

Chapter 7 Questions

Multiple Choice

1. The entry to **replenish a petty cash fund** includes a credit to
 - a. Petty Cash.
 - b. Cash.
 - c. Freight-In.
 - d. Postage Expense.

2. A \$300 petty cash fund has cash of \$39 and receipts of \$255. The journal entry to **replenish** the account would include
 - a. debit to Cash for \$255.
 - b. credit to Petty Cash for \$255.
 - c. debit to Petty Cash for \$261.
 - d. credit to Cash for \$261.

3. A \$150 petty cash fund has cash of \$21 and receipts of \$126. The journal entry to **replenish** the account would be

a. Cash	126	
Petty Cash		126
b. Miscellaneous Expenses	126	
Cash Over and Short	3	
Cash		129
c. Miscellaneous Expenses	126	
Cash Over and Short	3	
Petty Cash		129
d. Miscellaneous Expenses	129	
Cash Over and Short	3	
Cash		126

4. The **reconciliation** of the cash register tape with the cash in the register is an example of
 - a. other controls.
 - b. independent internal verification.
 - c. establishment of responsibility.
 - d. segregation of duties.

5. Which of the following is **not** an internal control procedure for cash?
 - a. Payments should be made with cash.
 - b. There should be limited access to cash.
 - c. The amount of cash on hand should be kept to a minimum.
 - d. Cash should be deposited daily.

6. Which of the following statements correctly describes the reporting of cash?
- Cash is listed first in the current assets section
 - Cash cannot be combined with cash equivalents
 - Restricted cash funds cannot be reported as a current asset
 - Restricted cash funds may be combined with cash
7. Which of the following would **not** be reported on the balance sheet as a **cash equivalent**?
- Money market fund.
 - Commercial paper.
 - Treasury bill.
 - Restricted cash.
8. A check written by the company for \$167 is incorrectly recorded by a company as \$176. On the **bank reconciliation**, the \$9 error should be
- added to the balance per books.
 - deducted from the balance per books.
 - added to the balance per bank.
 - deducted from the balance per bank.
9. For which of the following errors should the appropriate amount be added to the balance per bank on a **bank reconciliation**?
- Check for \$63 recorded by the company as \$36.
 - Deposit of \$600 recorded by the bank as \$60.
 - A returned \$300 check recorded by the bank as \$30.
 - Check for \$75 recorded by the company as \$57.
10. Two individuals at a retail store work the same cash register. You evaluate this situation as
- a violation of establishment of responsibility.
 - a violation of separation of duties.
 - supporting the establishment of responsibility.
 - supporting internal independent verification.
11. Which of the following would be added to the balance per bank on a **bank reconciliation**?
- Outstanding checks.
 - Deposits in transit.
 - Notes collected by the bank.
 - Service charges.
12. Which one of the following is not an objective of a system of **internal controls**?
- Safeguard company assets.
 - Enhance the accuracy and reliability of accounting records.
 - Fairness of the financial statements.
 - Reduce the risks of errors.

13. A **NSF check** should appear in which section of the bank reconciliation?

- a. Addition to the balance per books.
- b. Deduction from the balance per bank.
- c. Addition to the balance per bank.
- d. Deduction from the balance per books.

14. Higgins Company gathered the following reconciling information in preparing its October bank reconciliation:

Cash balance per books, 10/31	\$16,800
Deposits in transit	600
Notes receivable and interest collected by bank	3,400
Bank charge for check printing	80
Outstanding checks	8,000
NSF check	680

The **adjusted cash balance** per books on October 31 is

- a. \$18,840.
- b. \$16,040.
- c. \$11,440.
- d. \$19,440.

15. Which of the following items on a **bank reconciliation** would require an **adjusting entry** on the company's books?

- a. An error by the bank.
- b. Outstanding checks.
- c. A bank service charge.
- d. A deposit in transit

EXERCISES

1. Below are descriptions of internal control problems. In the space to the left of each item, enter the code letter of the one best internal control principle that is related to the problem described.

Internal Control Principles

- A. Establishment of responsibility
- B. Segregation of duties
- C. Physical control devices
- D. Documentation procedures
- E. Independent internal verification
- F. Human resource controls

- ___ 1. The same person opens incoming mail and posts the accounts receivable subsidiary ledger.
- ___ 2. Three people handle cash sales from the same cash register drawer.
- ___ 3. A clothing store is experiencing a high level of inventory shortages because people try on clothing and walk out of the store without paying for the merchandise.
- ___ 4. The person who is authorized to sign checks approves purchase orders for payment.
- ___ 5. Some cash payments are not recorded because checks are not prenumbered.
- ___ 6. Cash shortages are not discovered because there are no daily cash counts by supervisors.
- ___ 7. The treasurer of the company has not taken a vacation for over 20 years.

2. Identify whether each of the following items would be (a) added to the book balance, or (b) deducted from the book balance in a bank reconciliation.

- 1. EFT transfer to a supplier.
- 2. Bank service charge.
- 3. Check printing charge.
- 4. Error recording check # 214 which was written for \$230 but recorded for \$320.
- 5. Collection of note and interest by bank on company's behalf.

3. At August 31 Kiner Company has this bank information: cash balance per bank \$9,450; outstanding checks \$762; deposits in transit \$1,700; and a bank service charge \$20.

Determine the adjusted cash balance per bank at August 31, 20XX.

4. Using the following information, prepare a bank reconciliation for Hintz Company for July 31, 20XX.

- a. The bank statement balance is \$3,506.
- b. The cash account balance is \$3,930
- c. Outstanding checks totaled \$1,285.
- d. Deposits in transit are \$1,670.
- e. The bank service charge is \$30.
- f. A check for \$98 for supplies was recorded as \$89 in the ledger.

5. The bank statement for Adcock Company indicates a balance of \$830 on July 31. The cash balance per books had a balance of \$390 on this date. The following information pertains to the bank transactions for the company.

1. Deposit of \$840, representing cash receipts of July 31, did not appear on the bank statement.
2. Outstanding checks totaled \$390.
3. Bank service charges for July amounted to \$30.
4. The bank collected a note receivable for the company for \$1,200 plus \$48 interest revenue.
5. A NSF check for \$328 from a customer was returned with the statement.

a. Prepare a bank reconciliation for July 31.

7. On April 30, the bank reconciliation of Baxter Company shows three outstanding checks: no. 354, \$650, no. 355, \$920, and no. 357, \$615. The May bank statement and the May cash payments journal show the following.

<u>Bank Statement</u>			<u>Cash Payments Journal</u>		
<u>Checks Paid</u>			<u>Checks Paid</u>		
Date	Check No.	Amount	Date	Check No.	Amount
5/4	354	650	5/2	358	159
5/2	357	615	5/5	359	275
5/17	358	159	5/10	360	890
5/12	359	275	5/15	361	800
5/20	360	890	5/22	362	750
5/29	363	480	5/24	363	480
5/30	362	750	5/29	364	840

List the outstanding checks at May 31.

8. Fresh Farms Corporation owns the following assets at the balance sheet date. What should be included in the cash amount on the balance sheet?

Checking account balance	\$1,500
Cash refund due from the IRS	\$10,000
Cash on Hand	\$2,500
Bank Savings Account Cash	\$8,000

Chapter 7 Solutions

Multiple Choice Solutions

1. B
2. D
3. B
4. B
5. A
6. A
7. D
8. A
9. B
10. A
11. B
12. C
13. D
14. D
15. C

Exercise Solutions

1. 1. B 2. A 3. C 4. B 5. D 6. E 7. F

2. Identify whether each of the following items would be (a) added to the book balance, or (b) deducted from the book balance in a bank reconciliation.

1. EFT transfer to a supplier. (B)
2. Bank service charge. (B)
3. Check printing charge. (B)
4. Error recording check # 214 which was written for \$230 but recorded for \$320. (A)
5. Collection of note and interest by bank on company's behalf. (A)

3.

Kiner Company

Partial Bank Reconciliation

August 31, 20XX

Cash balance per bank	\$ 9,450
Add: Deposit in transit	<u>1,700</u>

	11,150
Less: Outstanding checks	<u>762</u>
Adjusted cash balance per bank	<u>\$ 10,388</u>
(Bank cash bal. + dep. In tran. – out. Checks)	

Chapter 7 Solutions

Exercise Solutions (Cont.)

4.

Hintz Company
Bank Reconciliation
July 31, 20XX

Cash balance per bank		\$ 3,506
Add: (d) Deposit in transit		<u>1,670</u>
		5,176
Less: (c) Outstanding checks		<u>1,285</u>
Adjusted cash balance per bank		<u>\$ 3,891</u>
Cash balance per books		\$ 3,930
Less: (f) Check for supplies error	\$ 9	
(e) Bank service charge	<u>30</u>	<u>39</u>
Adjusted cash balance per books		<u>\$ 3,891</u>
(Cash bal. – sup. err. – ser. Char.)		

5. (a)

ADCOCK COMPANY
Bank Reconciliation
July 31

Cash balance per bank		\$ 830
Add: (1) Deposit in transit		<u>840</u>
		1,670
Less: (2) Outstanding checks		<u>390</u>
Adjusted cash balance per bank		<u>\$ 1,280</u>
Cash balance per books		\$ 390
Add: (4) \$1,200 Note collected by bank plus interest of \$48		<u>1,248</u>
		1,638
Less: (3) Bank service charge	\$ 30	
(5) NSF Check	<u>328</u>	<u>358</u>
Adjusted cash balance per books		<u>\$ 1,280</u>
(Cash bal. + Note coll. – ser. char. – NSF check)		

(b)

	Date	Debit	Credit
Cash	Jul. 31	1,248	
Notes Receivable			1,200
Interest Revenue			48
(To record collection of note receivable and interest by the bank)			
Accounts Receivable	Jul. 31	328	
Cash			328
(To record NSF check)			
Miscellaneous Expense	Jul. 31	30	
Cash			30
(To record bank service charge)			

6. (a) Deposits in Transit:

Deposits per books in August		\$ 11,800
Deposits per the bank in August	\$ 9,540	
Less: July 31 deposits in transit	<u>390</u>	
August receipts deposited in August		<u>9,150</u>
Deposits in transit, August 31		<u>\$ 2,650</u>
(Book dep. – (bank dep. – dep. In + tran.))		

(b) Outstanding Checks:

Checks per books in August		\$11,670
Checks clearing the bank in August	\$10,500	
Less: Outstanding checks, July 31	<u>850</u>	
August checks clearing in August		<u>9,650</u>
Outstanding checks, August 31		<u>\$ 2,020</u>
(Book checks. – (bank checks. – out. checks))		

7. Outstanding Checks

<u>No.</u>	<u>Amount</u>
355	\$ 920
361	800
364	840
Total	\$2,560

8. Total Cash on Fresh Farms Corp balance sheet should be \$12,000

Cash should include coins, currency, checks, money orders, and money on hand or on deposit in a bank or a similar depository. In this example, the \$10,000 due from the IRS should be in accounts receivable because you have not received the IRS funds. It is also not highly liquid so it should not go in the cash account.

9.

	Date	Debit	Credit
Petty Cash	Sept. 1	250	
Cash			250
(To establish a petty cash fund)			
Freight-In	Sept. 30	25	
Supplies Expense		75	
Entertainment Expense		37	
Postage Expense		80	
Cash Over and Short			2
Cash			215
(To record expenses for September and to replenish the petty cash fund)			