

Chapter 4

Cash and Internal Controls

REVIEW QUESTIONS

Question 4-1 (LO 4-1)

Occupational fraud is the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources. Occupational fraud occurs through theft or misuse of the company's resources and through financial statement manipulation.

Question 4-2 (LO 4-1)

Internal control is a company's plan to (1) safeguard the company's assets and (2) improve the accuracy and reliability of accounting information. Effective internal control builds a wall to prevent misuse of company funds by employees and fraudulent or errant financial reporting. Strong internal control systems allow greater reliance by investors on reported financial statements.

Question 4-3 (LO 4-1)

Managers are entrusted with the resources of both the company's lenders (liabilities) and owners (stockholders' equity). They have an ethical responsibility to appropriately use and accurately report the company's funds.

Question 4-4 (LO 4-1)

Managers are motivated to manipulate financial statements to maximize their compensation, increase the company's stock price, and preserve their job.

Question 4-5 (LO 4-1)

The fraud triangle represents the three elements of fraud: motive, rationalization, and opportunity. To help prevent fraud, companies can mitigate the opportunity element by implementing internal controls.

Question 4-6 (LO 4-1)

The major provisions of the Sarbanes-Oxley Act include the Public Company Accounting Oversight Board, corporate executive accountability, limitation on nonaudit services, retention of work papers, auditor rotation, restrictions related to conflicts of interest, audit committee hires the auditor, and documentation of internal control.

Answers to Review Questions (continued)

Question 4-7 (LO 4-2)

1. Control Environment – The overall ethical tone of the company with respect to internal control.
2. Risk Assessment – Identification and analysis of internal and external risk factors that could prevent a company's objectives from being achieved.
3. Control Activities – The policies and procedures that help ensure that management's directives are being carried out.
4. Monitoring – Continuous observation of the internal control system and formal procedures for reporting control deficiencies.
5. Information and Communication – Systems designed to ensure accurate measurement of business transactions and reliability of financial reports.

Question 4-8 (LO 4-2)

Detective controls are designed to detect errors or fraud that have already occurred, while preventive controls are designed to keep errors or fraud from occurring in the first place. Preventive controls include separation of duties, physical controls, proper authorizations, employee management, and E-commerce. Detective controls include reconciliations, performance reviews, and audits.

Question 4-9 (LO 4-2)

Authorizing transactions, recording transactions, and maintaining control of the related assets should be separated among employees.

Question 4-10 (LO 4-2)

Everyone in a company has an impact on the operation and effectiveness of internal controls, but **the top executives are the ones who must take final responsibility for their establishment and success.** The CEO and CFO sign a report each year assessing whether the internal controls are adequate. Section 404 of SOX requires not only that companies document their internal controls and assess their adequacy, but that the company's auditors provide an opinion on management's assessment.

Question 4-11 (LO 4-2)

Internal controls cannot prevent financial misstatement in all cases, do not necessarily prevent collusion by two or more people to circumvent internal controls, are more susceptible to fraud by top-level employees, and do not ensure a company's success, or even survival.

Question 4-12 (LO 4-2)

Collusion occurs when two or more people act in coordination to circumvent internal controls.

Question 4-13 (LO 4-2)

Fraud is more likely to occur when it is being committed by top-level employees who have the ability to override internal control features. For example, managers may be required to obtain approval from the Chief Financial Officer (CFO) for all large purchases. However, if the CFO uses the company's funds to purchase a boat for personal use at a lake home, fewer controls are in place to detect this misappropriation. Even if lower-level employees suspect wrongdoing, they may feel intimidated to confront the issue.

Answers to Review Questions (continued)

Question 4-14 (LO 4-3)

Cash includes not only currency, coins, balances in checking accounts, and checks and money orders received from customers, but also cash equivalents, defined as investments that mature within three months from the date of purchase (such as money market funds, Treasury bills, and certificates of deposit).

Question 4-15 (LO 4-3)

A purchase with a check is recorded as an immediate cash payment.

Question 4-16 (LO 4-4)

1. Record all cash receipts as soon as possible.
2. Open mail each day, and make a list of checks received, including the amount and payor's name.
3. Designate an employee to deposit cash and checks into the company's bank account each day, different from the person who receives cash and checks.
4. Have another employee record cash receipts in the accounting records. Verify cash receipts by comparing the bank deposit slip with the accounting records.

Question 4-17 (LO 4-4)

Credit cards extend credit (or lend money) to the cardholder each time the cardholder uses the credit card. The cardholder has a specified grace period before he or she has to pay the credit card balance in full. If the balance is not paid by the end of the grace period, the issuing company will charge a fee (interest). Credit card sales are recorded as a cash receipt by the seller.

Question 4-18 (LO 4-4)

Like credit cards, debit cards offer customers a way to purchase goods and services without a physical exchange of cash. They differ, however, in that most debit cards (sometimes referred to as check cards) work just like a check and withdraw funds directly from the cardholder's bank account at the time of use. Debit card sales are recorded as a cash receipt by the seller.

Question 4-19 (LO 4-4)

1. Make all disbursements, other than very small ones, by check, debit card, or credit card.
2. Authorize all expenditures before purchase and verify the accuracy of the purchase itself. The employee who authorizes payment should not also be the employee who prepares the check.
3. Make sure checks are serially numbered and signed only by authorized employees. Require two signatures for larger checks.
4. Periodically check amounts shown in the debit card and credit card statements against purchase receipts. The employee verifying the accuracy of the debit card and credit card statements should not also be the employee responsible for actual purchases.
5. Set maximum purchase limits on debit cards and credit cards. Give approval to purchase above these amounts only to upper-level employees.
6. Employees responsible for making cash disbursements should not also be in charge of cash receipts.

Answers to Review Questions (continued)

Question 4-20 (LO 4-4)

Credit card purchases are recorded as purchases on account.

Question 4-21 (LO 4-5)

A bank reconciliation matches the balance of cash in the bank account with the balance of cash in the company's own records by reconciling timing differences and errors. It is the possibility of errors, or even outright fraudulent activities, that make the bank reconciliation a useful cash control tool.

Question 4-22 (LO 4-5)

The two reasons are timing differences and errors. Timing differences arise when one party (the bank or the company) records a transaction at a different time than the other party. Errors are mistakes made by either the bank or the company.

Question 4-23 (LO 4-5)

Examples include deposits outstanding, checks outstanding, notes collected by the bank, interest earned, service charges, and NSF checks from customers.

Question 4-24 (LO 4-5)

As a final step in the reconciliation process, the company must update the balance of cash for the items used to reconcile the *company's* cash balance.

Question 4-25 (LO 4-6)

Purchase cards are company-issued debit cards or credit cards that offer a convenient way for employees to make quick purchases for the company. The petty cash fund is cash kept on hand to pay for minor purchases.

Question 4-26 (LO 4-6)

- Employees should be required to provide receipts and justification for those receipts on a timely basis.
- A separate employee reviews receipts and supporting documents to ensure all expenditures are made appropriately.
- Credit card receipts are reconciled to credit card statements, just like we reconciled checks and debit card transactions to the bank statement.
- Spending limits are placed on employees who are authorized to use a company credit card or have access to company cash. Lower limits are given to lower-level employees, while major expenditures require pre-approval through formal purchasing procedures.
- Only those employees that need to make timely business expenditures should receive authorization.

Question 4-27 (LO 4-7)

In addition to the change in total cash which can be calculated using two consecutive balance sheets, the statement of cash flows provides details of inflows and outflows from operating, investing, and financing activities.

Question 4-28 (LO 4-7)

Operating activities include cash transactions involving revenue and expense events during the period. Investing activities include cash investments in long-term assets and investment securities. Financing activities include transactions designed to raise cash or finance the business.

Question 4-29 (LO 4-8)

To maintain normal operations, a company needs enough cash, or enough other assets that can quickly be converted to cash, to pay obligations as they become due. Having available cash also helps a company respond quickly to new, profitable opportunities. On the other hand, having too much cash represents idle resources that are not being used to produce revenues or that may be spent inefficiently. A company with too much cash may be a signal that management does not have additional opportunities for profitable expansion.

Question 4-30 (LO 4-8)

- **Growth.** Higher growth companies typically hold less cash.
- **Profitability.** More profitable companies typically hold more cash.
- **Reserves.** Companies with plans to make major acquisitions or payoff large amounts of debt in the near future hold more cash.
- **Volatility of operations.** Companies with more volatile operations tend to hold more cash.
- **Foreign operations.** Firms with more foreign operations tend to hold more cash.
- **Dividend policy.** Firms that pay more dividends tend to hold less cash.

BRIEF EXERCISES

Brief Exercise 4-1 (LO 4-1)

1. c.
2. a.
3. d.
4. b.
5. e.

Brief Exercise 4-2 (LO 4-2)

1. e.
2. d.
3. a.
4. c.
5. b.

Brief Exercise 4-3 (LO 4-2)

1. e.
2. a.
3. f.
4. c.
5. b.
6. d.

Brief Exercise 4-4 (LO 4-3)

1. Yes
2. No
3. Yes
4. Yes
5. No
6. Yes

Brief Exercise 4-5 (LO 4-4)

1. \$ 500,000
 2. 350,000
 3. 582,000 (= \$600,000 less 3% service fee)
 4. 198,000 (= \$200,000 less 1% service fee)
- \$1,630,000

Brief Exercise 4-6 (LO 4-4)

	Debit	Credit
1.		
Salaries Expense	600	
Cash		600
<i>(Pay salaries by check)</i>		
2.		
Equipment	1,000	
Accounts Payable		1,000
<i>(Purchase computer equipment with credit card)</i>		
3.		
Repairs and Maintenance Expense	400	
Cash		400
<i>(Pay for vehicle maintenance with debit card)</i>		

Brief Exercise 4-7 (LO 4-5)

1. d.
2. c.
3. f.
4. e.
5. a.
6. b.

Brief Exercise 4-8 (LO 4-5)

Reconciliation items	Bank balance	Company balance
1. Checks outstanding	<i>Subtract</i>	<i>No entry</i>
2. NSF checks from customers	No entry	Subtract
3. Deposit recorded twice by company	No entry	Subtract
4. EFT to pay rent not recorded by the company.	No entry	Subtract
5. Deposits outstanding	Add	No entry
6. Bank service charges	No entry	Subtract

Brief Exercise 4-9 (LO 4-5)

Bank balance	\$ 2,000
Deposits outstanding	+4,200
Checks outstanding	<u>-4,450</u>
Reconciled bank balance	<u>\$ 1,750</u>

Brief Exercise 4-10 (LO 4-5)

Company balance	\$ 2,620
Service fees	-85
NSF check from customer	-350
Debit card to purchase supplies	-100
Note received	+1,000
Interest earned	+35
Reconciled company balance	<u>\$ 3,120</u>

Brief Exercise 4-11 (LO 4-5)

	Debit	Credit
Cash	1,035	
Notes Receivable		1,000
Interest Revenue		35
<i>(Record note and interest collected by bank)</i>		
Service Fee Expense	85	
Accounts Receivable	350	
Supplies	100	
Cash		535
<i>(Record bank service fee, NSF check from a customer, and purchase of supplies)</i>		

Brief Exercise 4-12 (LO 4-5)

Bank balance	\$ 7,345	Company balance	\$11,663
Deposits outstanding	+2,803	Service fees	-85
		EFT for utilities	-1,430
Cash balance per reconciliation	<u>\$10,148</u>	Cash balance per reconciliation	<u>\$10,148</u>

Brief Exercise 4-13 (LO 4-6)

	Debit	Credit
Postage Expense	60	
Delivery Expense	85	
Supplies Expense	50	
Accounts Payable		195
<i>(Recognize expenditures from credit cards)</i>		

	Debit	Credit
Entertainment Expense	25	
Cash		25
<i>(Recognize expenditures from the petty cash fund)</i>		

Brief Exercise 4-14 (LO 4-7)

1. c.
2. a.
3. b.

Brief Exercise 4-15 (LO 4-7)

Receipts for lessons in June	\$4,500
Receipts for lessons in May	<u>500</u>
Total cash received	<u><u>\$5,000</u></u>

Brief Exercise 4-16 (LO 4-7)

Total investing cash flows = \$13,000

Brief Exercise 4-17 (LO 4-7)

Issuance of stock	\$11,000
Borrowing from bank	35,000
Payment of dividends	<u>(3,000)</u>
	<u>\$43,000</u>

Brief Exercise 4-18 (LO 4-8)

	<u>Cash</u>	÷	<u>Noncash Assets*</u>	=	<u>Ratio</u>
Tuohy Incorporated	\$4,200		\$19,200		21.88%
Oher Corporation	\$3,500		\$22,200		15.77%

* Noncash assets = Total assets – Cash

EXERCISES

Exercise 4-1 (LO 4-1)

1. False
2. True
3. True
4. False
5. True
6. True

Exercise 4-2 (LO 4-1)

1. True
2. False
3. True
4. True
5. False
6. False

Exercise 4-3 (LO 4-2)

1. True
2. False
3. False
4. True
5. True
6. False
7. True
8. True
9. False

Exercise 4-4 (LO 4-2)

1. Performance reviews
2. Physical controls
3. Separation of duties
4. Reconciliations
5. None
6. Proper authorization

Exercise 4-5 (LO 4-3)

Currency located at the company	\$ 1,050
Short-term investments that mature within three months	1,950
Balance in savings account	8,500
Checks received from customers but not yet deposited	650
Coins located at the company	110
Balance in checking account	<u>6,200</u>
Total cash	<u>\$18,460</u>

Exercise 4-6 (LO 4-4)

Cash should be recorded and deposited more than once per week (on Friday). The employee recording cash receipts should not also be the employee making the deposit. The bank reconciliation should be prepared more than once each quarter.

Exercise 4-7 (LO 4-4)

The petty cash fund of \$10,000 is too large. Employees should not be allowed to both place a receipt in the fund and withdraw cash. Employees should obtain permission before writing a check. While it is good that checks over \$5,000 must be signed by Goldie or Kate, this amount is too high. A more realistic amount may be \$200.

Exercise 4-8 (LO 4-4)

Jim should not deposit the checks and also record them.

Exercise 4-9 (LO 4-5)**Requirement 1**

Spielberg Company Bank Reconciliation July 31, 2024			
<u>Bank's Cash Balance</u>		<u>Company's Cash Balance</u>	
Per bank statement	\$ 22,490	Per general ledger	\$ 23,220
Deposits outstanding	+ 1,885	Service fees	– 55
Checks outstanding	<u>– 1,460</u>	NSF check from customer	<u>– 250</u>
Bank balance per reconciliation	<u>\$ 22,915</u>	Company balance per reconciliation	<u>\$ 22,915</u>

Requirement 2

	<u>Debit</u>	<u>Credit</u>
Service Fee Expense	55	
Accounts Receivable	250	
Cash		305
<i>(Record bank service fee and NSF check from customer)</i>		

Exercise 4-10 (LO 4-5)**Requirement 1**

The Dean Acting Academy Bank Reconciliation August 31, 2024			
<u>Bank's Cash Balance</u>		<u>Company's Cash Balance</u>	
Per bank statement	\$ 2,931	Per general ledger	\$ 7,944
Deposits outstanding	+ 3,338	Debit card for postage	- 75
		EFT for rent	-1,500
		Corrected supplies	-100
Bank balance per reconciliation	<u>\$ 6,269</u>	Company balance per reconciliation	<u>\$ 6,269</u>

Requirement 2

	<u>Debit</u>	<u>Credit</u>
Postage Expense	75	
Rent Expense	1,500	
Supplies	100	
Cash		1,675
<i>(Record postage expense and rent expense and correct supplies)</i>		

Exercise 4-11 (LO 4-5)**Requirement 1**

Damon Company Bank Reconciliation October 31, 2024			
<u>Bank's Cash Balance</u>		<u>Company's Cash Balance</u>	
Per bank statement	\$ 11,727	Per general ledger	\$ 8,397
Deposits outstanding	+ 3,025	Note received	+5,000
Checks outstanding	- 1,485	Interest earned	+ 320
Bank Error	+ 300	Service fees	- 150
Bank balance per reconciliation	<u>\$ 13,567</u>	Company balance per reconciliation	<u>\$ 13,567</u>

Requirement 2

	<u>Debit</u>	<u>Credit</u>
Cash	5,320	
Notes Receivable		5,000
Interest Revenue		320
<i>(Record note and interest collected by bank)</i>		
Service Fee Expense	150	
Cash		150
<i>(Record bank service fee)</i>		

Exercise 4-12 (LO 4-6)

<u>September 4</u>	Debit	Credit
Petty Cash	200	
Cash		200
<i>(Establish the petty cash fund)</i>		

<u>September 30</u>	Debit	Credit
Repairs and Maintenance Expense	420	
Postage Expense	575	
Delivery Expense	285	
Accounts Payable		1,280
<i>(Recognize expenditures from credit cards)</i>		

<u>September 30</u>	Debit	Credit
Entertainment Expense	170	
Cash		170
<i>(Recognize expenditures from the petty cash fund)</i>		

Exercise 4-13 (LO 4-6)

<u>April 3</u>	Debit	Credit
Petty Cash	200	
Cash		200
<i>(Establish the petty cash fund)</i>		

<u>April 30</u>	Debit	Credit
Utilities Expense	435	
Repairs and Maintenance Expense	630	
Cash (\$435 + \$630)		1,065
<i>(Recognize expenditures from credit cards)</i>		

<u>April 30</u>	Debit	Credit
Entertainment Expense	44	
Postage Expense	59	
Cash		103
<i>(Recognize expenditures from the petty cash fund)</i>		

Exercise 4-14 (LO 4-7)

Transaction	Cash involved? (yes or no)	If yes, is it operating, investing, or financing?	Inflow or outflow?
a. Borrow cash from the bank.	Yes	Financing	Inflow
b. Purchase supplies on account.	No	N/A	N/A
c. Purchase equipment with cash.	Yes	Investing	Outflow
d. Provide services on account.	No	N/A	N/A
e. Pay cash on account for transaction b above.	Yes	Operating	Outflow
f. Sell for cash a warehouse no longer in use.	Yes	Investing	Inflow
g. Receive cash on account for transaction d above.	Yes	Operating	Inflow
h. Pay cash to workers for salaries.	Yes	Operating	Outflow

Exercise 4-15 (LO 4-7)**Requirements 1 and 2**

Transaction	Cash Flows	Operating, investing, or financing?
a. Issue common stock for cash, \$60,000.	+\$60,000	Financing
b. Purchase building and land with cash, \$45,000.	-\$45,000	Investing
c. Provide services to customers on account, \$8,000.	N/A	N/A
d. Pay utilities on building, \$1,500.	-\$1,500	Operating
e. Collect \$6,000 on account from customers.	+\$6,000	Operating
f. Pay employee salaries, \$10,000.	-\$10,000	Operating
g. Pay dividends to stockholders \$5,000.	-\$5,000	Financing
Net cash flows for the year	+\$4,500	

Requirement 3

December 31, 2024: **\$5,400 + \$4,500 = \$9,900**

Exercise 4-16 (LO 4-7)

a. Cash used for purchase of office supplies	– \$2,400
b. Cash provide from consulting to customers	+ \$50,600
c. Cash used for purchase of mining equipment (Investing)	
d. Cash provided from long-term borrowing (Financing)	
e. Cash used for payment of employee salaries	– \$25,000
f. Cash used for payment of office rent	– \$13,000
g. Cash provided from sale of equipment purchased in c. above (Investing)	
h. Cash used to repay a portion of the long-term borrowing in d. above (Financing)	
i. Cash used to pay office utilities	– \$5,300
j. Purchase of company vehicle (Investing)	<u> </u>
Cash flows from operating activities	<u> </u> <u> </u> + \$4,900

Exercise 4-17 (LO 4-7)

c. Cash used for purchase of mining equipment	– \$83,000
g. Cash provided from sale of equipment purchased in c. above	+ \$23,500
j. Purchase of company vehicle	<u>– \$11,000</u>
Cash flows used in investing activities	<u> </u> <u> </u> – \$70,500

Exercise 4-18 (LO 4-7)

d. Cash provided from long-term borrowing	+ \$70,000
h. Cash used to repay a portion of the long-term borrowing in d. above	<u>– \$45,000</u>
Cash flows from financing activities*	<u> </u> <u> </u> + \$25,000

Exercise 4-19 (LO 4-7)**Requirement 1**

1. Cash collected from customers for services provided	+\$70,000
2. Salaries paid for the year	-\$35,000
3. Advertising paid for the year	-\$10,000
4. Supplies paid for the year	0
5. Utilities paid for the year	-\$11,000
6. Cash collected in advance from customers	+\$2,000
Net operating cash flows	<u>+\$16,000</u>

Requirement 2

1. Service Revenue for the year	+\$80,000
2. Salaries Expense for the year	-\$40,000
3. Advertising Expense for the year	-\$10,000
4. Supplies Expense for the year	-\$4,000
5. Utilities Expense for the year	-\$12,000
6. Cash collected in advance from customers	0
Net income	<u>+\$14,000</u>

Requirement 3

Operating activities include cash transactions involving revenue and expense events during the period. In other words, operating activities include the cash effect of the same activities that are reported in the income statement using accrual accounting to calculate net income.

Exercise 4-20 (LO 4-8)

All other things equal, Glasco likely has the higher ratio of cash to noncash assets.

Based on the trend in operating cash flows, Glasco's operations are more volatile and therefore riskier. Riskier companies are more likely to incur negative economic shocks to their operations. As a result, they tend to hold more cash to make sure they are able to make debt payments as they become due and to maintain normal operations. In addition, Glasco has foreign operations. Companies with foreign operations often keep cash located in other countries to avoid additional taxes in the United States. A company's cash balance can also be affected by factors such as its dividend policy and growth opportunities.

PROBLEMS: SET A

Problem 4-1A (LO 4-4)

Requirement 1

Internal controls include:

- Tickets are serially numbered.
- The person issuing the ticket at the box office is physically separated from the person taking the ticket for admission.
- Half of the ticket is kept so that the number of tickets issued can be matched with the number of tickets received.
- A turnstile is used to automatically count those entering the theatre.
- The ticket stubs are stored in a locked box.

Requirement 2

At the end of each day, the ticket manager can match the money received with the number of tickets issued. In addition, the number of tickets issued can be matched with the number of tickets in the locked box which can also be verified with the count of the turnstile.

Requirement 3 and 4

Classroom discussion.

Problem 4-2A (LO 4-5)**Requirement 1**

Oscar's Red Carpet Store Bank Reconciliation February 28, 2024			
<u>Bank's Cash Balance</u>		<u>Company's Cash Balance</u>	
Per bank statement	\$ 13,145	Per general ledger	\$ 13,200
Deposits outstanding	+ 1,600	NSF check	- 200
Checks outstanding	- 2,100	Company error	- 300
		EFT for rent	-1,100
		Debit card for legal fees	-4,700
		Debit card for entertainment	- 400
		Note collected	+6,000
		Interest on note	+ 270
		Service fees	- 125
Bank balance per reconciliation	<u>\$ 12,645</u>	Company balance per reconciliation	<u>\$ 12,645</u>

Requirement 2

	<u>Debit</u>	<u>Credit</u>
Cash	6,270	
Notes Receivable		6,000
Interest Revenue		270
<i>(Record note and interest collected by bank)</i>		
Accounts Receivable	200	
Advertising Expense	300	
Rent Expense	1,100	
Legal Fees Expense	4,700	
Entertainment Expense	400	
Service Fee Expense	125	
Cash		6,825
<i>(Record NSF check from a customer, recording error to advertising, EFT payment for rent, debit card for legal fees, debit card for entertainment, and bank</i>		

service fee)

Problem 4-3A (LO 4-5)**Requirement 1**

Diaz Entertainment Bank Reconciliation May 31, 2024			
<u>Bank's Cash Balance</u>		<u>Company's Cash Balance</u>	
Per bank statement	\$ 6,210	Per general ledger	\$ 5,100
Deposits outstanding	+3,180	NSF check	- 400
Checks outstanding (#471 and #472)	-4,150	Interest earned	+ 90
Bank error	+ 600	Note collected	+1,100
Bank balance per reconciliation	<u>\$ 5,840</u>	Service fees	- 50
		Company balance per reconciliation	<u>\$ 5,840</u>

Requirement 2

	<u>Debit</u>	<u>Credit</u>
Cash	1,190	
Notes Receivable		1,100
Interest Revenue		90
<i>(Record note collected by bank and interest earned)</i>		
Accounts Receivable	400	
Service Fee Expense	50	
Cash		450
<i>(Record NSF check from a customer and bank service fee)</i>		

Problem 4-4A (LO 4-7)

Pixar Toy Manufacturing		
Statement of Cash Flows		
For the month ended August 31, 2024		
Cash Flows from Operating Activities		
Cash inflows:		
From customers	\$ 93,500	
Cash outflows:		
For salaries	(65,300)	
For office rent	(19,000)	
For office utilities	(11,800)	
For materials to make toys	(27,700)	
Net cash flows from operating activities		\$(30,300)
Cash Flows from Investing Activities		
Sale of unused warehouse	36,000	
Purchase of manufacturing equipment	(46,000)	
Net cash flows from investing activities		(10,000)
Cash Flows from Financing Activities		
Bank borrowing	26,000	
Payment of dividends	(6,700)	
Net cash flows from financing activities		19,300
Net decrease in cash		(21,000)
Cash at the beginning of the month		25,500
Cash at the end of the month		<u>\$ 4,500</u>

Problem 4-5A (LO 4-7)**Requirement 1**

October 2	Debit	Credit
Cash	8,500	
Service Revenue		8,500
<i>(Receive membership dues)</i>		
October 5	Debit	Credit
Cash	12,000	
Common Stock		12,000
<i>(Issue common stock)</i>		
October 9	Debit	Credit
Equipment	9,600	
Cash		4,800
Notes Payable		4,800
<i>(Purchase boxing equipment: one-half paid for with cash on this date and issue a note payable for one-half, due by the end of the year)</i>		
October 12	Debit	Credit
Advertising Expense	1,500	
Cash		1,500
<i>(Pay for current month advertising)</i>		
October 19	Debit	Credit
Dividends	4,400	
Cash		4,400
<i>(Pay dividends)</i>		
October 22	Debit	Credit
Prepaid Insurance	6,900	
Cash		6,900
<i>(Pay prepaid insurance)</i>		

Problem 4-5A (continued)**Requirement 1 (concluded)**

<u>October 25</u>	<u>Debit</u>	<u>Credit</u>
Cash	5,600	
Deferred Revenue		5,600
<i>(Receive membership dues in advance)</i>		
<u>October 30</u>	<u>Debit</u>	<u>Credit</u>
Utilities Expense	5,200	
Utilities Payable		5,200
<i>(Receive current month utilities bill)</i>		
<u>October 31</u>	<u>Debit</u>	<u>Credit</u>
Salaries Expense	7,300	
Cash		7,300
<i>(Pay current month salaries)</i>		

Requirement 2

All transactions involve cash except for the utilities payable transaction on October 30.

Requirement 3

Cash		
	<u> </u>	<u> </u>
Beg. Bal.	16,600	4,800 October 9
October 2	8,500	1,500 October 12
October 5	12,000	4,400 October 19
October 25	5,600	6,900 October 22
		7,300 October 31
	<u>17,800</u>	

Problem 4-5A (continued)**Requirement 4**

Balboa's Gym		
Statement of Cash Flows		
For the month ended October 31		
Cash Flows from Operating Activities		
Cash inflows:		
From customers	\$ 14,100	
Cash outflows:		
For advertising	(1,500)	
For insurance	(6,900)	
For salaries	(7,300)	
Net cash flows from operating activities		\$ (1,600)
Cash Flows from Investing Activities		
Purchase of boxing equipment	(4,800)	
Net cash flows from investing activities		(4,800)
Cash Flows from Financing Activities		
Issuance of common stock	12,000	
Payment of dividends	(4,400)	
Net cash flows from financing activities		7,600
Net increase in cash		1,200
Cash at the beginning of the month		16,600
Cash at the end of the month		<u>\$17,800</u>

Requirement 5

Net cash flows in statement of cash flows = \$1,200

Change in cash balance for the month = \$17,800 (ending) – \$16,600 (beginning)
= \$1,200

PROBLEMS: SET B

Problem 4-1B (LO 4-4, 4-5)

Requirement 1

Howard Productions Bank Reconciliation February 28			
<u>Bank's Cash Balance</u>		<u>Company's Cash Balance</u>	
Per bank statement	\$ 735	Per general ledger	\$19,225
Deposits outstanding	+7,692	NSF check	– 5,278
Checks outstanding	– 489	Service fees	– 159
Bank error	+1,350	Petty cash fund	– 4,500
Bank balance per reconciliation	<u>\$ 9,288</u>	Company balance per reconciliation	<u>\$ 9,288</u>

Requirement 2

The company has a large amount of NSF checks. This indicates that the company's procedures related to acceptance of customers' checks is not reliable. The company should tighten controls over the allowance of payment by check.

Deposits outstanding are relatively high. The company should more frequently deposit cash to avoid theft or loss of cash.

The amount established for the petty cash fund may be too high. Petty cash provides cash on hand for minor purchases. Having too much cash on hand creates the likelihood that a material amount of cash will be mishandled.

Problem 4-2B (LO 4-5)**Requirement 1**

Blockwood Video Bank Reconciliation October 31, 2024			
<i>Bank's Cash Balance</i>		<i>Company's Cash Balance</i>	
Per bank statement	\$ 12,751	Per general ledger	\$ 12,381
Deposits outstanding	+ 835	Company error	+ 27
Checks outstanding	- 1,280	EFT for note	- 560
Bank error	- 577	Service fees	- 34
		NSF check	- 85
Bank balance per reconciliation	<u>\$ 11,729</u>	Company balance per reconciliation	<u>\$ 11,729</u>

Requirement 2

	Debit	Credit
Cash	27	
Utilities Expense <i>(Record correction of recording error)</i>		27
Note Payable	500	
Interest Expense	60	
Service Fee Expense	34	
Accounts Receivable	85	
Cash <i>(Record EFT of note and interest, bank service fee, and NSF check from a customer)</i>		679

Problem 4-3B (LO 4-5)**Requirement 1**

Glover Incorporated Bank Reconciliation July 31, 2024			
<u>Bank's Cash Balance</u>		<u>Company's Cash Balance</u>	
Per bank statement	\$ 3,750	Per general ledger	\$ 5,670
Deposits outstanding	+2,820	Company error	- 400
Checks outstanding (#531 and #532)	-2,400	Interest earned	+ 60
		NSF check	- 500
		Service fees	- 60
		Office supplies	- 600
Bank balance per reconciliation	<u>\$ 4,170</u>	Company balance per reconciliation	<u>\$ 4,170</u>

Requirement 2

	<u>Debit</u>	<u>Credit</u>
Cash	60	
Interest Revenue <i>(Record interest earned on checking account)</i>		60
Equipment	400	
Accounts Receivable	500	
Service Fee Expense	60	
Supplies	600	
Cash <i>(Record correction of recording error, NSF check from a customer, bank service fee, and EFT)</i>		1,560

Problem 4-4B (LO 4-7)

Dreamworks Bedding Supplies
Statement of Cash Flows
For the month ended August 31, 2024

Cash Flows from Operating Activities

Cash inflows:

From customers	\$ 80,400
From interest	300

Cash outflows:

For salaries	(47,100)
For advertising	(5,900)
For office supplies	(3,800)
For bedding material	<u>(13,000)</u>

Net cash flows from operating activities		\$ 10,900
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Cash Flows from Investing Activities

Sale of unused land	15,700
Purchase of delivery truck	<u>(34,500)</u>

Net cash flows from investing activities		(18,800)
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Cash Flows from Financing Activities

Issuance of common stock	30,000
Repayment of borrowing	<u>(9,000)</u>

Net cash flows from financing activities		<u>21,000</u>
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Net increase in cash		13,100
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Cash at the beginning of the month		<u>8,300</u>
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Cash at the end of the month		<u>\$ 21,400</u>
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Problem 4-5B (LO 4-7)**Requirement 1**

<u>June 2</u>	<u>Debit</u>	<u>Credit</u>
Cash	19,000	
Notes Payable <i>(Borrow from the bank)</i>		19,000
<u>June 3</u>	<u>Debit</u>	<u>Credit</u>
Rent Expense	1,200	
Cash <i>(Pay current month rent)</i>		1,200
<u>June 7</u>	<u>Debit</u>	<u>Credit</u>
Cash	5,200	
Accounts Receivable	3,500	
Service Revenue <i>(Provide services for cash and on account)</i>		8,700
<u>June 11</u>	<u>Debit</u>	<u>Credit</u>
Equipment	8,400	
Cash <i>(Purchase equipment)</i>		8,400
<u>June 17</u>	<u>Debit</u>	<u>Credit</u>
Salaries Expense	6,500	
Cash <i>(Pay salaries)</i>		6,500
<u>June 22</u>	<u>Debit</u>	<u>Credit</u>
Dividends	1,550	
Cash <i>(Pay dividends)</i>		1,550

Problem 4-5B (continued)**Requirement 1 (concluded)**

<u>June 25</u>	<u>Debit</u>	<u>Credit</u>
Cash	2,100	
Deferred Revenue <i>(Receive cash in advance)</i>		2,100
<u>June 28</u>	<u>Debit</u>	<u>Credit</u>
Utilities Expense	3,300	
Cash <i>(Pay current month utilities bill)</i>		3,300
<u>June 30</u>	<u>Debit</u>	<u>Credit</u>
Salaries Expense	6,500	
Salaries Payable <i>(Owe current month's salaries)</i>		6,500

Requirement 2

All transactions involve cash except for the salaries payable transaction on June 30.

Requirement 3

Cash		
	<u> </u>	<u> </u>
Beg. Bal.	14,700	1,200
June 2	19,000	8,400
June 7	5,200	6,500
June 25	2,100	1,550
		3,300
	<u>20,050</u>	
		June 3
		June 11
		June 17
		June 22
		June 28

Problem 4-5B (continued)**Requirement 4**

Homeward Bound		
Statement of Cash Flows		
For the month ended June 30		
Cash Flows from Operating Activities		
Cash inflows:		
From customers	\$ 7,300	
Cash outflows:		
For rent	(1,200)	
For salaries	(6,500)	
For utilities	(3,300)	
Net cash flows from operating activities		\$ (3,700)
Cash Flows from Investing Activities		
Purchase equipment	(8,400)	
Net cash flows from investing activities		(8,400)
Cash Flows from Financing Activities		
Borrow from bank	19,000	
Pay dividends	(1,550)	
Net cash flows from financing activities		17,450
Net increase in cash		5,350
Cash at the beginning of the month		14,700
Cash at the end of the month		<u>\$20,050</u>

Requirement 5

Net cash flows in statement of cash flows = \$5,350

Change in cash balance for the month = \$20,050 (ending) – \$14,700 (beginning)
= \$5,350