

Financial Accounting Chapter 6

Summary: Cheat Sheet

FRAUD AND INTERNAL CONTROL

Principles of Internal Control

Establish responsibilities: Responsibility for a task should be assigned to one person. If responsibility is not established, determining who is at fault is difficult.

Maintain adequate records: Good recordkeeping helps protect assets and helps managers monitor company activities.

Insure assets and bond key employees: Assets should be insured, and employees handling cash and easily transferable assets should be bonded.

Separate recordkeeping from custody of assets: An employee who has access to an asset must not have access to that asset's accounting records.

Divide responsibility for related transactions: Responsibility for a transaction should be divided between two or more individuals or departments. One person's work is a check on the others to prevent errors. This is *not* duplication of work.

Apply technological controls: Use technology such as ID scanners to protect assets and improve control.

Perform regular and dependent reviews: Regular reviews of internal controls should be performed by outside reviewers, preferably auditors.

CONTROL OF CASH

Cash account: Includes currency, coins, checks, and deposits in bank accounts.

Cash equivalents: Short-term, liquid investment assets meeting two criteria: (1) convertible to a known cash amount and (2) close to their due date, usually within 3 months. An example is a U.S. Treasury bill.

Cash management strategies: (a) Encourage early collection of receivables, (b) delay payment of liabilities, (c) keep only necessary assets, (d) plan expenditures, and (e) invest excess cash.

Over-the-Counter Cash Receipt Control Procedures

- Sales are recorded on a cash register after each sale, and customers are given a receipt.
- Cash registers hold a locked-in record of each transaction and often are linked with the accounting system.
- Custody over cash is separate from recordkeeping. The clerk who has access to cash in the register cannot access accounting records. The recordkeeper cannot access the cash.

Cash Over and Short Journal Entries

If cash received is *more* than recorded cash sales:

Cash	555	
Cash Over and Short		5
Sales		550

If cash received is *less* than recorded cash sales:

Cash	621	
Cash Over and Short	4	
Sales		625

Cash Receipts by Mail Control Procedures

- Two people are tasked with opening mail. Theft of cash would require collusion between these two employees.
- A list (in triplicate) is kept of each sender's name, the amount, and an explanation of why money was sent. The first copy is sent with the money to the cashier. A second copy is sent to the recordkeeper. The employees who opened the mail keep the third copy. The cashier deposits the money in the bank, and the recordkeeper records amounts received.
- No employee has access to both accounting records and cash.

Cash Payment Control Procedures

- Require all payments to be made by check or EFT. The only exception is small payments made from petty cash.
- Deny access to records to employees who can sign checks (other than the owner).

Voucher system: Set of procedures to control cash payments. Applied to all payments.

TOOLS OF CONTROL AND ANALYSIS

Petty cash: System of control used for small payments.

Entry to set up a petty cash fund:

Petty Cash	75	
Cash		75

Reimburse and record expenses for petty cash:

Miscellaneous Expenses	46.50	
Merchandise Inventory	15.05	
Delivery Expense	5.00	
Office Supplies Expense	4.75	
Cash		71.30

Increasing a petty cash fund (after reimbursement):

Petty Cash	25	
Cash		25

Decreasing a petty cash fund (after reimbursement):

Cash	20	
Petty Cash		20

Petty cash fund has unexplained shortage:

Miscellaneous Expenses	178	
Cash Over and Short	7	
Cash		185

Canceled checks: Checks the bank has paid and deducted from the customer's account.

Bank reconciliation adjustments:

Bank Balance Adjustments	
Add deposits in transit.	
Subtract outstanding checks.	
Add or subtract corrections of bank errors.	

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Book Balance Adjustments	
Add interest earned and unrecorded cash receipts.	
Subtract bank fees and NSF checks.	
Add or subtract corrections of book errors.	

Adjusting Entries from Bank Reconciliation – Examples

Collection of note:

Cash	485	
Notes Receivable		485

Interest earned:

Cash	8	
Interest Revenue		8

Bank fees:

Miscellaneous Expenses	23	
Cash		23

NSF checks:

Accounts Receivable – Name	30	
Cash		30