

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. The following information was taken from Niland Company cash budget for the month of April

Beginning cash balance	\$120,000
Cash receipts	108,000
Cash disbursements	136,000

If the company has a policy of maintaining an end of the month cash balance of \$100,000, the amount the company would have to borrow is

- \$116,000.
 - \$28,000.
 - \$8,000.
 - \$0.
7. Which one of the following sections would not appear on a cash budget?
- Cash receipts.
 - Financing.
 - Investing.
 - Cash disbursements.
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?

- a. Safeguard company assets.
- b. Enhance the accuracy and reliability of accounting records.
- c. Fairness of the financial statements.
- d. 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. The following information is available for Nichols Company for the month of February: expected cash receipts \$40,000; expected cash disbursements \$44,000; cash balance February 1, \$11,000. Management wishes to maintain a minimum cash balance of \$10,000.

Prepare a basic cash budget for the month of February.

5. 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.

7. The cash records of the Dillon Company show the following:

1. The July 31 bank reconciliation indicated that deposits in transit totaled \$390. During August the general ledger account, Cash shows deposits of \$11,800, but the bank statement indicates that only \$9,540 in deposits were received during the month.
2. The July 31 bank reconciliation also reported outstanding checks of \$850. During the month of August, the Dillon Company books show that \$11,670 of checks were issued, yet the bank statement showed that \$10,500 of checks cleared the bank in August.

There were no bank debit or credit memoranda and no errors were made by either the bank or the Dillon Company.

(a) What were the deposits in transit at August 31?

(b) What were the outstanding checks at August 31?

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

List the outstanding checks at May 31.

Chapter 7 Solutions

Multiple Choice Solutions

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

Nichols Company	
Cash Budget	
February	
Beginning cash balance	\$ 11,000.00
Add: Cash receipts for February	\$ 40,000.00
Total available cash	<u>\$ 51,000.00</u>
Less: Cash disbursements for February	<u>\$ (44,000.00)</u>
Excess (Deficiency) of available cash over disbursements	\$ 7,000.00
Financing	
Add: Borrowings	<u>\$ 3,000.00</u>
Ending Cash Balance	<u><u>\$ 10,000.00</u></u>

*Borrowings = \$10,000 minimum balance required - \$7,000 excess of available cash over disbursements

5.

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><u>\$ 3,891</u></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><u>\$ 3,891</u></u>
(Cash bal. – sup. err. – ser. Char.)	

Chapter 7 Solutions**Exercise Solutions (Cont.)****6. (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)			

Chapter 7 Solutions

Exercise Solutions (Cont.)

7. (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	390	
August receipts deposited in August		9,150
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	850	
August checks clearing in August		9,650
Outstanding checks, August 31		<u>\$ 2,020</u>
(Book checks. – (bank checks. – out. checks))		

8. Outstanding Checks

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

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)			