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BE7-7, BE7-8, E7-2, E7-6, and E7-7

BE7-7 Luke Roye is uncertain about the control features of a bank account. Explain the control benefits of (a) a checking account and (b) a bank statement.

A checking account minimizes the amount of cash kept on hand. Safeguard assets. A checking account facilitates control over cash, because the bank keeps a record of all transactions, which is added benefit for a company. It shows all transactions completed by the bank and the company. It is a note where the bank assumes some liabilities.

Bank statement

This shows a list of daily balances and deposits/withdrawals that are completed by automated systems, electronic transfers, physical deposits/withdrawals and transfers) and dates, check numbers and ranges, average deposits.

One must reconcile the balance per books and the balance per bank to the adjusted balance

BE7-8 The following reconciling items are applicable to the bank reconciliation for Forde Co. Indicate how each item should be shown on a bank reconciliation.

(a) Outstanding checks. **Note: Deducted from the cash balance (per bank)**

Recorded on books.

(b) Bank debit memorandum for service charge. **Note: Deducted from the cash balance (per bank)**

(c) Bank credit memorandum **Note: Added to cash balance (Bank Representative)**

Outstanding Checks **do not require an adjustment**, it has been recorded on the depositor's books, however, a credit memorandum and a debit memorandum for service charge **does require an adjustment**.

E7-2 Ricci's Pizza operates strictly on a carryout basis. Customers pick up their orders at a counter where a clerk exchanges the pizza for cash. While at the counter, the customer can see other employees making the pizzas and the large ovens in which the pizzas are baked.

Instructions

Identify the six principles of internal control and give an example of each principle that you might observe when picking up your pizza.

Establishment of responsibility: The same person on a register at each shift, using a password or sign on, limiting access to authorized personnel only.

Segregation of duties: Someone taking an order and processing payment and another person at the pickup counter, with a verifiable receipt or the order. A computerized system that duplicates entries, such a monitor, with pizza orders.

Documentation procedures: Numbered entries on receipts, reconciliations done by supervisors or authorized representatives. Number of sales match entries.

Physical controls: The register records canceled orders, number of times the drawer was open with a no sale, coupons must be kept on file, credit card receipts must be kept until the end of the shift.

Independent internal verification: Credit card and cash query at the end of the night. Number of sales, cash in the drawer and credit card sales must align with the register, or a written explanation or evidence must follow. Verify bank deposits.

Human Resource controls: Background checks for employees, rotating shifts and employees, theft insurance.

E7-6 Rachel Sells is unable to reconcile the bank balance at January 31. Rachel's reconciliation is shown here.

(a) What is the proper adjusted cash balance per bank?

$$3677.20 + 590 - 770 = 3497.20$$

(b) What is the proper adjusted cash balance per books?

$$3975.20 - 450 - 28 = 3497.20$$

(c) Prepare the adjusting journal entries necessary to determine the adjusted cash balance per books.

| <u>31 Jan</u> | <u>Reconciliation</u> | <u>Debit</u> | <u>Credit</u> |
|---------------|-----------------------|--------------|---------------|
| | Accounts Receivable | 450 | |
| | Cash | | 450 |
| | Non-Sufficient Funds | | |
| | Miscellaneous Expense | 28 | |
| | Cash | | 28 |
| | Bank Service Fee | | |

E7-7 At April 30, the bank reconciliation of Back 40 Company shows three outstanding checks: No. 254 \$650, No. 255 \$700, and No. 257 \$410. The May bank statement and the May cash payments journal are given here.

| <u>31 May</u> | <u>Back 40 Reconciliation</u> | <u>Debits</u> | <u>Credits</u> |
|---------------|--|---------------|----------------|
| | Cash balance per statement | | |
| | Add: Deposits in transit | | |
| | Less: Outstanding checks: 255 | 700.00 | |
| | | 261 | 500.00 |
| | | 264 | 360.00 |
| | Adjusted cash balance per bank: | | |

Cash balance per books