

# Internal Control & Cash

Chapter 7

# Learning Objective 1

Define internal control

## Internal Control

► Organizational plan and all the related measures to:

Safeguard  
assets

Encourage  
employees to  
follow company  
policies

Ensure accurate,  
reliable  
accounting  
records

Promote  
operational  
efficiency

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## Sarbanes-Oxley Act (SOX)

► Congress passed SOX after the Enron and WorldCom scandals

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# Learning Objective 3

List and describe the components of internal control and control procedures

## Components of Internal Control

- **M**onitoring of controls
- **I**nformation System
- **C**ontrol procedures
- **C**ontrol **E**nvironment
- **R**isk Assessment

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## Internal Control Procedures

- ▶ Competent, reliable and ethical personnel
- ▶ Assignment of responsibilities
- ▶ Separation of duties
- ▶ Audits
- ▶ Documents

## Internal Control Procedures

- ▶ Electronic Devices
- ▶ Other controls

## Learning Objective 4

Explain control procedures unique to e-commerce

## Internal Controls for E-Commerce

- ▶ Risks
- ▶ Security measures

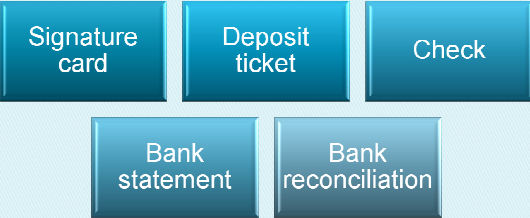
## The Limitations of Internal Control

- ▶ Collusion
- ▶ Cost

## Learning Objective 5

Demonstrate the use of a bank account as a control device

## Control Documents of a Bank Account



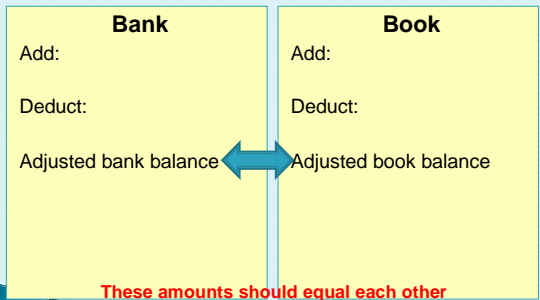
## Learning Objective 6

Prepare a bank reconciliation and the related journal entries

## Two Records of Business's Cash

- ▶ Cash account in general ledger
- ▶ Bank statement

## Bank Reconciliation



## Reconciling Items

**Bank Statement Balance**

**Add:** Deposits in transit.  
**Deduct:** Outstanding checks  
**Add or Deduct:** Bank errors

**Book Balance in ledger**

**Add:** Bank collections  
**Add or Deduct :** EFT transfers  
**Deduct:** Service charges  
**Add:** Interest revenue  
**Deduct:** Nonsufficient funds check from customer(NSF) and cost of printed checks  
**Add or Deduct:** Book errors

## Journalizing Transactions from the Reconciliation

<b>Book balance</b>	<b>\$,\$\$\$</b>
Add: Bank collection from customer	\$\$\$
Interest revenue	<u>\$\$\$</u>
Subtotal	\$,,\$\$\$
Deduct: Bank service charge	\$\$
NSF check	<u>\$\$\$</u>
Reconciled book balance	\$,,\$\$\$



## Journalizing Transactions from the Reconciliation

GENERAL JOURNAL				
DATE	DESCRIPTION	REF	DEBIT	CREDIT
May 31	Cash		\$\$\$	
	Accounts receivable			\$\$\$
	Bank collection from customer			
	Cash		\$\$	
	Interest revenue			\$\$
	Interest earned on bank balance			

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## Journalizing Transactions from the Reconciliation

GENERAL JOURNAL				
DATE	DESCRIPTION	REF	DEBIT	CREDIT
	Miscellaneous expense		\$\$	
	Cash			\$\$
	Bank service charge			
	Accounts receivable		\$\$\$	
	Cash			\$\$\$
	NSF check			

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## Exercise 7-18

D.J. Hill				
Bank reconciliation				
May 31, 2012				
Balance per bank		\$ 375	Balance per books	\$ 1,290
Add: Deposit in transit		1,205	Less: Printed checks	(25)
Less: Outstanding checks:	\$ 95		Service charge	(15)
	275	\$ (370)	Error check #624	(40)
Adjusted cash balance		\$ 1,210	Adjusted cash balance	\$ 1,210

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## Learning Objective 7

Apply internal controls to cash receipts

## Cash Receipts Over the Counter

- ▶ Receipt is issued for each transaction
- ▶ Cash drawer opens when a transaction is entered
- ▶ At the end of a shift, manager proves cash by comparing cash in drawer with machine's record of sales
- ▶ At least once a day, cashier deposits cash in bank
- ▶ Register tape sent to accounting department

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## Cash Receipts by Mail

- ▶ Incoming mail opened by a mailroom employee
- ▶ Customer checks sent to treasurer and cashier deposits money in bank
- ▶ Remittance advice sent to accounting for journal entries
- ▶ Controller compares records

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## Learning Objective 8

Apply internal controls to cash payments

## Payment by Check

- ▶ Important internal control
- ▶ Check provides record of payment
- ▶ Must be signed by an authorized official who reviews documents supporting the payment



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## Controls over Purchases and Payments



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## Learning Objective 9

Explain and journalize petty cash transactions

## Petty Cash

- ▶ Cash fund kept on hand to pay for small expenditures
- ▶ Controls needed

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## Set Up Petty Cash Fund

- ▶ Check written for designated amount and cashed
- ▶ Journal entry:

General Journal				
Page 8				
Date	Account Titles and Description	PR	Dr.	Cr.
May 1	Petty cash		\$\$\$	
	Cash			\$\$\$

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## Making Payments

A numbered ticket is prepared for each expenditure

Petty Cash Ticket No. 15	
Date: <u>May 2, 2009</u>	Amount: <u>\$8.00</u>
Paid to: <u>Foster's Office Supply</u>	
For: <u>Office Supplies</u>	
Approved by: <u>Charlene Hall</u>	
Payment received by: <u>Carol Miller</u>	
Debit Account No.: <u>615</u>	

Supplies Expense – Account No. 615

## Making Payments

Petty Cash Ticket No. 15	
Date: <u>May 2, 2007</u>	Amount: <u>\$8.00</u>
Paid to: <u>Foster's Office Supply</u>	
For: <u>Office Supplies</u>	
Approved by: <u>Charlene Hall</u>	
Payment received by: <u>Carol Miller</u>	
Debit Account No.: <u>615</u>	

## Imprest System

- ▶ Maintaining petty cash at its designated balance
- ▶ Money in petty cash plus the receipts should always equal designated balance

## Replenish Petty Cash

- ▶ Total amounts on petty cash tickets
- ▶ Add to cash remaining in fund
- ▶ Journal entry prepared to record expenditures
- ▶ A new check is cashed to replenish fund to its original balance
- ▶ Cash is placed in petty cash box

## Cash Short and Over

- ▶ Account used whenever a cash fund is short or over
- ▶ May have either a debit or credit balance
- ▶ Reported as expense or revenue depending on ending balance

## Replenish Petty Cash Fund

General Journal				
Page 8				
Date	Account Titles and Description	PR	Dr.	Cr.
Aug 31	Office supplies		60	
	Delivery expense		30	
	Cash short & over			8
	Cash			82
	Replenish petty cash fund			



## Exercise 7-23

#1

The imprest system requires that the petty cash box contains cash and receipts that total the amount of the imprest balance. This clearly identifies the amount of cash for which the custodian is responsible, and that is the system's main internal control feature.

#2

General Journal				
Date	Account Titles and Description	PR	Dr.	Cr.
Dec 1	Petty cash		\$150	
	Cash			\$150

## Exercise 7-23 (continued)

General Journal				
Date	Account Titles and Description	PR	Dr.	Cr.
Dec 31	Office supplies		111	
	Delivery expense		30	
	Cash			136
	Cash short & over			5

## Learning Objective 10

Describe ethical business issues related to accounting

## Business Ethics

- ▶ Analyzing right from wrong
- ▶ Most companies have a code of ethics
- ▶ Accountants held to higher standard

## End of Chapter 7