

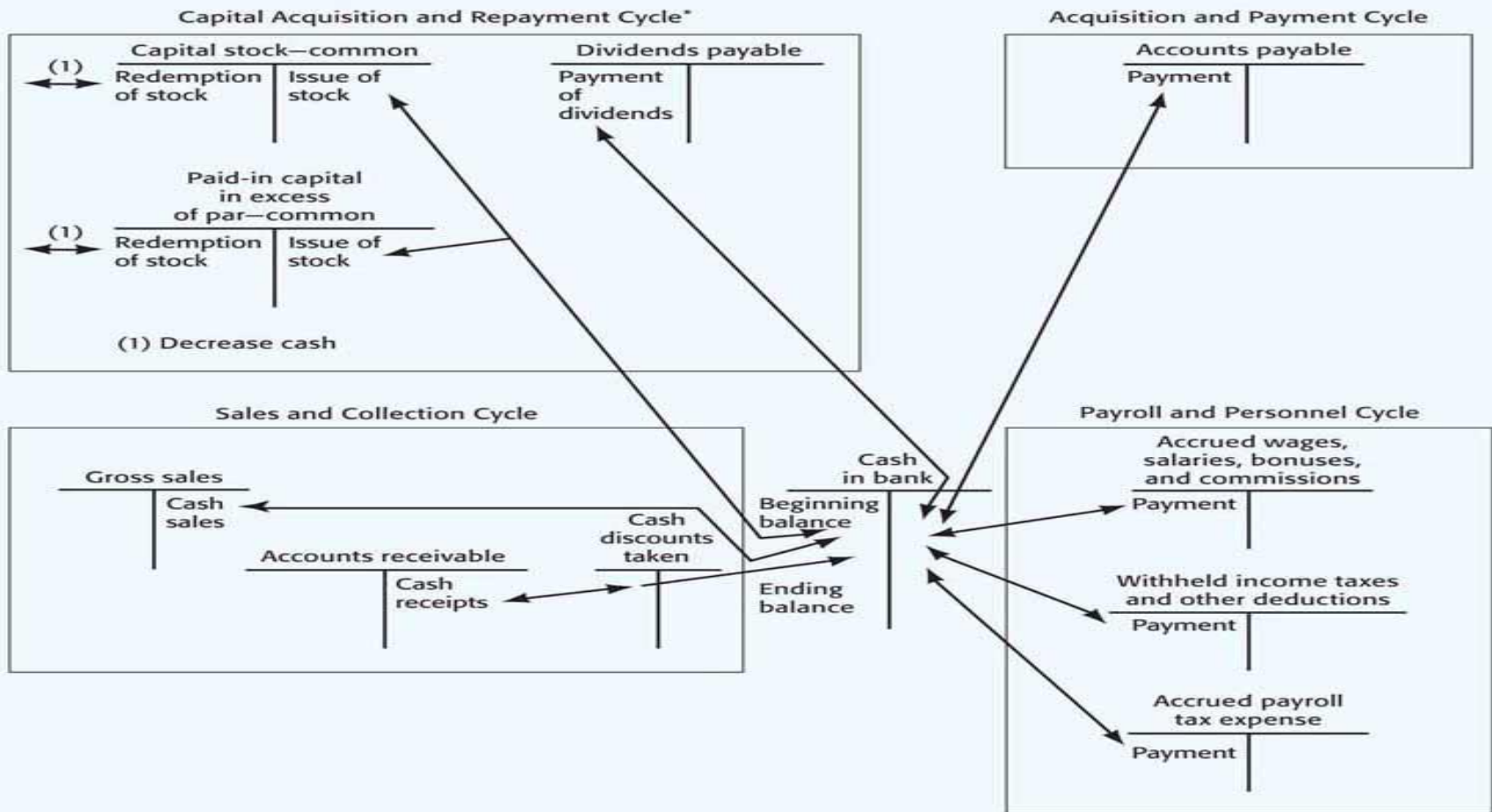
Audit of Cash Balances

Chapter 23

Learning Objective 1

Show the relationship of cash in the bank to the various transaction cycles.

Relationships of Cash in the Bank and Transaction Cycles



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Cash in the Bank and Transaction Cycles

Misstatements which may not be discovered as a part of the audit of the bank reconciliation:

- Failure to bill a customer
- An embezzlement of cash receipts from customers



Cash in the Bank and Transaction Cycles

Misstatements (continued):

- Duplicate payments
- Improper payments of personal expenses
- Payment for raw materials not received
- Payment to employee for hours not worked
- Payment of excessive interest to related party

Cash in the Bank and Transaction Cycles

Misstatements which are normally discovered as a part of the tests of a bank reconciliation:

- Failure to include a check on the outstanding check list
- Cash received by the client recorded in the wrong period

Cash in the Bank and Transaction Cycles

Misstatements which are normally discovered as a part of the tests of a bank reconciliation:

- Deposits recorded near year end, deposited in the bank in the same month, and included in the bank reconciliation as a deposit in transit
- Payments on notes payable debited directly to the bank balance but not entered in the client's records

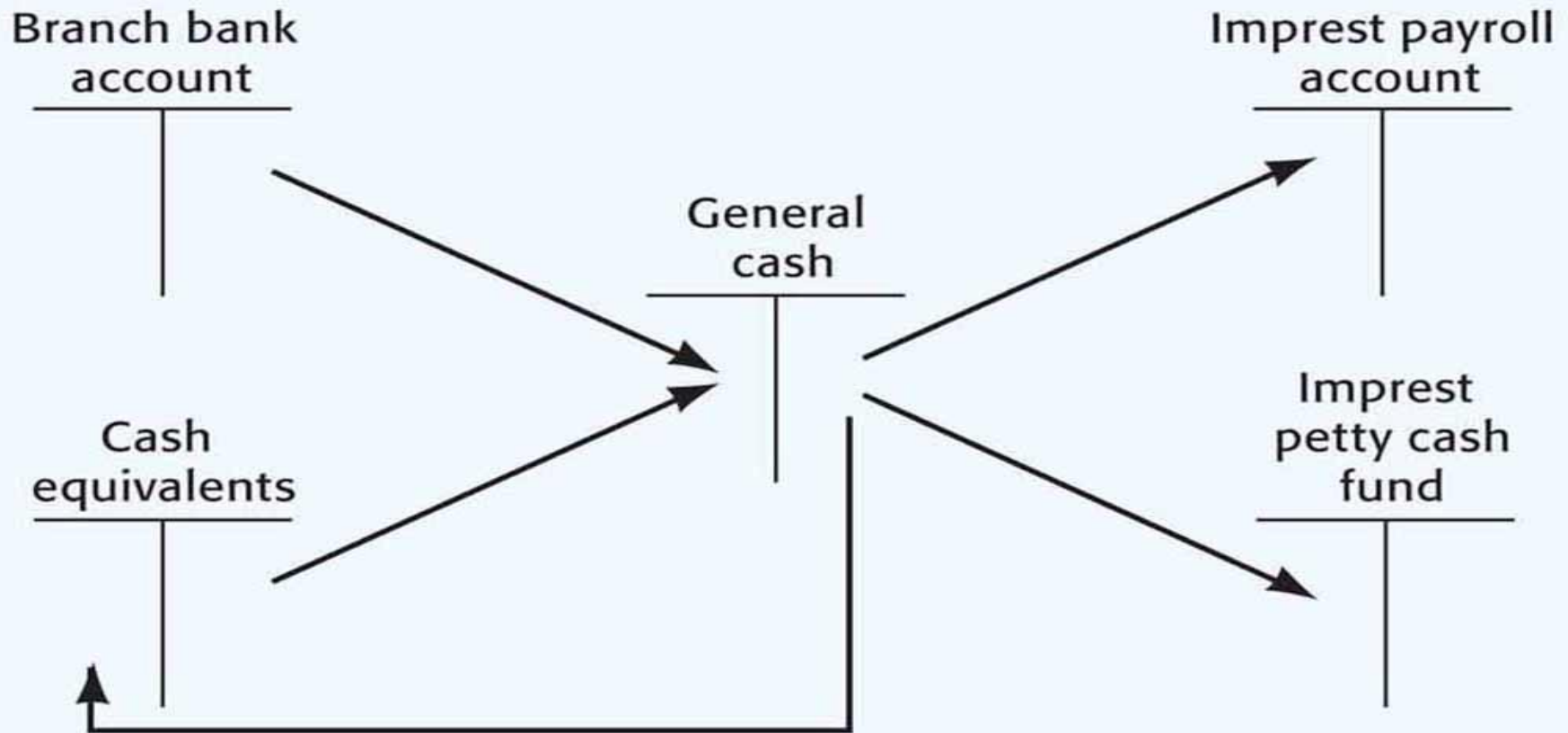
Learning Objective 2

Identify the major types of cash accounts maintained by business entities.

Types of Cash Accounts

- General cash account
- Imprest accounts
- Branch bank account
- Imprest petty cash fund
- Cash equivalents

Relationship of General Cash to Other Cash Accounts



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Learning Objective 3

Design and perform audit tests of the general cash account.

Methodology for Designing Tests of Balances for Cash in the Bank

Identify client business risks affecting cash in bank

Phase I

Set tolerable misstatement and assess inherent risk for cash in bank

Phase I

Assess control risk for several cycles

Phase I

Methodology for Designing Tests of Balances for Cash in the Bank

Design and perform tests of controls and substantive tests of transactions for several cycles

Phase II

Methodology for Designing Tests of Balances for Cash in the Bank

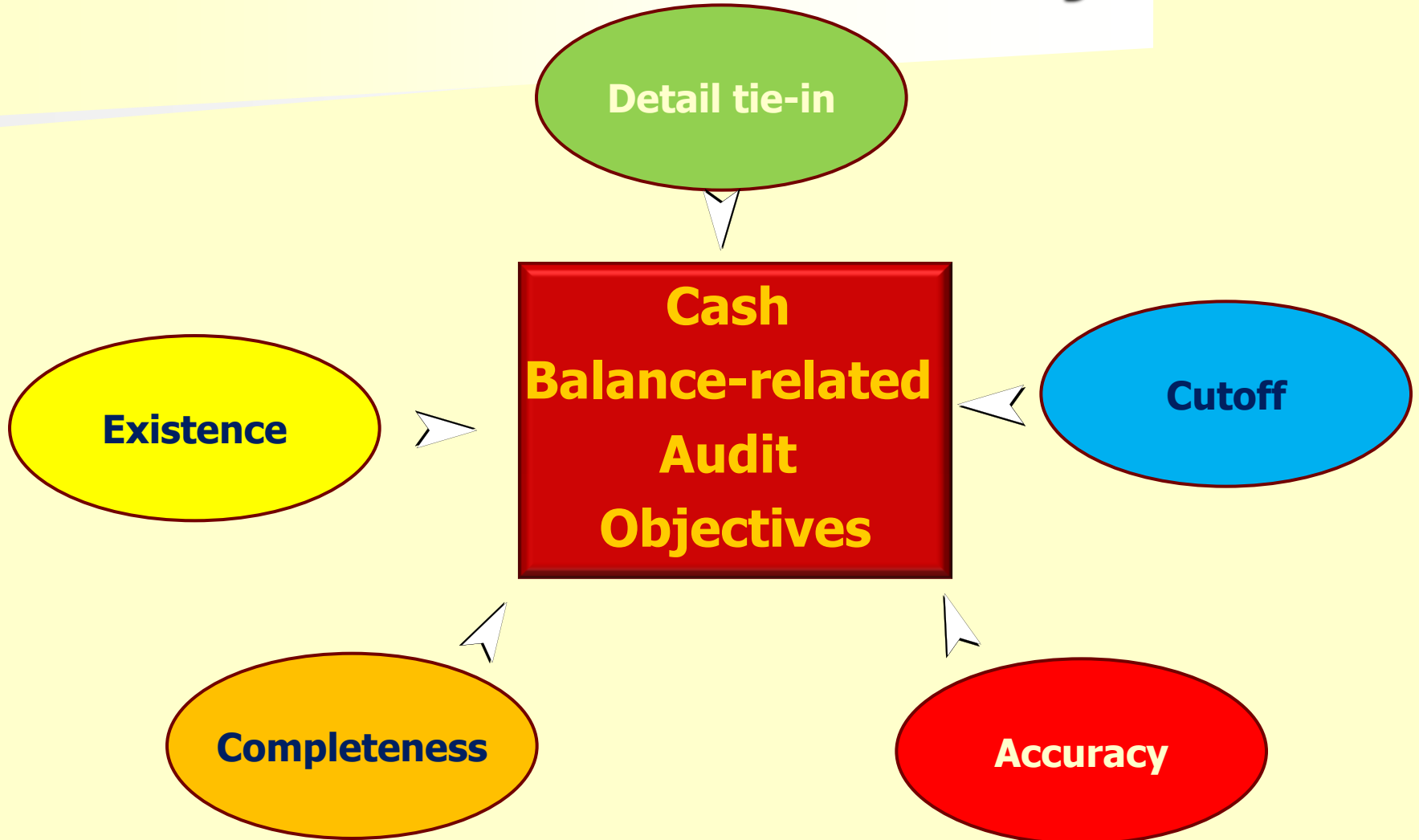
Design and perform analytical procedures for cash in bank	Phase III	
Design tests of details of cash in bank to satisfy balance-related audit objectives	Audit procedures	Phase III
	Sample size	
	Items to select	
	Timing	

Audit Schedule for a Bank Reconciliation

Clawson Industries Bank Reconciliation 12/31/11		Schedule <u>A-2</u> Prepared by <u>Client / JEC</u> Approved by <u>SW</u>	Date <u>11/10/12</u> <u>11/18/12</u>
Acct. 101 – General account, First National Bank			
Balance per Bank		109713	X A-2/1
Add:			
Deposits in transit			
12/30		10017 ✓	
12/31		11100 ✓	
		21117	
Deduct			
Outstanding checks			
# 7993	12/16	3068 X	
8007	12/16	9763 X	
8012	12/23	11916 X	
8013	12/23	14717 X	
8029	12/28	A-7 37998 X	
8038	12/30	A-7 10000 X	
		<87462>	
Other reconciling items: Bank error			
Deposit for another bank customer credited to General account by bank, in error		<15200>	A-3
Balance per bank, adjusted		28168	7/18
Balance per books before adjustments		32584	A-1
Adjustments:			
Unrecorded bank service charge		216	A-3
Nonsufficient funds check returned by bank, not collectible from customer		4200	
		<4416>	6-3/1
Balance per books, adjusted		28168	A-1
<p>X Traced and agreed to bank confirmation.</p> <p>✓ Traced deposit to the December 2011 cash receipts records and to the January 2012 bank cutoff statement, noting its proper classification as a deposit in transit at 12/31/11.</p> <p>X Traced check to December 2011 cash disbursements records and to the January 2012 bank cutoff statement, noting its proper classification as an outstanding check at 12/31/11.</p> <p>7/18 Traced to 12/31/11 adjusted trial balance.</p> <p>✓ Footed</p>			

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Balance-related Audit Objectives



Procedures

Bank
Confirmation



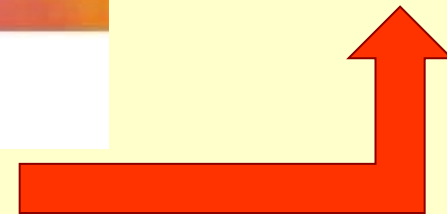
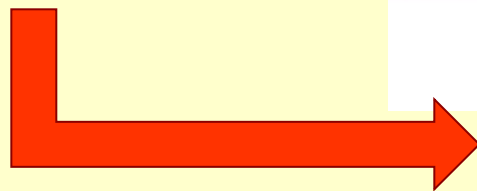
11/16 Monthly Service

☐ Daily Balance

Date	Amount
	\$ 738.97
10/20	526.82
10/21	590.53
10/22	524.21
10/23	362.24
10/26	308.42
10/27	

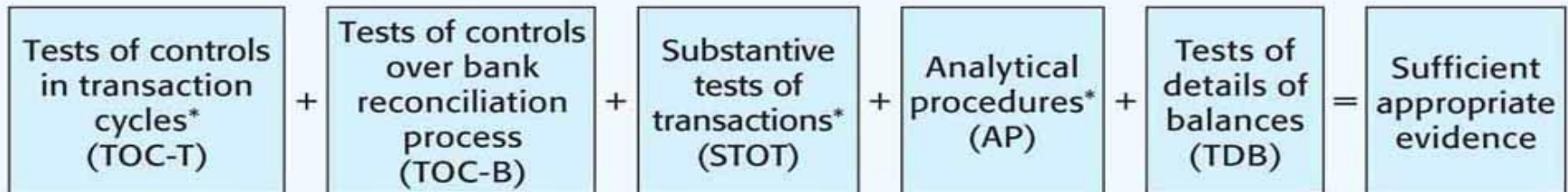
Bank
Reconciliation

Cutoff
Bank
Statement



Types of Audit Tests Used for General Cash in Bank

Cash in bank	
Beginning balance Cash receipts Audited by TOC-T, STOT, and AP	Cash disbursements Audited by TOC-T, STOT, and AP
Ending balance Audited by TOC-B, AP, and TDB	



*Tests of controls in transaction cycles, substantive tests of transactions, and analytical procedures are done for the four transaction cycles included in Figure 23-1 (p. 733). The primary tests of the ending cash balance are tests of details of balances.

Learning Objective 4

Recognize when to extend audit tests of the general cash account to test further for material fraud.

Fraud-oriented Procedures

The auditor must extend the procedures in the audit of year-end cash to determine the possibility of a material fraud.

Extended Tests of the Bank Reconciliation

When the auditor believes that the year-end bank reconciliation may be intentionally misstated, it is appropriate to perform extended tests of the year-end bank reconciliation.



Proof of Cash

- All recorded cash receipts were deposited
- All deposits in the bank were recorded in the accounting records
- All recorded cash disbursements were paid by the bank
- All amounts that were paid by the bank were recorded

Proof of Cash Schedule



Clawson Industries Interim Proof of Cash 6/30/11

Schedule	<u>A-5</u>	Date	<u>7/15/11</u>
Prepared by	<u>JG</u>	Approved by	<u>RD</u>
			<u>7/17/11</u>

Acct. 101 – General account, First National Bank

	5/31/11	Receipts	Disbursements	6/30/11
Balance per Bank	121782.12	627895.20	631111.96	118565.36
Deposits in transit				
5/31	21720.00	<21720.00>		
6/30		16592.36		16592.36
Outstanding checks				
5/31	<36396.50>		<36396.50>	
6/30			14800.10	<14800.10>
NSF checks		<4560.00>	<4560.00>	
To allow for effect of a cash disbursement recorded as a credit item in cash receipts journal		<8500.00>	<8500.00>	
Balance per bank, adjusted	107105.62	609707.56	596455.56	120357.62
Balance per books, unadjusted	107105.62	609707.56	597957.04	118856.14
Bank debit memos			120.00	<120.00>
Payroll checks erroneously entered in General Disbursements Journal			<1621.48>	1621.48
Balance per books, adjusted	107105.62	609707.56	596455.56	120357.62

- ① Per 6/30/11 bank statement.
- ② Detailed listing filed below; traced to subsequent bank statements.
- ③ Outstanding-checks list filed below; examined cancelled checks.
- ④ Detailed listing filed below; all NSF items were redeposited in June and had all cleared as of 6/30/11.
- ⑤ Safety deposit rentals; traced to recording via journal entry.
- ⑥ Traced to journal entry correcting errors.

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Proof of Cash

Includes the following reconciliation tasks:

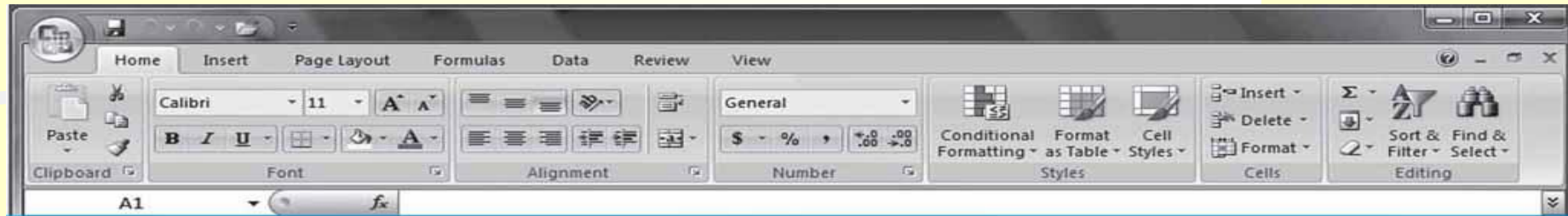
1. The balance on the bank statement with the general ledger balance at the beginning of the proof-of-cash period
2. Cash receipts deposited per the bank with the cash receipts journal for a given period

Proof of Cash

Includes the following reconciliation tasks:

3. Cancelled checks clearing the bank with those recorded in the cash disbursements journal for a given period
4. The balance on the bank statement with the general ledger balance at the end of the proof-of-cash period

Interbank Transfer Schedule



Clawson Industries Schedule of Interbank Transfers December 31, 2011

Schedule A-7
Prepared by Client / DED 1/10/12
Approved by SW 1/18/12

Disbursements					Receipts		
Check No. (1)	Bank (2)	Amount (3)	Date Recorded in Books (4)	Date Paid by Bank (5)	Bank (6)	Date Recorded in Books (7)	Date Received by Bank (8)
EFT	First National - general	\$20,642 ✓	12-26-11 ☒	12-26-11 ☐	Federal Charter - payroll	12-26-11 ☑	12-27-11 ☐☑
#8029	First National - general	\$37,998 ✓ A-2	12-28-11 ✗	01-02-12 ☐	Federal Charter - savings	12-29-11 ☑	12-29-11 ☐☑
#8038	First National - general	\$10,000 ✓ A-2	12-30-11 ✗	01-04-12 ☐	Federal Charter - savings	12-30-11 ☑	01-03-12 ☐☑
#8045	First National - general	\$21,014 ✓	01-02-12 ☒	01-04-12 ☐	Federal Charter - payroll	01-03-12 ☑	01-04-12 ☐☑

- ✓ Traced to cash disbursements records.
- ☑ Traced to cash receipts records.
- ✗ Check included as outstanding on bank reconciliation.
- ☒ Check or EFT (Electronic Funds Transfer) not included as outstanding on bank reconciliation.
- ☐ Receipt included as a deposit in transit.
- ☐ Traced to bank statement.
- ☑ Receipt not included as a deposit in transit.

Note: Examined cash disbursements and cash receipts records for checks to and deposits from bank accounts. None included except those listed above.

Interbank Transfers

The accuracy of the information on the interbank transfer schedule should be verified.

The interbank transfers must be recorded in both the receiving and disbursing banks.

The date of the recording of the disbursements and receipts for each transfer must be in the same fiscal year.

Interbank Transfers

Disbursements on the interbank transfer schedule should be correctly included in or excluded from year-end bank reconciliation as outstanding checks.

Receipts on the interbank transfer schedule should be correctly included in or excluded from year-end bank reconciliations as deposits in transit.

Learning Objective 5

Design and perform audit tests of the imprest payroll bank account.

Audit of the Imprest Payroll Bank Account

Typically, the only reconciling items are outstanding checks.



Learning Objective 6

Design and perform audit tests of imprest petty cash.

Petty Cash

Petty cash is a unique account because it is often immaterial in amount, yet it is verified on many audits.

The account is verified primarily because of the potential for embezzlement and the client's expectation of an audit review even when the amount is immaterial.

End of Chapter 23