**Mini-Test REVIEW**

**Topics:** Internal/Cash Controls, Petty Cash journal entries, Financial Analysis & Decision Making and Bank Reconciliation

1. What should be done with all cash received by a business?

2. How are most payments made?

3. All petty cash payments are supported by a document called .

4. To establish a petty cash fund, is debited and is credited.

5. The principle of having different persons receive and record cash is called

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6. A small change fund placed in the cash register at the beginning of each day is called

.

**True/False:**

1. Internal control is mainly concerned with the amount of authority a supervisor exercises over a subordinate.
2. The safeguarding of assets is an objective of a company's system of internal control.
3. Internal control is most effective when several people are responsible for a given task.
4. Requiring employees to take vacations is a weakness in the system of internal controls because it does not promote operational efficiency.
5. An effective system of internal control requires that at least two individuals be assigned to one cash drawer so that each can serve as a check on the other.
6. The responsibility for ordering, receiving, and paying for merchandise should be assigned to different individuals.
7. Firms use physical, mechanical, and electronic controls primarily to safeguard its assets.
8. For efficiency of operations and better control over cash, a company should maintain only one bank account.

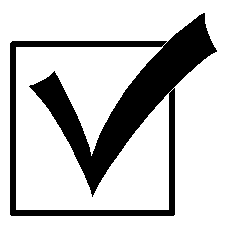
**INTERNAL/CASH CONTROL**

Here are some fundamental elements of a good ***INTERNAL CONTROL system:***

1. **Separation of responsibilities for related operations.**  
   If two different people prepare accounting documents that are related, their work must agree. No single person should handle a transaction from beginning to end. The division of responsibility allows for a check of one person’s work against another.
2. **Custody of assets should be separate from the accounting of assets.**  
   The person who has custody of an asset should not also be maintaining the accounting records for this asset.
3. **Assets should be kept in a safe place.**  
   Assets need to be locked up in order to safeguard them from theft.
4. **Responsibilities should be clearly assigned.**  
   In the event of an error or theft, it should be clear who was responsible.
5. **Approval and authorization of transactions should be performed by key employees who meet certain standards.**  
   Approval of transactions should be limited to a few key employees.
6. **Rotating staff and mandatory vacations.**  
   Rotating staff and requiring mandatory vacations may detect errors or fraud and will certainly act as a deterrent to theft or fraudulent activities.
7. **Use pre-numbered documents.**  
   Using sequentially numbered documents such as cheques will ensure that documents will not go missing without the attention of management.

The following ***internal controls are for the purpose of PROTECTING CASH.***

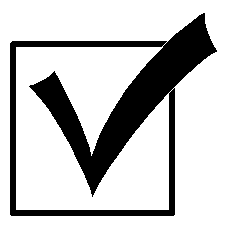
1. **Separation of duties.**  
   The handling of the cash and the record keeping should be assigned to different people.
2. **Cash received in the mail.**  
   If cash is being received by mail, two people should be present in the room. This makes it more difficult for one person to steal money. The employee who opens the mail should make a list of the cheques and cash received.
3. **Deposit cash daily.**  
   Cash deposits should be made daily to minimize the amount of cash that is in the office. No bills should be paid and no loans to employees should be made from this money. In this way the cash receipts will match the bank deposit.
4. **Make all payments by cheque.**  
   Small expenditures may be paid through the petty cash fund, but most payments should be paid by cheque. Payment by cheque should be supported with proper documentation and should be approved by key employees.
5. **Endorse all cheques received “For Deposit Only”.**  
   With this endorsement the cheque can only be deposited to the company’s bank account and not cashed in any other way.
6. **Prepare deposit slips in duplicate.**  
   Once the teller stamps the deposit, one copy of the deposit slip is for the bank and the other copy is for the accounting clerk that is recording the transaction.
7. **Use cash registers in retail stores.**  
   The cash register tape provides a source document for the accounting department and records all transactions.
8. **Reconcile bank accounts monthly.**  
   The company’s bank records should be compared to or “reconciled” to the records of the bank on a monthly basis. All differences between the company’s bank records and the bank statement should be accounted for. We will examine this function in more detail later in this activity.

**internal Control Scenario #1**

**Miro, Tessa, and Brigette, just got hired by “A Count Ants R Us”. Miro’s job is to maintain the balance in the cash account per the internal books. Tessa’s Job is to maintain custody of the cash and deposit slips. Brigette’s job is to make monthly comparisons between Miro and Tessa’s work.**

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| **QUESTION** | **SOLUTION** |
| **What are the Strengths or weaknesses?** |  |
| **Principle(s) Involved** |  |
| **Reason/explanation** |  |

**internal Control Scenario**

 **Nancy works at a clothing store. Every time she makes a sale she uses a pre-numbered sales slip to record the transaction.**

**Helen works at a shoe store, every time she makes a sale, the computer or the point of sales terminal generates an pre-numbered invoice.**

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| **QUESTION** | **SOLUTION** |
| **Strength/weakness?** |  |
| **What is/are the Principle of control(s) Involved?** |  |
| **Reason/explanation** |  |

**Petty Cash Journal Entries:**

1. Ms. Stepanek established a petty cash fund, cheque #85, for $150.
2. Ms. Stepanek decided to increase the petty cash fund from $150 to $200, cheque #86
3. Journalize the petty cash vouchers. The following summary of vouchers from the petty cash fund was prepared:
   1. Salon expenses $45.53
   2. Delivery Expense $12.45
   3. H. Stepanek, Drawings $32.76
   4. Postage Expense $4.56
4. Replenish the petty cash fund. Chq #87.

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