

1. Which of the following is *not* part of the definition of internal control?

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- A. Separation of duties
  - B. Safeguard assets
  - C. Encourage employees to follow company policy
  - D. Promote operational efficiency
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2. The Sarbanes-Oxley Act

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- A. created the Private Company Accounting Board.
  - B. allows accountants to audit and to perform any type of consulting work for a public company.
  - C. stipulates that violators of the act may serve 20 years in prison for securities fraud.
  - D. requires that an outside auditor must evaluate a public company's internal controls.
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3. Encryption

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- A. avoids the need for separation of duties.
  - B. creates firewalls to protect data.
  - C. cannot be broken by hackers.
  - D. rearranges messages by a special process.
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4. Separation of duties is important for internal control of

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- A. cash receipts.
  - B. cash payments.
  - C. Neither of the above
  - D. Both a and b
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5. Michelle Darby receives cash from customers. Her other assigned job is to post the collections to customer accounts receivable. Her company has weak

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- A. assignment of responsibilities.
  - B. ethics.
  - C. computer controls.
  - D. separation of duties.
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6. Payment by check is an important internal control over cash payments because

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- A. the check must be signed by an authorized official.
  - B. before signing the check, the official reviews the invoice supporting the payment.
  - C. Both a and b
  - D. None of the above
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7. The petty cash fund had an initial imprest balance of \$100. It currently has \$20 and petty cash tickets totaling \$75 for office supplies. The entry to replenish the fund would contain

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*Review Only*

**Click the icon to see the Worked Solution.**

- A. a credit to Cash Short & Over for \$5.
- B. a credit to Petty Cash for \$80.
- C. a debit to Cash Short & Over for \$5.
- D. a debit to Petty Cash for \$80.

8. The document that explains all differences between the company's cash records and the bank's figures is called a(n)

- A. bank collection.
- B. electronic fund transfer.
- C. bank statement.
- D. bank reconciliation.

9. Sahara Company's Cash account shows an ending balance of \$650. The bank statement shows a \$29 service charge and an NSF check for \$150. A \$240 deposit is in transit, and outstanding checks total \$420. What is Sahara's adjusted cash balance?

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*Review Only*

**Click the icon to see the Worked Solution.**

- A. \$291
- B. \$829
- C. \$471
- D. \$470

10. Espinoza Air Conditioning & Heating had the following select financial data as of June 30, 2016.

|                           |           |
|---------------------------|-----------|
| Cash                      | \$ 10,000 |
| Cash Equivalents          | 8,850     |
| Accounts Receivable       | 3,700     |
| Total current liabilities | 29,000    |

What is Espinoza's cash ratio?

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*Review Only*

**Click the icon to see the Worked Solution.**

- A. 0.34
- B. 0.65
- C. 0.78
- D. 1.54

11. Suppose that on June 1, Rockin' Gyration, a disc jockey service, creates a petty cash fund with an imprest balance of \$300. During June, Al Franklin, fund custodian, signs the following petty cash tickets:

<sup>1</sup>(Click the icon to view the petty cash tickets.)

On June 30, prior to replenishment, the fund contains these tickets plus cash of \$125. The accounts affected by petty cash payments are Office Supplies, Entertainment Expense, and Postage Expense.

**Requirements**

1. On June 30, how much cash should this petty cash fund hold before it is replenished?
2. Journalize all required entries to (a) create the fund and (b) replenish it. Include explanations.
3. Make the entry on May 1 to increase the fund balance to \$350. Include an explanation.

*Review Only*

**Click the icon to see the Worked Solution.**

**Requirement 1.** On June 30, how much cash should this petty cash fund hold before it's replenished?

Before replenishment, the petty cash fund should hold cash of .

**Requirement 2.** Journalize all required entries to (a) create the fund and (b) replenish it. Include explanations. (Record debits first, then, credits. Select the explanation on the last line of the journal entry table.)

Journalize the creation of the fund.

| Date   | Accounts and Explanation | Debit | Credit |
|--------|--------------------------|-------|--------|
| Jun. 1 | (1)                      |       |        |
|        | (2)                      |       |        |
|        | (3)                      |       |        |
|        | (4)                      |       |        |
|        | (5)                      |       |        |

Journalize the replenishment of the fund. (Prepare a single compound journal entry.)

| Date    | Accounts and Explanation | Debit | Credit |
|---------|--------------------------|-------|--------|
| Jun. 30 | (6)                      |       |        |
|         | (7)                      |       |        |
|         | (8)                      |       |        |
|         | (9)                      |       |        |
|         | (10)                     |       |        |
|         | (11)                     |       |        |

**Requirement 3.** Make the entry on May 1 to increase the fund balance to \$350. Include an explanation. (Record debits first, then, credits. Select the explanation on the last line of the journal entry table.)

| Date  | Accounts and Explanation | Debit | Credit |
|-------|--------------------------|-------|--------|
| May 1 | (12)                     |       |        |
|       | (13)                     |       |        |
|       | (14)                     |       |        |
|       | (15)                     |       |        |
|       | (16)                     |       |        |

## 1: Data Table

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| <b>Petty Cash</b>    |                              |               |    |
|----------------------|------------------------------|---------------|----|
| <b>Ticket Number</b> | <b>Item</b>                  | <b>Amount</b> |    |
| 1                    | Postage for package received | \$            | 25 |
| 2                    | Office party                 |               | 15 |
| 3                    | Two boxes of stationery      |               | 20 |
| 4                    | Printer cartridges           |               | 30 |
| 5                    | Business dinner              |               | 80 |

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12. The December cash records of Davidson Insurance follow:  
<sup>2</sup>(Click the icon to view the checkbook.)  
 Davidson's Cash account shows a balance of \$16,300 at December 31. On December 31, Davidson Insurance received the following bank statement:  
<sup>3</sup>(Click the icon to view the December bank statement.)

Additional data for the bank reconciliation follow:  
<sup>4</sup>(Click the icon to view the additional information.)  
 Read the requirements<sup>5</sup>.

*Review Only*

**Click the icon to see the Worked Solution.**

**Requirement 1.** Prepare the bank reconciliation of Davidson Insurance at December 31, 2016.

Prepare the bank portion of the reconciliation, followed by the book portion of the reconciliation.

**Davidson Insurance  
 Bank Reconciliation  
 December 31, 2016**

**Bank:**

|       |  |  |  |  |
|-------|--|--|--|--|
| (1)   | <input style="width: 95%;" type="text"/>     |  | <input style="width: 95%;" type="text"/> |  |
| ADD:  | (2) <input style="width: 95%;" type="text"/> |  | <input style="width: 95%;" type="text"/> |  |
|       |  |  | <input style="width: 95%;" type="text"/> |  |
| LESS: | (3) <input style="width: 95%;" type="text"/> |  |  |  |
|       | (4) <input style="width: 95%;" type="text"/> | <input style="width: 95%;" type="text"/> |  |  |
|       | (5) <input style="width: 95%;" type="text"/> | <input style="width: 95%;" type="text"/> |  |  |
|       | (6) <input style="width: 95%;" type="text"/> | <input style="width: 95%;" type="text"/> | <input style="width: 95%;" type="text"/> |  |
|       | (7) <input style="width: 95%;" type="text"/> |  | <input style="width: 95%;" type="text"/> |  |

**Books:**

|       |   |  |  |  |
|-------|---|--|--|--|
| (8)   | <input style="width: 95%;" type="text"/>      |  | <input style="width: 95%;" type="text"/> |  |
| ADD:  | (9) <input style="width: 95%;" type="text"/>  | <input style="width: 95%;" type="text"/> |  |  |
|       | (10) <input style="width: 95%;" type="text"/> | <input style="width: 95%;" type="text"/> | <input style="width: 95%;" type="text"/> |  |
|       |   |  | <input style="width: 95%;" type="text"/> |  |
| LESS: | (11) <input style="width: 95%;" type="text"/> | <input style="width: 95%;" type="text"/> |  |  |
|       | (12) <input style="width: 95%;" type="text"/> | <input style="width: 95%;" type="text"/> |  |  |
|       | (13) <input style="width: 95%;" type="text"/> | <input style="width: 95%;" type="text"/> |  |  |
|       | (14) <input style="width: 95%;" type="text"/> | <input style="width: 95%;" type="text"/> | <input style="width: 95%;" type="text"/> |  |
|       | (15) <input style="width: 95%;" type="text"/> |  | <input style="width: 95%;" type="text"/> |  |

**Requirement 2.** Journalize any required entries from the bank reconciliation. (Record debits first, then credits. Select the explanation on the last line of the journal entry table.)

Begin with the EFT collection.

| Date    | Accounts and Explanation | Debit | Credit |
|---------|--------------------------|-------|--------|
| Dec. 31 | (16)                     |       |        |
|         | (17)                     |       |        |
|         | (18)                     |       |        |
|         | (19)                     |       |        |
|         | (20)                     |       |        |

Journalize the collection of the note.

| Date    | Accounts and Explanation | Debit | Credit |
|---------|--------------------------|-------|--------|
| Dec. 31 | (21)                     |       |        |
|         | (22)                     |       |        |
|         | (23)                     |       |        |
|         | (24)                     |       |        |
|         | (25)                     |       |        |

Journalize the NSF check.

| Date    | Accounts and Explanation | Debit | Credit |
|---------|--------------------------|-------|--------|
| Dec. 31 | (26)                     |       |        |
|         | (27)                     |       |        |
|         | (28)                     |       |        |
|         | (29)                     |       |        |
|         | (30)                     |       |        |

Journalize the EFT payment.

| Date    | Accounts and Explanation | Debit | Credit |
|---------|--------------------------|-------|--------|
| Dec. 31 | (31)                     |       |        |
|         | (32)                     |       |        |
|         | (33)                     |       |        |
|         | (34)                     |       |        |
|         | (35)                     |       |        |

Journalize the service charge.

| Date    | Accounts and Explanation | Debit | Credit |
|---------|--------------------------|-------|--------|
| Dec. 31 | (36)                     |       |        |
|         | (37)                     |       |        |
|         | (38)                     |       |        |
|         | (39)                     |       |        |
|         | (40)                     |       |        |

Journalize the entry to correct the error.

| Date    | Accounts and Explanation | Debit | Credit |
|---------|--------------------------|-------|--------|
| Dec. 31 | (41)                     |       |        |
|         | (42)                     |       |        |
|         | (43)                     |       |        |
|         | (44)                     |       |        |
|         | (45)                     |       |        |

2: Data Table

| Cash Receipts |            | Cash Payments |             |
|---------------|------------|---------------|-------------|
| Date          | Cash Debit | Check No.     | Cash Credit |
| Dec. 4        | \$ 4,260   | 1416          | \$ 850      |
| 9             | 460        | 1417          | 120         |
| 14            | 590        | 1418          | 720         |
| 17            | 2,100      | 1419          | 1,290       |
| 31            | 1,850      | 1420          | 1,460       |
|               |            | 1421          | 1,600       |
|               |            | 1422          | 620         |

3: Data Table

| Bank Statement for December |     |              |                      |
|-----------------------------|-----|--------------|----------------------|
| Beginning Balance           |     | \$           | 13,700               |
| Deposits and other Credits: |     |              |                      |
| Dec. 1                      | EFT | \$ 450       |                      |
| Dec. 5                      |     | 4,260        |                      |
| Dec. 10                     |     | 460          |                      |
| Dec. 15                     |     | 590          |                      |
| Dec. 18                     |     | 2,100        |                      |
| Dec. 22                     | BC  | <u>1,800</u> | 9,660                |
| Checks and other Debits:    |     |              |                      |
| Dec. 8                      | NSF | 200          |                      |
| Dec. 11 (check no. 1416)    |     | 850          |                      |
| Dec. 19                     | EFT | 840          |                      |
| Dec. 22 (check no. 1417)    |     | 120          |                      |
| Dec. 29 (check no. 1418)    |     | 720          |                      |
| Dec. 31 (check no. 1419)    |     | 1,920        |                      |
| Dec. 31                     | SC  | <u>25</u>    | (4,675)              |
| Ending Balance              |     | \$           | <u><u>18,685</u></u> |

Explanations: BC-bank collection; EFT-electronic funds transfer;  
NSF-nonsufficient funds checks; SC-service charge

4: More Info



- a. The EFT credit was a receipt of rent. The EFT debit was an insurance payment.
- b. The NSF check was received from a customer.
- c. The \$1,800 bank collection was for a note receivable.
- d. The correct amount of check number 1419, for rent expense, is \$1,920. Davidson's controller mistakenly recorded the check for \$1,290.

### 5: Requirements

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1. Prepare the bank reconciliation of Davidson Insurance at December 31, 2016.
2. Journalize any required entries from the bank reconciliation.

1. A. Separation of duties

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2. D. requires that an outside auditor must evaluate a public company's internal controls.

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3. D. rearranges messages by a special process.

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4. D. Both a and b

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5. D. separation of duties.

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6. C. Both a and b

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7. C. a debit to Cash Short & Over for \$5.

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8. D. bank reconciliation.

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9. C. \$471

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10. B. 0.65

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11. Before replenishment, the petty cash fund should hold cash of \$ 130 .

| Date   | Accounts and Explanation            | Debit | Credit |
|--------|-------------------------------------|-------|--------|
| Jun. 1 | Petty Cash                          | 300   |        |
|        | Cash                                |       | 300    |
|        | <i>To open the petty cash fund.</i> |       |        |

| Date    | Accounts and Explanation                 | Debit | Credit |
|---------|--|-------|--------|
| Jun. 30 | Entertainment Expense                    | 95    |        |
|         | Office Supplies                          | 50    |        |
|         | Postage Expense                          | 25    |        |
|         | Cash Short and Over                      | 5     |        |
|         | Cash                                     |       | 175    |
|         | <i>To replenish the petty cash fund.</i> |       |        |

| Date  | Accounts and Explanation                | Debit | Credit |
|-------|---|-------|--------|
| May 1 | Petty Cash                              | 50    |        |
|       | Cash                                    |       | 50     |
|       | <i>To increase the petty cash fund.</i> |       |        |

12.

**Davidson Insurance**  
**Bank Reconciliation**  
**December 31, 2016**

**Bank:**

|  |    |    |        |       |
|--|----|----|--------|-------|
| Balance, December 31, 2016               |    | \$ | 18,685 |       |
| ADD: Deposit in transit                  |    |    | 1,850  |       |
|  |    |    | 20,535 |       |
| LESS: Outstanding checks                 |    |    |        |       |
| 1420                                     | \$ |    | 1,460  |       |
| 1421                                     |    |    | 1,600  |       |
| 1422                                     |    |    | 620    | 3,680 |
|  |    |    | 16,855 |       |
| Adjusted bank balance, December 31, 2016 |    | \$ | 16,855 |       |

**Books:**

|  |    |    |        |       |
|--|----|----|--------|-------|
| Balance, December 31, 2016               |    | \$ | 16,300 |       |
| ADD: EFT collection of rent              | \$ |    | 450    |       |
| Bank collection of note receivable       |    |    | 1,800  | 2,250 |
|  |    |    | 18,550 |       |
| LESS: NSF check                          |    |    | 200    |       |
| EFT payment of insurance                 |    |    | 840    |       |
| Service charge                           |    |    | 25     |       |
| Correction of book error                 |    |    | 630    | 1,695 |
|  |    |    | 16,855 |       |
| Adjusted book balance, December 31, 2016 |    | \$ | 16,855 |       |

| Date    | Accounts and Explanation                 | Debit | Credit |
|---------|--|-------|--------|
| Dec. 31 | Cash                                     | 450   |        |
|         | Rent Revenue                             |       | 450    |
|         | <i>To record rent collection by EFT.</i> |       |        |

| Date    | Accounts and Explanation                  | Debit | Credit |
|---------|---|-------|--------|
| Dec. 31 | Cash                                      | 1,800 |        |
|         | Notes Receivable                          |       | 1,800  |
|         | <i>Note receivable collected by bank.</i> |       |        |

| Date    | Accounts and Explanation           | Debit | Credit |
|---------|------------------------------------|-------|--------|
| Dec. 31 | Accounts Receivable                | 200   |        |
|         | Cash                               |       | 200    |
|         | <i>NSF check returned by bank.</i> |       |        |

| Date    | Accounts and Explanation                           | Debit | Credit |
|---------|--|-------|--------|
| Dec. 31 | Insurance Expense                                  | 840   |        |
|         | Cash   |       | 840    |
|         | <i>To record payment of insurance bill by EFT.</i> |       |        |

| Date    | Accounts and Explanation                        | Debit | Credit |
|---------|---|-------|--------|
| Dec. 31 | Bank Expense                                    | 25    |        |
|         | Cash  |       | 25     |
|         | <i>To record bank service charges incurred.</i> |       |        |

| Date    | Accounts and Explanation              | Debit | Credit |
|---------|---------------------------------------|-------|--------|
| Dec. 31 | Rent Expense                          | 630   |        |
|         | Cash                                  |       | 630    |
|         | <i>To record error on check 1419.</i> |       |        |