6. [LO 8.4](#) Prepare a trial balance using the journal entries in [PA5](#).

PA7. **LO 8.6** Identify where each of the following transactions would be found on the bank reconciliation.

Transaction	Increase to Bank Side	Decrease to Bank Side	Increase to Book Side	Decrease to Book Side
Outstanding check				
Interest income				
NFS check				
Wire transfer by customer				
Deposit in transit				
Bank charges				

Table 8.1

PA8. **LO 8.6** Which of the following transactions will require a journal entry? Indicate if it will be a debit or a credit and to what account the entry will be recorded.

Transaction	No Journal Entry Needed	Journal Entry Needed	Debit	Credit
Outstanding check				
Interest income				
NFS check				
Wire transfer by customer				
Deposit in transit				
Bank charges				

Table 8.2

PA9. [LO 8.6](#) Domingo Company received the following bank statement. Using [PA9](#), prepare the bank reconciliation.

Bank Statement				
Beginning Balance				\$0
	Deposits	Checks		
A.	\$10,000	101	\$ 500	
D.	1,000	102	500	
		103	158	
		106	489	
		Bank service charges	100	
Total	<u>11,000</u>		<u>1,747</u>	
Ending Balance				\$9,253

PA10. [LO 8.6](#) Prepare the journal entry required to reconcile the book balance to the bank balance.

PA11. [LO 8.6](#) Inner Resources Company received the following bank statement. Using the information from [PA11](#) and [PA12](#), prepare the bank reconciliation.

Bank Statement				
Beginning Balance				\$0
	Deposits	Checks		
A.	\$8,500	101	\$ 650	
D.	1,200	102	550	
		103	180	
		106	457	
		Bank service charges	100	
Total	<u>9,700</u>		<u>1,937</u>	
Ending Balance				\$7,763

PA12. [LO 8.6](#) Prepare the journal entry required to reconcile the book balance to the bank balance.



Problem Set B

PB1. **LO 8.4** On June 1 French company has decided to initiate a petty cash fund in the amount of \$800.

Prepare journal entries for the following transactions:

- A. On June 5, the petty cash fund needed replenishment, and the following are the receipts: Auto Expense \$37, Supplies \$124, Postage Expense \$270, Repairs and Maintenance Expense \$168, Miscellaneous Expense \$149. The cash on hand at this time was \$48.
- B. On June 14, the petty cash fund needed replenishment, and the following are the receipts: Auto Expense \$18, Supplies \$175, Postage Expense \$50, Repairs and Maintenance Expense \$269, Miscellaneous Expense \$59. The cash on hand at this time was \$220.
- C. On June 23, the petty cash fund needed replenishment, and the following are the receipts: Auto Expense \$251, Supplies \$88, Postage Expense \$63, Repairs and Maintenance Expense \$182, Miscellaneous Expense \$203. The cash on hand at this time was \$20.
- D. On June 29, the company determined that the petty cash fund needed to be increased to \$1,000.
- E. On June 30, the petty cash fund needed replenishment, as it was month end. The following are the receipts: Auto Expense \$18, Supplies \$175, Postage Expense \$50, Repairs and Maintenance Expense \$269, Miscellaneous Expense \$59. The cash on hand at this time was \$437.

PB2. **LO 8.4** On July 2 Kellie Company has decided to initiate a petty cash fund in the amount of \$1,200. Prepare journal entries for the following transactions:

- A. On July 5, the petty cash fund needed replenishment, and the following are the receipts: Auto Expense \$125, Supplies \$368, Postage Expense \$325, Repairs and Maintenance Expense \$99, Miscellaneous Expense \$259. The cash on hand at this time was \$38.
- B. On June 14, the petty cash fund needed replenishment, and the following are the receipts: Auto Expense \$425, Supplies \$95, Postage Expense \$240, Repairs and Maintenance Expense \$299, Miscellaneous Expense \$77. The cash on hand at this time was \$110.
- C. On June 23, the petty cash fund needed replenishment and the following are the receipts: Auto Expense \$251, Supplies \$188, Postage Expense \$263, Repairs and Maintenance Expense \$182, Miscellaneous Expense \$203. The cash on hand at this time was \$93.
- D. On June 29, the company determined that the petty cash fund needed to be decreased to \$1,000.
- E. On June 30, the petty cash fund needed replenishment, as it was month end. The following are the receipts: Auto Expense \$14, Supplies \$75, Postage Expense \$150, Repairs and Maintenance Expense \$121, Miscellaneous Expense \$39. The cash on hand at this time was \$603.

PB3. [LO 8.4](#) Hajun Company started its business on May 1, 2019. The following transactions occurred during the month of May. Prepare the journal entries in the journal on Page 1.

- A. The owners invested \$5,000 from their personal account to the business account.
- B. Paid rent \$400 with check #101.
- C. Initiated a petty cash fund \$200 check #102.
- D. Received \$400 cash for services rendered
- E. Purchased office supplies for \$90 with check #103.
- F. Purchased computer equipment \$1,000 , paid \$350 with check #104 and will pay the remainder in 30 days.
- G. Received \$500 cash for services rendered.
- H. Paid wages \$250, check #105.
- I. Petty cash reimbursement office supplies \$25, Maintenance Expense \$125, Miscellaneous Expense \$35. Cash on hand \$18. Check #106.
- J. Increased Petty Cash by \$50, check #107.

PB4. [LO 8.4](#) Prepare a trial balance using the journal entries in [PB3](#).

PB5. [LO 8.4](#) Lavender Company started its business on April 1, 2019. The following are the transactions that happened during the month of April. Prepare the journal entries in the journal on Page 1.

- A. The owners invested \$7,500 from their personal account to the business account.
- B. Paid rent \$600 with check #101.
- C. Initiated a petty cash fund \$250 check #102.
- D. Received \$350 cash for services rendered.
- E. Purchased office supplies for \$125 with check #103.
- F. Purchased computer equipment \$1,500, paid \$500 with check #104, and will pay the remainder in 30 days.
- G. Received \$750 cash for services rendered.
- H. Paid wages \$375, check #105.
- I. Petty cash reimbursement Office Supplies \$50, Maintenance Expense \$80, Miscellaneous Expense \$60. Cash on hand \$8. Check #106.
- J. Increased Petty Cash by \$70, check #107.

PB6. [LO 8.4](#) Prepare a trial balance for Lavender Company using the journal entries in [PB5](#).

PB7. **LO 8.6** Identify where each of the following transactions would be found on the bank reconciliation.

Transaction	Increase to Bank Side	Decrease to Bank Side	Increase to Book Side	Decrease to Book Side
Overcharge by Bank (Error)				
Interest Income				
Automatic Loan Payment				
Wire Transfer by Customer				
Deposit in Transit				
Outstanding Check				

Table 8.3

PB8. **LO 8.6** Which of the following transactions will require a journal entry? Indicate if it will be a debit or a credit, and to which account the entry will be recorded.

Transaction	No Journal Entry	Journal Entry Needed	Debit	Credit
Overcharge by Bank (Error)				
Interest Income				
Automatic Loan Payment				
Wire Transfer by Customer				
Deposit in Transit				
Outstanding Check				

Table 8.4

PB9. **L0 8.6** Hajun Company received the following bank statement. Using the information from **PB9** and **PB10**, prepare the bank reconciliation.

Bank Statement				
Beginning Balance				\$0
	Deposits	Checks		
A.	\$5,000	101	\$400	
D.	400	102	200	
		103	90	
		106	182	
		Bank service charges	75	
Total	<u>5,400</u>		<u>947</u>	
Ending Balance				\$4,453

PB10. **L0 8.6** Prepare the journal entry required to reconcile the book balance to the bank balance.

PB11. **L0 8.6** Leann Company received the following bank statement. Using the information from **PB11** and **PB12**, prepare the bank reconciliation.

Bank Statement				
Beginning Balance				\$0
	Deposits	Checks		
A.	\$7,500	101	\$ 600	
D.	350	102	250	
		103	125	
		106	242	
		Bank service charges	90	
Total	<u>7,850</u>		<u>1,307</u>	
Ending Balance				\$6,543

PB12. **L0 8.6** Prepare the journal entry required to reconcile the book balance to the bank balance.



Thought Provokers

TP1. **L0 8.2** A retail store normally has three people working in the evening. All of the employees have access to the same cash register. For the last month, the cash count at the end of the evening has been recording losses. The losses range from \$5 to \$300. So the manager has decided to be the only one to count the cash at the end of the evening to keep the losses from happening. Discuss if the change made by the manager is a good one. Will the losses keep happening, or will this change prevent losses due to theft? What other recommendations and changes should be considered by this manager?

TP2. **L0 8.2 L0 8.3** Visit a favorite eatery. Describe some of the internal controls that are implemented in the workplace. Discuss the good and effective internal controls and also discuss areas that need to be addressed where the eatery is vulnerable to losses.

TP3. **L0** **8.3** A manufacturing plant was finding a huge increase in the scrapping of raw materials. Its internal controls were reviewed, and the plant appeared to be strong; segregation of duties was in place. As the accountant was reconciling some inventory accounts, she found more than a normal amount of scrap tickets. The tickets were for scrapping the same inventory part, signed by the same person, and the scrap was sold to only one company. The inventory item was still being ordered, and only one supplier was used to purchase the parts. After further investigation by the accountant, the company buying the inventory and the company selling the inventory to the company had different names but shared the same address. Comment on what went wrong. What happened to the internal controls the company had in place?

TP4. **L0** **8.3** The vice president of finance asks the accounts payable (AP) clerk to write a check in the name of the president for \$10,000. He and the president will sign the check (two signatures needed on a check of this size). He further instructs the AP clerk not to disclose this check to her immediate supervisor. What should the AP clerk do? Should she prepare the check? Should she inform her immediate supervisor? Discuss with internal controls in mind.

TP5. **L0** **8.3** Even though technology has improved the internal control structure of a company, a supervisor cannot depend totally on technology. Discuss other internal controls a supervisor needs to implement to ensure a strong structure.

TP6. **L0** **8.6** A bank reconciliation takes time and must balance. An employee was struggling in balancing the bank reconciliation. Her supervisor told her to “plug” (make an unsupported entry for) the difference, record to Miscellaneous Expense, and simply move on. Discuss the internal controls problem with this directive.

TP7. **L0** **8.6** The bank reconciliation revealed that one deposit had cleared the bank two weeks after the date of the deposit. Should this be of concern? Why, or why not?