

CHAPTER 7

Fraud, Internal Control, and Cash

ASSIGNMENT CLASSIFICATION TABLE

<u>Study Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Define fraud and internal control.	1, 2, 3, 4	1, 2, 3				
2. Identify the principles of internal control activities.	5, 6, 7, 8, 9, 10, 11	4	1	1, 2, 3, 5, 6	1A, 6A	1B, 6B
3. Explain the applications of internal control principles to cash receipts.	6, 13, 14, 15	5, 6, 7	2	2, 5, 6	6A	1B, 6B
4. Explain the applications of internal control principles to cash disbursements.	16, 17, 18, 19	8		3, 4, 5, 6	1A, 6A	6B
5. Describe the operation of a petty cash fund.	21	9	3	7, 8	2A	2B
6. Indicate the control features of a bank account.	22	10				
7. Prepare a bank reconciliation.	20, 23, 24, 25	11, 12, 13, 14	4	9, 10, 11, 12, 13	3A, 4A, 5A	3B, 4B, 5B, 6B
8. Explain the reporting of cash.	12, 26	15		14		

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Identify internal control principles over cash disbursements.	Simple	20–30
2A	Journalize and post petty cash fund transactions.	Simple	20–30
3A	Prepare a bank reconciliation and adjusting entries.	Simple	20–30
4A	Prepare a bank reconciliation and adjusting entries from detailed data.	Moderate	40–50
5A	Prepare a bank reconciliation and adjusting entries.	Moderate	30–40
6A	Identify internal control weaknesses in cash receipts and cash disbursements.	Complex	35–45
1B	Identify internal control weaknesses over cash receipts.	Simple	20–30
2B	Journalize and post petty cash fund transactions.	Simple	20–30
3B	Prepare a bank reconciliation and adjusting entries.	Simple	20–30
4B	Prepare a bank reconciliation and adjusting entries from detailed data.	Moderate	40–50
5B	Prepare a bank reconciliation and adjusting entries.	Moderate	30–40
6B	Prepare comprehensive bank reconciliation with theft and internal control deficiencies.	Complex	40–50

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CHAPTER 7
FRAUD, INTERNAL CONTROL, AND CASH

Number	SO	BT	Difficulty	Time (min.)
BE1	1	C	Simple	2–4
BE2	1	C	Simple	2–4
BE3	1	C	Simple	4–6
BE4	2	C	Simple	3–5
BE5	3	C	Simple	4–6
BE6	3	AP	Simple	4–6
BE7	3	AP	Simple	2–4
BE8	4	C	Simple	4–6
BE9	5	AP	Simple	4–6
BE10	6	C	Simple	2–4
BE11	7	C	Simple	3–5
BE12	7	C	Simple	3–5
BE13	7	AP	Simple	2–4
BE14	7	AP	Simple	2–4
BE15	8	C	Simple	2–4
DI1	2	C	Moderate	6–8
DI2	3	C	Simple	4–6
DI3	5	AP	Simple	4–6
DI4	7	C	Simple	2–4
EX1	2	C	Simple	8–10
EX2	2, 3	E	Moderate	8–10
EX3	2, 4	E	Moderate	8–10
EX4	4	E	Moderate	12–15
EX5	2–4	C	Simple	6–8
EX6	2–4	C	Simple	6–8
EX7	5	AP	Simple	8–10
EX8	5	AP	Simple	6–8
EX9	7	AN	Simple	8–10
EX10	7	AP	Simple	3–5

FRAUD, INTERNAL CONTROL, AND CASH (Continued)

Number	SO	BT	Difficulty	Time (min.)
EX11	7	AN	Simple	10–12
EX12	7	AN	Simple	12–15
EX13	7	AN	Moderate	10–12
EX14	8	C, AP	Simple	8–10
P1A	2, 4	C	Simple	20–30
P2A	5	AP	Simple	20–30
P3A	7	AN	Simple	20–30
P4A	7	AN	Moderate	40–50
P5A	7	AN	Moderate	30–40
P6A	2–4	E	Complex	35–45
P1B	2, 3	E	Simple	20–30
P2B	5	AP	Simple	20–30
P3B	7	AN	Simple	20–30
P4B	7	AN	Moderate	40–50
P5B	7	AN	Moderate	30–40
P6B	2–4, 7	E	Complex	40–50
BYP1	2, 8	C	Simple	10–15
BYP2	8	AN	Simple	8–12
BYP3	2, 7	E	Simple	10–15
BYP4	3	AN	Moderate	15–20
BYP5	3	E	Simple	10–15
BYP6	3	E	Simple	10–15

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Study Objectives and End-of-Chapter Exercises and Problems

Study Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Define fraud and internal control.		Q7-1 Q7-2 Q7-3 Q7-4				
2. Identify the principles of internal control activities.		Q7-5 Q7-6 Q7-7 Q7-8 Q7-9				E7-2 E7-3 P7-1B P7-6A
3. Explain the applications of internal control principles to cash receipts.		Q7-6 Q7-13 Q7-14 Q7-15	BE7-5 BE7-6 BE7-7			E7-2 P7-1B P7-6A P7-6B
4. Explain the applications of internal control principles to cash disbursements.	Q7-18 Q7-19	Q7-16 Q7-17 BE7-8	E7-5 E7-6 P7-1A			E7-3 E7-4 P7-6A
5. Describe the operation of a petty cash fund.		Q7-21	BE7-9 DI7-3 E7-7	E7-8 P7-2A P7-2B		
6. Indicate the control features of a bank account.		Q7-22 BE7-10				
7. Prepare a bank reconciliation.	Q7-20 Q7-24	Q7-23 Q7-25 BE7-11 BE7-12	BE7-13 BE7-14 E7-10	E7-9 P7-3A E7-11 P7-4A E7-12 P7-5A E7-13 P7-3B	P7-4B P7-5B	P7-6B
8. Explain the reporting of cash.		Q7-26 BE7-15	Q7-12 E7-14			
Broadening Your Perspective		Financial Reporting		Comparative Analysis Decision Making Across the Organization		Exploring the Web Communication Ethics Case

ANSWERS TO QUESTIONS

1. Fraud is a dishonest act by an employee that results in personal benefit to the employee at a cost to the employer. An example of fraud that might occur at a bank would be a computer operator embezzling funds by transferring a customer's deposits into another account.
2. The three main factors that contribute to employee fraud are opportunity, financial pressure, and rationalization. Opportunities that an employee can take advantage of occur when the workplace lacks sufficient controls to deter and detect fraud. Financial pressure occurs when employees want to lead a lifestyle that they cannot afford on their current salary. Rationalization involves employees justifying fraud because they believe they are underpaid while their employer is making lots of money.
3. The five components of a good internal control system are: (1) A control environment, (2) Risk assessment, (3) Control activities, (4) Information and communication, and (5) Monitoring.
4. Disagree. Internal control is also concerned with the safeguarding of company assets from employee theft, robbery, and unauthorized use.
5. The principles of internal control are: (a) establishment of responsibility, (b) segregation of duties, (c) documentation procedures, (d) physical controls, (e) independent internal verification, and (f) human resource controls.
6. This is a violation of the internal control principle of establishing responsibility. In this case, each sales clerk should have a separate cash register or cash register drawer.
7. The two applications of segregation of duties are:
 - (1) Different individuals should be responsible for related activities.
 - (2) Responsibility for the record keeping for an asset should be separate from the physical custody of that asset.
8. Documentation procedures contribute to good internal control by providing evidence that transactions and events have occurred and, when signatures (or initials) are added, the documents establish responsibility for the transactions. The prompt transmittal of documents to accounting contributes to recording transactions in the proper period, and the prenumbering of documents helps to ensure that a transaction is not recorded more than once or not at all.
9. Safes, vaults, and locked warehouses contribute to the safeguarding of company assets. Cash registers and time clocks contribute to the accuracy and reliability of the accounting records, and electronic burglary systems and sensors help to safeguard assets.
10. (a) Independent internal verification involves the review of data prepared by employees.
(b) Maximum benefit is obtained from independent internal verification when:
 - (1) The verification is made periodically or on a surprise basis.
 - (2) The verification is done by an employee who is independent of the personnel responsible for the information.
 - (3) Discrepancies and exceptions are reported to a management level that can take appropriate corrective action.

Questions Chapter 7 (Continued)

11. (a) The concept of reasonable assurance rests on the premise that the costs of establishing control procedures should not exceed their expected benefit.
(b) The human element is an important factor in a system of internal control. A good system can become ineffective through employee fatigue, carelessness, or indifference. Moreover, internal control may become ineffective as a result of collusion.
12. Cash should be reported at \$20,850 (\$8,000 + \$850 + \$12,000).
13. Daily cash counts pertain primarily to the principles of segregation of duties, documentation procedures, and independent internal verification. Daily cash counts also involve the establishment of responsibility for performing the counts.
14. Cash registers are readily visible to the customer. Thus, they prevent the sales clerk from ringing up a lower amount and pocketing the difference. In addition, the customer receives an itemized receipt, and the cash register tape is locked into the register for further verification, providing documentation and enabling independent internal verification.
15. Two mail clerks contribute to a more accurate listing of mail receipts and to the endorsement of all checks "For Deposit Only." In addition, two clerks reduce the likelihood of mail receipts being diverted to personal use.
16. Payment by check contributes to effective internal control over cash disbursements. However, effective control is also possible when small payments are made from petty cash.
17. The procedure and related principle are:
- | <u>Procedure</u> | <u>Principle</u> |
|---|--------------------------------------|
| (1) Treasurer signs checks. | * Establishment of responsibility. |
| (2) Checks imprinted by a machine in indelible ink. | * Physical controls. |
| (3) Comparing check with approved invoice before signing. | * Independent internal verification. |
18. Physical controls apply to cash disbursements when: (a) blank checks are stored in a safe, and access to the safe is restricted to authorized personnel, and (b) a checkwriting machine and indelible ink are used to imprint amounts on checks. Documentation controls apply when the company uses prenumbered checks and accounts for them in sequence, and requires employees to use corporate credit cards for reimbursable expenses.
19. (a) A voucher system is a network of approvals by authorized individuals acting independently to ensure that all disbursements by check are proper.
(b) The internal control principles applicable to a voucher system are: (1) establishment of responsibility, (2) segregation of duties, (3) independent internal verification, and (4) documentation procedures.
20. Electronic funds transfer is a cash disbursement system that uses wire, telephone, or computers to transfer cash from one location to another.

Questions Chapter 7 (Continued)

21. The activities in a petty cash system and the related principles are:
- (a) (1) Establishing the fund. * Establishment of responsibility for custody of fund.
 - (2) Making payments from the fund. * Documentation procedures because the custodian must use a prenumbered petty cash receipt.
 - (3) Replenishing the fund. * Independent internal verification because the request for replenishment must be approved before the check is written.
- (b) Journal entries are required for a petty cash fund when it is established and replenished. Entries are also required when the size of the fund is increased or decreased.
22. Yes. A bank contributes significantly to internal control over cash because it: (1) safeguards cash on deposit, (2) minimizes the amount of currency that must be kept on hand, and (3) provides a double record of all bank transactions.
23. The lack of agreement between the balances may be due to either:
- (1) Time lags—a check written in July does not clear the bank until August.
 - (2) Errors—a check for \$110 is recorded by the depositor at \$101.
24. The four steps are: (1) determine deposits in transit, (2) determine outstanding checks, (3) discover any errors made, and (4) trace bank memoranda.
25. (a) An NSF check occurs when the checkwriter's bank balance is less than the amount of the check.
- (b) In a bank reconciliation, a customer's NSF check is deducted from the balance per books.
- (c) An NSF check results in an adjusting entry in the company's books, as a debit to Accounts Receivable and a credit to Cash.
26. (a) Yes. Cash equivalents are highly liquid investments that can be converted into a specific amount of cash with maturities of three months or less when purchased. Cash equivalents may be reported with cash in the current assets section of the statement of financial position.
- (b) Cash restricted for a special purpose should be reported as a current or noncurrent asset depending on when the cash is expected to be used.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 7-1

1. **Financial Pressure**
2. **Rationalization**
3. **Financial Pressure**
4. **Opportunity**

BRIEF EXERCISE 7-2

1. **True.**
2. **True.**
3. **False. Fear is not an element of the fraud triangle. The third element is rationalization.**

BRIEF EXERCISE 7-3

The purposes of internal control are to:

1. **Safeguard a company's assets from employee theft, robbery, and unauthorized use. An application for Ready Parking is the use of a cash register to safeguard assets.**
2. **Enhance the accuracy and reliability of a company's accounting records by reducing the risk of errors (unintentional mistakes) and irregularities (intentional mistakes and misrepresentations) in the accounting process. An application for Ready Parking is preparation of a bank reconciliation.**
3. **Increase efficiency of operations.**
4. **Ensure compliance with laws and regulations.**

All of these purposes are important to the success of any business endeavor.

BRIEF EXERCISE 7-4

- 1. Segregation of duties.
- 2. Independent internal verification.
- 3. Documentation procedures.

BRIEF EXERCISE 7-5

- 1. Physical controls.
- 2. Human resource controls.
- 3. Independent internal verification.
- 4. Segregation of duties.
- 5. Establishment of responsibility.

BRIEF EXERCISE 7-6

(a) Cash	6,840.75	
Cash Over and Short	50.75	
Sales Revenue		6,891.50
(b) Cash	6,919.82	
Cash Over and Short		28.32
Sales Revenue		6,891.50

BRIEF EXERCISE 7-7

Cash (\$1,125.74 – \$150.00)	975.74	
Cash Over and Short	15.09	
Sales Revenue		990.83

BRIEF EXERCISE 7-8

- 1. Documentation procedures.
- 2. Independent internal verification.
- 3. Physical controls.
- 4. Establishment of responsibility.
- 5. Segregation of duties.

BRIEF EXERCISE 7-9

Mar. 20	Postage Expense.....	520
	Freight-out.....	260
	Travel Expense	100
	Cash Over and Short.....	50
	Cash.....	930

BRIEF EXERCISE 7-10

1. A check provides documentary evidence of the payment of a specified sum of money to a designated payee.
2. A bank statement provides a double record of a depositor's bank transactions. It also is used in making periodic independent bank reconciliations.

BRIEF EXERCISE 7-11

1. Outstanding checks—deducted from cash balance per bank.
2. Bank service charge—deducted from cash balance per books.
3. Collection of note by bank—added to cash balance per books.
4. Deposits in transit—added to cash balance per bank.

BRIEF EXERCISE 7-12

- (a) The reconciling items per the books, items (2) and (3) above, will require adjustment on the books of the depositor.
- (b) The other reconciling items, deposits in transit and outstanding checks, do not require adjustment by the bank. When these items reach the bank, the bank balance will automatically adjust itself.

BRIEF EXERCISE 7-13

Cash balance per bank	\$7,420
Add: Deposits in transit	<u>1,120</u>
	8,540
Less: Outstanding checks	<u>762</u>
Adjusted cash balance per bank.....	<u>\$7,778</u>

BRIEF EXERCISE 7-14

Cash balance per books.....	€8,500
Add: Interest earned.....	<u>40</u>
	8,540
Less: Charge for printing company checks	<u>35</u>
Adjusted cash balance per books	<u>€8,505</u>

BRIEF EXERCISE 7-15

Quirk Company should report Cash in Bank and Payroll Bank account as current assets. Plant Expansion Fund Cash should be reported as a noncurrent asset, assuming the fund is not expected to be used during the next year.

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 7-1

1. Violates the control activity of *documentation procedures*. Source documents should be promptly forwarded to the accounting department so accounting entries can be made. This control activity helps to ensure timely recording of sales transactions and contributes directly to the accuracy and reliability of the accounting records.

DO IT! 7-1 (Continued)

2. Violates the control activity of *segregation of duties*. Different individuals should be responsible for related activities, such as these three related purchasing activities. Many abuses could occur: placing orders with friends and getting kickbacks; performing cursory counts and inspections of delivered goods; approving fictitious invoices for payment.
3. Violates the control activity of *establishment of responsibility*. Dick's would be unable to determine who was responsible for a cash shortage; this lapse could even encourage employee theft.

DO IT! 7-2

All mail receipts should be opened in the presence of two mail clerks. Those mail clerks should immediately stamp each check "For Deposit Only." The mail clerks should prepare, in duplicate, a list of the checks received each day. The checks and prelist should be sent on to the cashier's department each day, and the cashier should deposit the checks daily. The duplicate prelist should be sent to the treasurer's department and used to confirm that all receipts were deposited and recorded.

DO IT! 7-3

Aug. 1	Petty Cash	100	
	Cash		100
30	Postage Expense	31	
	Office Supplies.....	42	
	Miscellaneous Expense	16	
	Cash Over and Short.....	2	
	Cash (£100 – £9).....		91

DO IT! 7-4

Linus should treat the reconciling items as follows:

- 1. Outstanding checks: Deduct from balance per bank.**
- 2. A deposit in transit: Add to balance per bank.**
- 3. The bank charged to our account a check written by another company: Add to balance per bank.**
- 4. A debit memorandum for a bank service charge: Deduct from balance per books.**

SOLUTIONS TO EXERCISES

EXERCISE 7-1

1. **Establishment of responsibility.** The counter clerk is responsible for handling cash. Other employees are responsible for making the pizzas.
2. **Segregation of duties.** Employees who make the pizzas do not handle cash.
3. **Documentation procedures.** The counter clerk uses your order invoice (ticket) in registering the sale on the cash register. The cash register produces a tape of all sales.
4. **Physical controls.** A cash register is used to record the sale.
5. **Independent internal verification.** The counter clerk, in handling the pizza, compares the size of the pizza with the size indicated on the order.
6. **Human resource controls.** No visible application possible.

EXERCISE 7-2

<u>Procedure</u>	<u>(a)</u>		<u>(b)</u>
	<u>Weakness</u>	<u>Principle</u>	<u>Recommended Change</u>
1.	Cash is not adequately protected from theft.	Physical controls.	Cash should be stored in a safe until it is deposited in bank.
2.	Inability to establish responsibility for cash with a specific clerk.	Establishment of responsibility.	There should be separate cash drawers and register codes for each clerk.

EXERCISE 7-2 (Continued)

Procedure	(a)		(b)
	Weakness	Principle	Recommended Change
3.	The accountant should not handle cash.	Segregation of duties.	The cashier's department should make the deposits.
4.	Cash is not independently counted.	Independent internal verification.	A cashier office supervisor should count cash.
5.	Cashiers are not bonded.	Human resource controls.	All cashiers should be bonded.

EXERCISE 7-3

Procedure	(a)		(b)
	Weakness	Principle	Recommended Change
1.	The bank reconciliation is not independently prepared.	Independent internal verification.	Someone with no other cash responsibilities should prepare the bank reconciliation.
2.	The approval and payment of bills is done by the same individual.	Segregation of duties.	The store manager should approve bills for payment and the treasurer should sign and issue checks.
3.	Checks are not stored in a secure area.	Physical controls.	Checks should be stored in a safe or locked file drawer.

EXERCISE 7-3 (Continued)

Procedure	(a)		(b)
	Weakness	Principle	Recommended Change
4.	After payment, bills are simply filed in a folder.	Documentation procedures.	Bills should be stamped paid before being placed in the folder.
5.	Checks are not prenumbered.	Documentation procedures.	Checks should be prenumbered and subsequently accounted for.

EXERCISE 7-4

(a) <u>Weaknesses</u>	(b) <u>Suggested Improvement</u>
1. Checks are not prenumbered.	Use prenumbered checks.
2. The purchasing agent signs checks.	Only the treasurer's department personnel should sign checks.
3. Unissued checks are stored in an unlocked file cabinet.	Unissued checks should be stored in a locked file cabinet with access restricted to authorized personnel.
4. After payment, bills are simply filed in a folder.	Bills should be stamped PAID before being placed in the folder.
5. After payment, the invoice is filed.	The invoice should be stamped PAID.
6. The purchasing agent records payments in cash disbursements journal.	Only accounting department personnel should record cash disbursements.

EXERCISE 7-4 (Continued)

(a) Weaknesses

- 7. The treasurer records the checks in the cash disbursements journal.**
- 8. The treasurer reconciles the bank statement.**

(b) Suggested Improvement

- Same as answer to No. 6 above.**
- An internal auditor should reconcile the bank statement.**

(b) To: Treasurer, Hutchingson Company

From: Accounting Student

I have reviewed your cash disbursements system and suggest that you make the following improvements:

- 1. Hutchingson Company should use prenumbered checks. These should be stored in a locked file cabinet or safe with access restricted to authorized personnel.**
- 2. The purchasing department should approve bills for payment. The treasurer's department should prepare and sign the checks. The invoices should be stamped paid so that they cannot be paid twice.**
- 3. Only the accounting department personnel should record cash disbursements.**
- 4. An internal auditor should reconcile the bank statement.**

If you have any questions about implementing these suggestions, please contact me.

EXERCISE 7-5

<u>Procedure</u>	<u>IC good or weak?</u>	<u>Related internal control principle</u>
1.	Weak	Establishment of Responsibility
2.	Good	Independent Internal Verification
3.	Weak	Segregation of Duties
4.	Good	Segregation of Duties
5.	Weak	Documentation Procedures

EXERCISE 7-6

<u>Procedure</u>	<u>IC good or weak?</u>	<u>Related internal control principle</u>
1.	Good	Human Resource Controls
2.	Weak	Establishment of Responsibility
3.	Weak	Segregation of Duties
4.	Good	Independent Internal Verification
5.	Good	Physical Controls

EXERCISE 7-7

May 1	Petty Cash	100.00	
	Cash		100.00
June 1	Delivery Expense	31.25	
	Postage Expense	39.00	
	Miscellaneous Expense	25.00	
	Cash Over and Short	2.00	
	Cash		97.25
July 1	Delivery Expense	21.00	
	Entertainment Expense	51.00	
	Miscellaneous Expense	24.75	
	Cash		96.75
July 10	Petty Cash	50.00	
	Cash		50.00

EXERCISE 7-8

Mar. 1	Petty Cash.....	100	
	Cash		100
15	Postage Expense.....	39	
	Freight-out	21	
	Miscellaneous Expense	11	
	Travel Expense.....	24	
	Cash Over and Short.....	2	
	Cash		97
20	Petty Cash.....	50	
	Cash		50

EXERCISE 7-9

(a)	Cash balance per bank statement		CHF3,560.20
	Add: Deposits in transit		<u>530.00</u>
			4,090.20
	Less: Outstanding checks.....		<u>930.00</u>
	Adjusted cash balance per bank.....		<u><u>CHF3,160.20</u></u>
	Cash balance per books.....		CHF3,875.20
	Less: NSF check.....	CHF690.00	
	Bank service charge.....	<u>25.00</u>	<u>715.00</u>
	Adjusted cash balance per books		<u><u>CHF3,160.20</u></u>
(b)	Accounts Receivable.....	690.00	
	Cash		690.00
	Miscellaneous Expense.....	25.00	
	Cash		25.00

EXERCISE 7-10

The outstanding checks are as follows:

<u>No.</u>	<u>Amount</u>
255	\$ 820
260	890
264	560
Total	<u>\$2,270</u>

EXERCISE 7-11

(a) **TERESINA VIDEO COMPANY**
Bank Reconciliation
July 31

Cash balance per bank statement	R\$7,263
Add: Deposits in transit.....	<u>1,500</u>
	8,763
Less: Outstanding checks	<u>591</u>
Adjusted cash balance per bank.....	<u>R\$8,172</u>
 Cash balance per books	 R\$7,284
Add: Collection of note receivable (R\$900 plus accrued interest R\$36, less collection fee R\$20)	 <u>916</u>
	8,200
Less: Bank service charge	<u>28</u>
Adjusted cash balance per books	<u>R\$8,172</u>

(b) July 31	Cash.....	916	
	Miscellaneous Expense	20	
	Notes Receivable.....		900
	Interest Revenue.....		36
31	Miscellaneous Expense	28	
	Cash.....		28

EXERCISE 7-12

(a) **ROBERTSON COMPANY**
Bank Reconciliation
September 30

Cash balance per bank statement		\$16,422
Add: Deposits in transit		<u>4,450</u>
		20,872
Less: Outstanding checks.....		<u>2,383</u>
Adjusted cash balance per bank		<u>\$18,489</u>
 Cash balance per books.....		\$17,404
Add: Collection of note receivable (\$1,500 + \$30)	\$ 1,530	
Interest earned	<u>45</u>	<u>1,575</u>
		18,979
Less: NSF check.....	425	
Safety deposit box rent	<u>65</u>	<u>490</u>
Adjusted cash balance per books		<u>\$18,489</u>

(b) Sept. 30	Cash	1,530	
	Notes Receivable		1,500
	Interest Revenue		30
30	Cash	45	
	Interest Revenue		45
30	Accounts Receivable—J. E. Hoover.....	425	
	Cash		425
30	Miscellaneous Expense.....	65	
	Cash		65

EXERCISE 7-13

(a) Deposits in transit:		
Deposits per books in July.....		€15,750
Less: Deposits per bank in July	€15,600	
Deposits in transit, June 30	<u>(720)</u>	
July receipts deposited in July		<u>14,880</u>
Deposits in transit, July 31		<u>€ 870</u>

EXERCISE 7-13 (Continued)

(b) Outstanding checks:

Checks per books in July		€17,200
Less: Checks clearing bank in July	€16,400	
Outstanding checks, June 30	<u>(680)</u>	
July checks cleared in July		<u>15,720</u>
Outstanding checks, July 31		<u>€ 1,480</u>

(c) Deposits in transit:

Deposits per bank statement in September	€26,700
Add: Deposits in transit, September 30	<u>2,100</u>
Total deposits to be accounted for	28,800
Less: Deposits per books	<u>25,400</u>
Deposits in transit, August 31	<u>€ 3,400</u>

(d) Outstanding checks:

Checks clearing bank in September	€25,000
Add: Outstanding checks, September 30	<u>2,100</u>
Total checks to be accounted for	27,100
Less: Cash disbursements per books	<u>23,700</u>
Outstanding checks, August 31	<u>€ 3,400</u>

EXERCISE 7-14

(a) Cash and cash equivalents should be reported at \$93,500.

Cash in bank	\$47,000
Cash on hand	12,000
Petty cash	500
Highly liquid investments	<u>34,000</u>
	<u>\$93,500</u>

(b) “Cash in plant expansion fund” should be reported as part of long-term investments (a noncurrent asset). “Receivables from customers” should be reported as accounts receivable under current assets. “Share investments” should also be reported under current assets.

(c) Lipkus should disclose in the financial statements the details about the compensating balances. These are generally minimum cash balances the bank requires the borrower to maintain. They are a restriction on the use of cash that may affect the company’s liquidity.

SOLUTIONS TO PROBLEMS

PROBLEM 7-1A

Principles

Application to Cash Disbursements

Establishment of responsibility.

Only the treasurer and assistant treasurer are authorized to sign checks.

Segregation of duties.

Invoices must be approved by both the purchasing agent and the receiving department supervisor. Payment can only be made by the treasurer or assistant treasurer, and the check signers do not record the cash disbursement transactions.

Documentation procedures.

Checks are prenumbered. Following payment, invoices are stamped PAID.

Physical controls.

Blank checks are kept in a safe in the treasurer's office. Only the treasurer and assistant treasurer have access to the safe. A checkwriting machine is used in writing checks.

Independent internal verification.

The check signer compares the check with the approved invoice prior to issue. Bank and book balances are reconciled monthly by the assistant chief accountant.

Human resource controls.

All employees who handle or record cash are bonded.

PROBLEM 7-2A

(a)	July	1	Petty Cash.....	200.00	
			Cash		200.00
		15	Freight-out	94.00	
			Postage Expense.....	42.40	
			Entertainment Expense.....	46.60	
			Miscellaneous Expense	11.20	
			Cash Over and Short.....	1.80	
			Cash		196.00
		31	Freight-out	82.10	
			Charitable Contributions Expense	45.00	
			Postage Expense.....	25.50	
			Miscellaneous Expense	39.40	
			Cash		192.00
	Aug.	15	Freight-out	75.60	
			Entertainment Expense	43.00	
			Postage Expense.....	33.00	
			Miscellaneous Expense	37.00	
			Cash Over and Short.....		1.60
			Cash		187.00
		16	Petty Cash.....	100.00	
			Cash		100.00
		31	Postage Expense.....	140.00	
			Travel Expense.....	95.60	
			Freight-out	47.10	
			Cash Over and Short.....	1.30	
			Cash		284.00

(b)

Petty Cash

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		CP	200		200
Aug. 16		CP	100		300

PROBLEM 7-2A (Continued)

(c) The internal control features of a petty cash fund include:

- 1. A custodian is responsible for the fund.**
- 2. A prenumbered petty cash receipt signed by the custodian and the individual receiving payment is required for each payment from the fund.**
- 3. The treasurer's office examines all payments and stamps supporting documents to indicate they were paid when the fund is replenished.**
- 4. Surprise counts can be made at any time to determine whether the fund is intact.**

PROBLEM 7-3A

(a)

JAMES LOGAN COMPANY
Bank Reconciliation
May 31, 2011

Cash balance per bank statement		£6,404.60
Add: Deposit in transit	£1,916.15	
Bank error—Bridgetown check	<u>800.00</u>	<u>2,716.15</u>
		9,120.75
Less: Outstanding checks		<u>576.25</u>
Adjusted cash balance per bank		<u>£8,544.50</u>
Cash balance per books		£6,781.50
Add: Collection of note receivable (£2,500 note plus £80 interest less £20 fee)		<u>2,560.00</u>
		9,341.50
Less: NSF check	£ 680.00	
Error in May 12 deposit (£886.15 – £836.15)	50.00	
Error in recording check No. 1181	27.00*	
Check printing charge	<u>40.00</u>	<u>797.00</u>
Adjusted cash balance per books		<u>£8,544.50</u>

*£685 – £658

(b)	May 31	Cash	2,560	
		Miscellaneous Expense	20	
		Notes Receivable		2,500
		Interest Revenue		80
	31	Accounts Receivable—S. Grifton	680	
		Cash		680
	31	Sales	50	
		Cash		50
	31	Accounts Payable—B. Trest	27	
		Cash		27
	31	Miscellaneous Expense	40	
		Cash		40

PROBLEM 7-4A

(a) **BACKHAUS COMPANY**
Bank Reconciliation
December 31, 2011

Cash balance per bank statement		\$20,154.30
Add: Deposits in transit		<u>1,690.40</u>
		21,844.70
Less: Outstanding checks		
No. 3470.....	\$ 720.10	
No. 3474.....	1,050.00	
No. 3478.....	621.30	
No. 3481.....	807.40	
No. 3484.....	798.00	
No. 3486.....	<u>1,889.50</u>	<u>5,886.30</u>
Adjusted cash balance per bank		<u>\$15,958.40</u>
Cash balance per books.....		\$12,485.20
Add: Note collected by bank		
(\$4,000 note plus \$160 interest		
less \$15 fee)		<u>4,145.00</u>
		16,630.20
Less: NSF check	\$ 572.80	
Error in recording check No. 3485.....	90.00*	
Error in 12-21 deposit		
(\$2,954 – \$2,945)	<u>9.00</u>	<u>671.80</u>
Adjusted cash balance per books		<u>\$15,958.40</u>
*\$540.80 – \$450.80		

(b) Dec. 31	Cash.....	4,145.00	
	Miscellaneous Expense.....	15.00	
	Notes Receivable		4,000.00
	Interest Revenue		160.00
31	Accounts Receivable—D. Chagnon.....	572.80	
	Cash.....		572.80
31	Accounts Payable	90.00	
	Cash.....		90.00
31	Accounts Receivable	9.00	
	Cash.....		9.00

PROBLEM 7-5A

(a)

HAVERMAN COMPANY
Bank Reconciliation
July 31, 2011

Cash balance per bank statement			€24,514
Add: Deposits in transit (1)			<u>9,400</u>
			33,914
Less: Outstanding checks (2)	€ 8,460		
Bank error (€255 – €155)	<u>100</u>		<u>8,560</u>
Adjusted cash balance per bank			<u>€25,354</u>
Cash balance per books			€21,850
Add: Collection of note receivable by bank			
(€3,400 note plus €70 interest)	€ 3,470		
Book error (€320 – €230)	<u>90</u>		<u>3,560</u>
			25,410
Less: Check printing charge			<u>56</u>
Adjusted cash balance per books			<u>€25,354</u>
(1) July receipts per books			€81,400
July deposits per bank	€79,000		
Less: Deposits in transit,			
June 30	<u>7,000</u>		<u>72,000</u>
Deposits in transit, July 31			<u>€ 9,400</u>
(2) Disbursements per books			
in July			€77,150
Less: Book error			<u>90</u>
Total disbursements to			
be accounted for			77,060
Checks clearing bank			
in July	€74,700		
Add: Bank error	€ 100		
Less: June 30			
outstanding checks	<u>6,200</u>	<u>6,100</u>	<u>68,600</u>
Outstanding checks,			
July 31			<u>€ 8,460</u>

PROBLEM 7-5A (Continued)

(b)	July 31	Cash	3,470	
		Notes Receivable		3,400
		Interest Revenue		70
	31	Cash	90	
		Accounts Payable.....		90
	31	Miscellaneous Expense	56	
		Cash		56

PROBLEM 7-6A

Tom has created a situation that leaves many opportunities for undetected theft. Here is a list of some of the deficiencies in internal control. You may find others.

- 1. Documentation procedures. The tickets were unnumbered. By numbering the tickets, the students could have been held more accountable for the tickets. See number 3 below.**
- 2. Physical controls and establishment of responsibility. The tickets were left in an unlocked box on his desk. Instead, Tom should have assigned control of the tickets to one individual, in a locked box which that student alone had control over.**
- 3. Documentation procedures. No record was kept of which students took tickets to sell or how many they took. In combination with items 1 and 2 above, the student assigned control over the tickets should have kept a record of which tickets were issued to each student for resale. (Note: This problem could have been largely avoided if the tickets had only been sold at the door on the day of the dance.)**
- 4. Documentation procedures. There was no control over unsold tickets. This deficiency made it possible for students to sell the tickets, keep the cash, and tell Tom that they had disposed of the unsold tickets. Instead, students should have been required to return the unsold tickets to the student maintaining control over tickets, and the cash to Tom. In each case, the students should have been issued a receipt for the cash they turned in and the tickets they returned.**
- 5. Establishment of responsibility. Inadequate control over the cash box. In effect, it was operated like a petty cash fund, but too many people had the key. Instead, Tom should have had the key and disbursed funds when necessary for purchases.**
- 6. Documentation procedures. Instead of receipts, students simply wrote notes saying how they used the funds. Instead, it should have been required that they provided a valid receipt.**

PROBLEM 7-6A (Continued)

- 7. Segregation of duties. Luke Gilmor counted the funds, made out the deposit slip, and took the funds to the bank. This made it possible for Luke Gilmor to take some of the money and deposit the rest since there was no external check on his work. Tom should have counted the funds, with someone observing him. Then he could have made out the deposit slip and had Luke Gilmor deposit the funds.**
- 8. Documentation procedures. Tom did not receive a receipt from Obnoxious Ed. Without a receipt, there is no way to verify how much Obnoxious Ed was actually paid. For example, it is possible that he was only paid \$100 and that Tom took the rest.**
- 9. Segregation of duties. Mel Harris was collecting tickets and receiving cash for additional tickets sold. Instead, there should have been one person selling tickets at the door and a second person collecting tickets.**

PROBLEM 7-1B

(a) Principles

Application to Discount Theater

Establishment of responsibility.

Only cashiers are authorized to sell tickets. Only the manager and cashier can handle cash.

Segregation of duties.

The duties of receiving cash and admitting customers are assigned to the cashier and to the usher. The manager maintains custody of the cash, and the company accountant records the cash.

Documentation procedures.

Tickets are prenumbered. Cash count sheets are prepared. Deposit slips are prepared.

Physical controls.

A safe is used for the storage of cash and a machine is used to issue tickets.

Independent internal verification.

Cash counts are made by the manager at the end of each cashier's shift. Daily comparisons are made by the company treasurer.

Human resource controls.

Shifts are rotated among the cashiers.

(b) **Actions by the usher and cashier to misappropriate cash might include:**

1. Instead of tearing the tickets, the usher could return the tickets to the cashier who could resell them, and the two could divide the cash.
2. The cashier could issue a lower price ticket than paid for and the usher would admit the customer. The difference between the ticket issued and the cash received could be divided between the usher and cashier.

PROBLEM 7-2B

(a)	July	1	Petty Cash	100.00	
			Cash		100.00
		15	Freight-out.....	51.00	
			Postage Expense	20.50	
			Entertainment Expense	23.10	
			Miscellaneous Expense	4.10	
			Cash		96.90
			Cash Over and Short		1.80
		31	Freight-out.....	43.50	
			Charitable Contributions Expense.....	20.00	
			Postage Expense	20.10	
			Miscellaneous Expense	12.30	
			Cash		95.90
	Aug.	15	Freight-out.....	40.20	
			Entertainment Expense	21.00	
			Postage Expense	14.00	
			Miscellaneous Expense	19.80	
			Cash Over and Short	3.00	
			Cash		98.00
		16	Petty Cash	50.00	
			Cash		50.00
		31	Freight-out.....	74.00	
			Entertainment Expense	43.20	
			Postage Expense	17.70	
			Cash Over and Short	2.10	
			Cash		137.00

(b)

Petty Cash

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		CP	100		100
Aug. 16		CP	50		150

PROBLEM 7-2B (Continued)

(c) The internal control features of a petty cash fund include:

- 1. A custodian is responsible for the fund.**
- 2. A prenumbered petty cash receipt signed by the custodian and the individual receiving payment is required for each payment from the fund.**
- 3. The treasurer's office examines all payments and stamps supporting documents to indicate they were paid when the fund is replenished.**
- 4. Surprise counts can be made at any time to determine whether the fund is intact.**

PROBLEM 7-3B

(a) **WOLVERINE GENETICS COMPANY**
Bank Reconciliation
May 31, 2011

Cash balance per bank statement		\$13,332
Add: Deposit in transit	\$2,100	
Bank error—Carr check.....	<u>900</u>	<u>3,000</u>
		16,332
Less: Outstanding checks.....		<u>1,225</u>
Adjusted cash balance per bank.....		<u>\$15,107</u>
Cash balance per books.....		\$13,287
Add: Collection of note receivable (\$4,000 note plus \$80 interest less \$25 fee)		<u>4,055</u>
		17,342
Less: NSF check	\$1,308	
Error in May 12 deposit	100	
Error in recording check No. 1181	792*	
Check printing charge	<u>35</u>	<u>2,235</u>
Adjusted cash balance per books		<u>\$15,107</u>

*\$911 – \$119

(b) May 31	Cash.....	4,055	
	Miscellaneous Expense.....	25	
	Notes Receivable		4,000
	Interest Revenue		80
31	Accounts Receivable—Bo Sclembech.....	1,308	
	Cash		1,308
31	Sales	100	
	Cash		100
31	Accounts Payable—G. Fischer	792	
	Cash		792
31	Miscellaneous Expense.....	35	
	Cash		35

PROBLEM 7-4B

(a)

BRASILIA COMPANY
Bank Reconciliation
November 30, 2011

Balance per bank statement.....		R\$ 9,100
Add: Deposits in transit.....		<u>1,541</u>
		10,641
Less: Outstanding checks		
No. 2451	R\$700	
No. 2472	270	
No. 2478	300	
No. 2482	350	
No. 2484	460	
No. 2485	525	
No. 2487	210	
No. 2488	<u>635</u>	<u>3,450</u>
Adjusted cash balance per bank.....		<u>R\$ 7,191</u>
Balance per books		R\$ 5,958
Add: Note collected by bank		
(R\$1,300 note plus R\$91 interest		
less R\$16 fee)		<u>1,375</u>
		7,333
Less: Check printing charge	R\$ 34	
Error in recording check No. 2479.....	90*	
Error in 11-21 deposit		
(R\$1,642 – R\$1,624)	<u>18</u>	<u>142</u>
Adjusted cash balance per books		<u>R\$ 7,191</u>

*R\$980 – R\$890

PROBLEM 7-4B (Continued)

(b)	Nov. 30	Cash.....	1,375	
		Miscellaneous Expense	16	
		Notes Receivable		1,300
		Interest Revenue		91
30		Miscellaneous Expense	34	
		Cash.....		34
30		Accounts Payable	90	
		Cash.....		90
30		Accounts Receivable	18	
		Cash.....		18

PROBLEM 7-5B

(a)

BUMMER COMPANY
Bank Reconciliation
August 31, 2011

Cash balance per bank statement			\$16,856
Add: Deposits in transit (1)	\$ 5,129		
Bank error (\$277 – \$275)	<u>2</u>	<u>5,131</u>	
		21,987	
Less: Outstanding checks (2)		<u>4,156</u>	
Adjusted cash balance per bank		<u>\$17,831</u>	
 Cash balance per books			\$13,215
Add: Collection of note receivable by bank			
(\$4,400 note plus \$105 interest)	\$ 4,505		
Book error (\$430 – \$340)	90		
Interest earned	<u>41</u>	<u>4,636</u>	
		17,851	
Less: Safety deposit box rent		<u>20</u>	
Adjusted cash balance per books		<u>\$17,831</u>	
 (1) August receipts per books			\$50,050
August deposits per bank	\$47,521		
Less: Deposits in transit, July 31	<u>2,600</u>	<u>44,921</u>	
Deposits in transit, August 31		<u>\$ 5,129</u>	
 (2) Disbursements per books in			
August		\$47,794	
Less: Book error		<u>90</u>	
Total disbursements to be			
accounted for		47,704	
Checks clearing bank in			
August	\$46,475		
Less: Bank error	\$ 2		
July 31 outstanding			
checks	<u>2,925</u>	<u>2,927</u>	<u>43,548</u>
Outstanding checks,			
August 31			<u>\$ 4,156</u>

PROBLEM 7-5B (Continued)

(b)	Aug. 31	Cash.....	4,505	
		Notes Receivable		4,400
		Interest Revenue		105
	31	Cash.....	90	
		Accounts Payable		90
	31	Cash.....	41	
		Interest Revenue		41
	31	Miscellaneous Expense	20	
		Cash.....		20

PROBLEM 7-6B

(a)

GAZARRA COMPANY
Bank Reconciliation
October 31, 2011

Balance per bank statement.....				£15,453.00
Plus: Undeposited receipts.....				<u>3,226.18</u>
				18,679.18
Less: Outstanding checks				
<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	
62	£107.74	862	£162.10	
183	127.50	863	192.78	
284	215.26	864	140.49	<u>945.87</u>
Adjusted balance per bank				<u>£17,733.31</u>
Cash balance per books				£18,608.81
Add: Bank credit (collection of note receivable).....				<u>340.00</u>
Adjusted balance per books (before theft).....				18,948.81
Theft.....				<u>1,215.50*</u>
Adjusted balance per books.....				<u>£17,733.31</u>

*£18,948.81 – £17,733.31

(b) The cashier attempted to cover the theft of £1,215.50 by:

1. Not listing as outstanding three checks totaling £450.50 (No. 62, £107.74; No. 183, £127.50; and No. 284, £215.26).
2. Underfooting the outstanding checks listed by £85.06 (The correct total is £495.37.)
3. Subtracting the £340 bank credit from the book balance instead of adding it to the book balance, thereby concealing £680 of the theft.

PROBLEM 7-6B (Continued)

- (c) 1. The principle of independent internal verification has been violated because the cashier prepared the bank reconciliation.
2. The principle of segregation of duties has been violated because the cashier had access to the accounting records and also prepared the bank reconciliation.

- (a) Cash and cash equivalents are reported at £251 million for 2008 and £493 million for 2007.**
- (b) Cash equivalents are defined as “cash on hand and demand deposits.”**
- (c) The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors ‘Report and Directors’ Remuneration Report which comply with requirements of the Companies Act 1985. The Directors have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.**

- | | <u>Cadbury</u> | <u>Nestlé</u> |
|---------|-----------------------|--------------------------|
| (a) (1) | £251 million | CHF 5,835 million |
| (2) | £242 million decrease | CHF 759 million decrease |
| (3) | £469 million | CHF10,763 million |
- (b) Both companies generated significant funds from operating activities. This cash is used for investing and financing activities. Both companies use the cash provided by operating activities to purchase land, buildings and equipment, to make acquisitions of other companies, to buy back their stock, and to pay dividends. Both companies have large cash balances at the end of 2008 and are capable of generating huge amounts of cash.

- (a) The system of internal control should be evaluated by: (1) responsible individuals from a particular university unit, (2) internal auditors, and (3) university management.**
- (b) Reconciliations ensure accuracy and completeness of transactions. In particular, a reconciliation ensures that all cash received is: (1) properly deposited in university bank accounts and (2) recorded accurately in the financial records. The reconciliation should be reviewed by the department manager.**
- (c) Some examples given of physical controls are a safe, vault, locked doors, campus police, computer passwords, and card key systems.**
- (d) Two ways to accomplish inventory counts are: (1) annual complete inventory or (2) cycle counting programs.**

- (a) The weaknesses in internal accounting control over collections are:
1. Each usher could take cash from the collection plates enroute to the basement office.
 2. The head usher counts the cash alone.
 3. The head usher's notation of the count is left in the safe.
 4. The financial secretary counts the cash alone.
 5. The financial secretary withholds \$150 to \$200 per week.
 6. The cash is vulnerable to robbery when kept in the safe overnight.
 7. Checks are made payable to "cash."
 8. The financial secretary has custody of the cash, maintains church records, and prepares the bank reconciliation.
- (b) The improvements should include the following:
1. The ushers should transfer their cash collections to a cash pouch (or bag) held by the head usher. The transfer should be witnessed by a member of the finance committee.
 2. The head usher and finance committee member should take the cash to the office. The cash should be counted by the head usher and the financial secretary in the presence of the finance committee member.
 3. Following the count, the financial secretary should prepare a deposit slip in duplicate for the total cash received, and the secretary should immediately deposit the cash in the bank's night deposit vault.
 4. At the end of each month, a member of the finance committee should prepare the bank reconciliation.
- (c) The policies that should be changed are:
1. Members should make checks payable to the church.
 2. A petty cash fund should be established for the financial secretary to be used for weekly cash expenditures and requests for replenishment of the fund should be sent to the chairperson of the finance committee for approval.
 3. The financial secretary should be bonded.
 4. The financial secretary should be required to take an annual vacation.

Mr. Jerry Mays
Manhattan Company
Main Street, USA

Dear Mr. Mays:

During our audit of your financial statements, we reviewed the internal controls over cash receipts. The weaknesses we discovered and our suggested improvements are listed below.

<u>Weaknesses</u>	<u>Suggested Improvement</u>
1. A list of checks received is not prepared by the person who opens the mail.	This list should be prepared so that it can later be compared with the daily cash summary. While this procedure does not assure that all checks will be listed, it does allow the company to verify that all checks on the list did get deposited.
2. Mail is opened by only one person.	When this occurs, there is no assurance that all incoming checks are forwarded to the cashier's department.
3. The cashier is allowed to open the mail.	Under this arrangement, it is possible for the cashier to open the mail, prepare the cash summary and make the bank deposit. This involves no segregation of duties as the cashier controls the cash from the time it is received until it is deposited in the bank.
4. The accounts receivable clerk is allowed to open the mail.	Again, there is poor segregation of duties. In this case, the clerk could writeoff a customer's account as uncollectible and then misappropriate the collection when it's received.

BYP 7-5 (Continued)

Weaknesses

5. Mail receipts are deposited weekly.

Suggested Improvement

This makes the receipts vulnerable to robbery and to misappropriation. The receipts should be deposited intact daily.

We would be pleased to discuss the weaknesses and our recommended improvements with you, at your convenience.

Yours sincerely,

**Croix, Marais, and Kale
Certified Public Accountants**

- (a) You, as assistant controller, may suffer some negative effects from Gena Schmitt, the financial vice-president, if you don't follow her instructions. Maybe the insurance company will react the way Gena suggests, but probably not.

If you comply and falsify the June 30 cash balance by holding the cash receipts book open for one day, you will suffer personally by sacrificing your integrity. If you are found out, you could be prosecuted for preparing a fraudulent report. The insurance company, as the lender and creditor, is deceived.

- (b) Holding the cash receipts book open in order to overstate the cash balance is a fraudulent, deceitful, unethical action. The financial vice-president should not encourage such behavior and a controller should not follow such instructions.
- (c) (1) You can follow the vice-president's instructions and misstate the cash balance—wrong! (2) You can advise the vice-president against holding the books open, prepare an accurate report, and have the vice-president or the president discuss the situation with the insurance company. It can be explained that the low cash balance was only temporary. Honesty is still the best policy.

