



INTERNAL CONTROLS AND CASH

Internal Controls

- P Good division of duties (responsibilities)
- P Good employees to perform the duties
- P Good practices to follow in each department
- P Good system of control over assets, liabilities, revenue, and expense

What internal control is NOT.

Undesirable Combinations

P Cash receipts and Accounts Receivable



Illustration 1

Accounts Receivable Subsidiary Ledger

A	B	C	D
100	200	300	400

Illustration 1

Accounts Receivable Subsidiary Ledger

A	B	C	D
100	200	300	400
50			

"A" pays \$100.

Employee pockets \$50 and posts \$50.



Illustration 1

Accounts Receivable Subsidiary Ledger

A	B	C	D
100	200	300	400
50	50		
50			

"B" pays \$100.

Employee posts \$50 and \$50.

Illustration 1

Accounts Receivable Subsidiary Ledger

A		B		C		D	
100	50	200	50	300	50	400	
	50		50				

"C" pays \$100.

Employee posts \$50 and \$50.

Illustration 1

Accounts Receivable Subsidiary Ledger

A	B	C	D
100	200	300	400
50	50	50	
50	50	50	

"D" pays \$100.

Employee posts \$50 and keeps \$50.



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Accounts Receivable Subsidiary Ledger

A	B	C	D
100	200	300	400
50	50	50	
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"D" pays \$100.

Employee posts \$50 and keeps \$50.



Illustration 1

Accounts Receivable Subsidiary Ledger

A		B		C		D	
100	50	200	50	300	50	400	
	50		50		50		

Employee decides **not go on vacation** this year. Boss tells others of employee's "**loyalty and devotion**" to company.

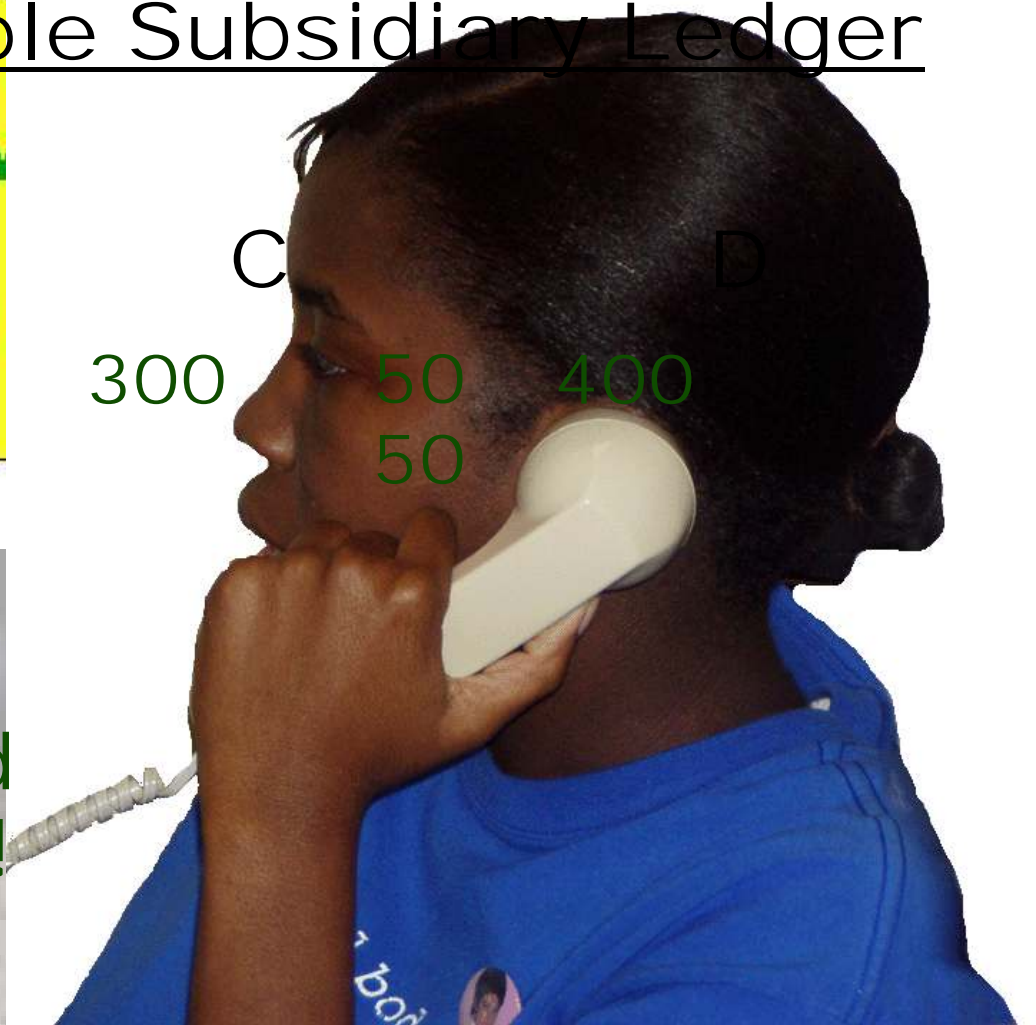
Illustration 1

Accounts Receivable Subsidiary Ledger

	A		B		C		D
100	50	200	50	300	50	400	
	50		50		50		

**"Hey, Mom!
Guess what we
learned in
accounting
today!"**

Student overheard
talking to parents!



What internal control is NOT.

Undesirable Combinations

- P Cash receipts and Accounts Receivable
- P Cash receipts and credit memos

What internal control is NOT.

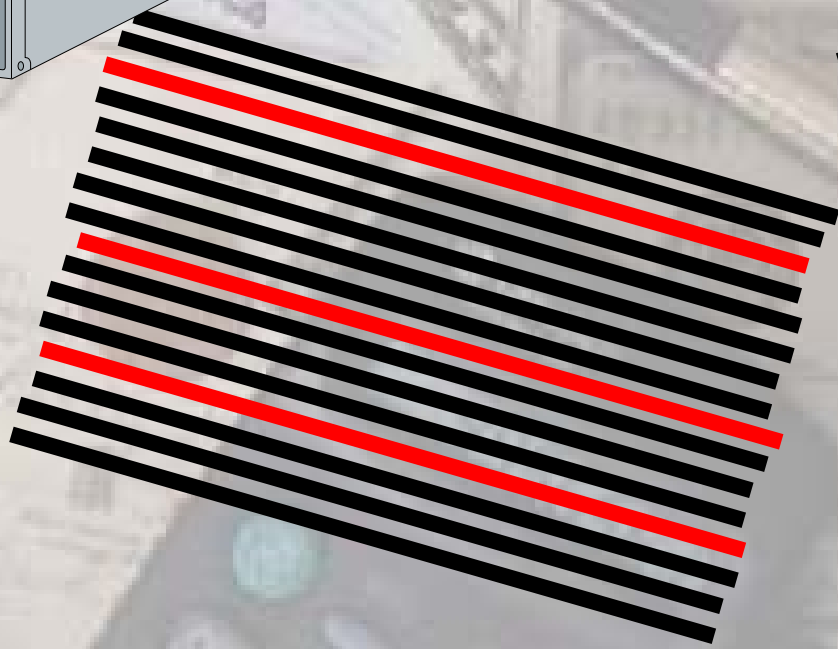
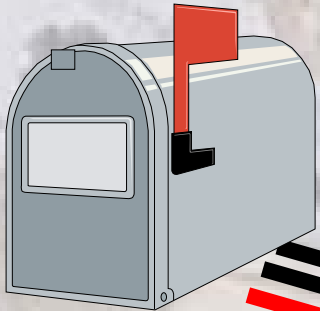
Undesirable Combinations

- P Cash receipts and Accounts Receivable
- P Cash receipts and credit memos
- P Cash disbursements and Accounts Payable

Illustration 2



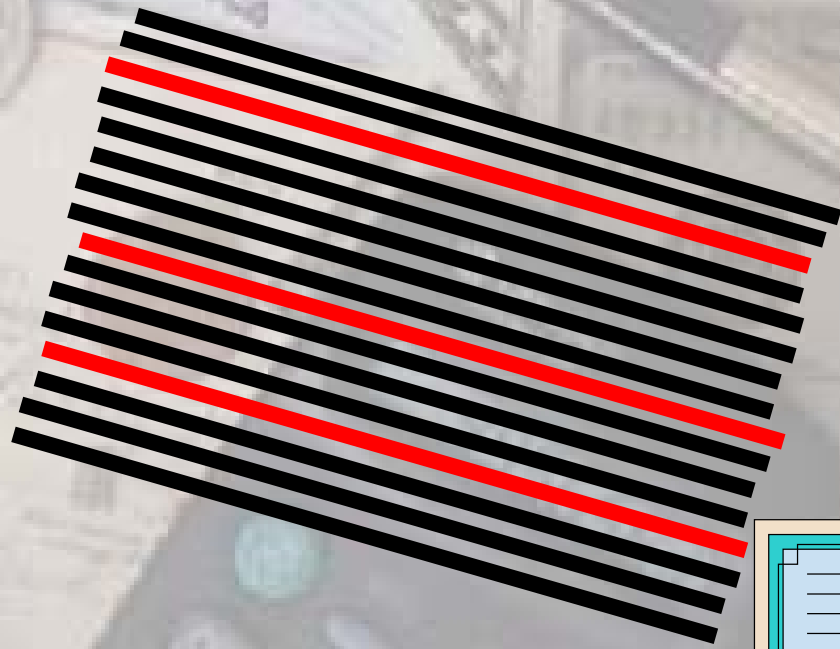
Illustration 2



Utility Bills



Illustration 2

A blue rectangular form with a red pen resting on it. The text "Utility Company" is written in red cursive on the form. The form has several horizontal lines and a small white box on the right side. The pen is red with gold accents and is positioned diagonally across the form.

What internal control is NOT.

Undesirable Combinations

- P Cash receipts and Accounts Receivable
- P Cash receipts and credit memos
- P Cash disbursements and Accounts Payable
- P Cash receipts and bank reconciliation

Illustration 3



Illustration 4



Former Tulsan Pleads Guilty to Bank Fraud

A former Tulsan who now lives in Virginia has pleaded guilty to bank fraud and unauthorized use of a credit card in a case that will cost her \$153,895.91 in restitution.

Linda Carol “Smith”, 37, admitted in her petition to plead guilty that while working as an office manager for Christiansen Aviation in Tulsa she forged endorsements on checks and illegally used a credit card.

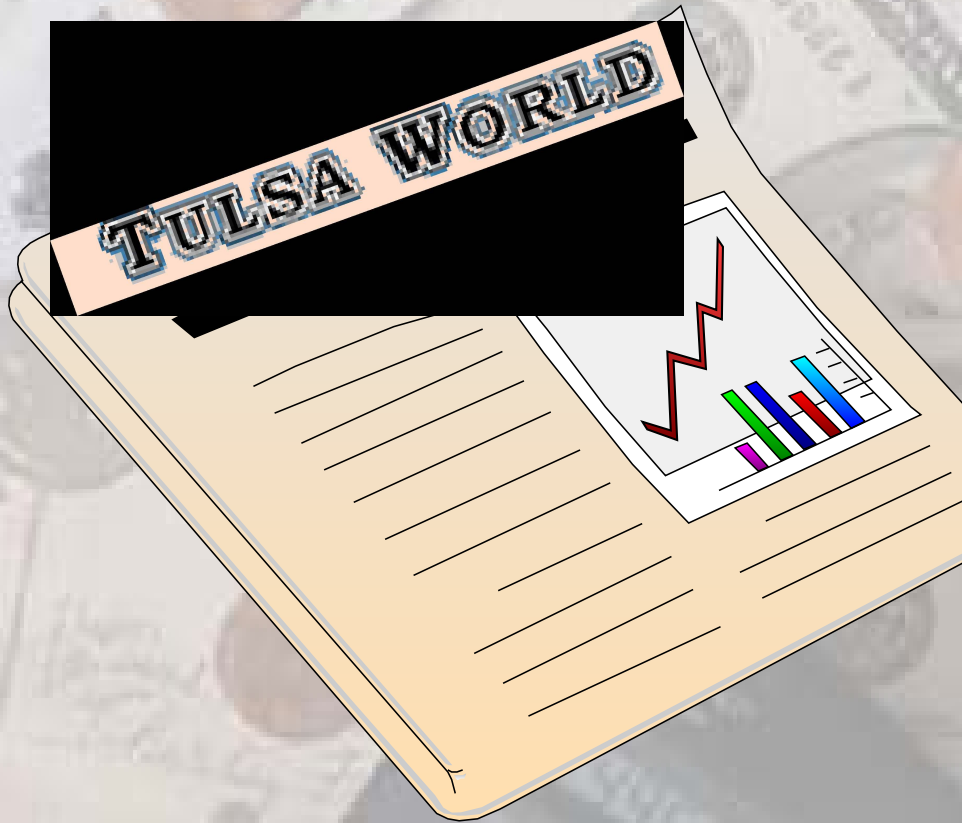
Smith was named in a 109-count indictment that was unsealed on June 3. She pleaded guilty to only two of the counts, but U.S. District Judge Sven Erik Holmes will be able to consider anything he deems relevant conduct when he sentences her on Dec. 11.

According to Smith’s plea agreement, she will owe restitution to Spirit Bank, Liberty Bank, Visa, American Express and Christiansen Aviation.

She claimed in court documents that she was hired by Christiansen Aviation in May 1996 and that within a few months, I noticed a total lack of financial controls . . . I admit that I saw the opportunity to take money, so I did.”

Smith said that she received canceled checks as part of her duties. She admitted that upon receipt of the canceled checks, she would create a new check from one of the canceled checks. She said she would then deposit the new check into one of her bank accounts.

Smith said that about 12 times she issued credits on her credit cards as if she had returned items.



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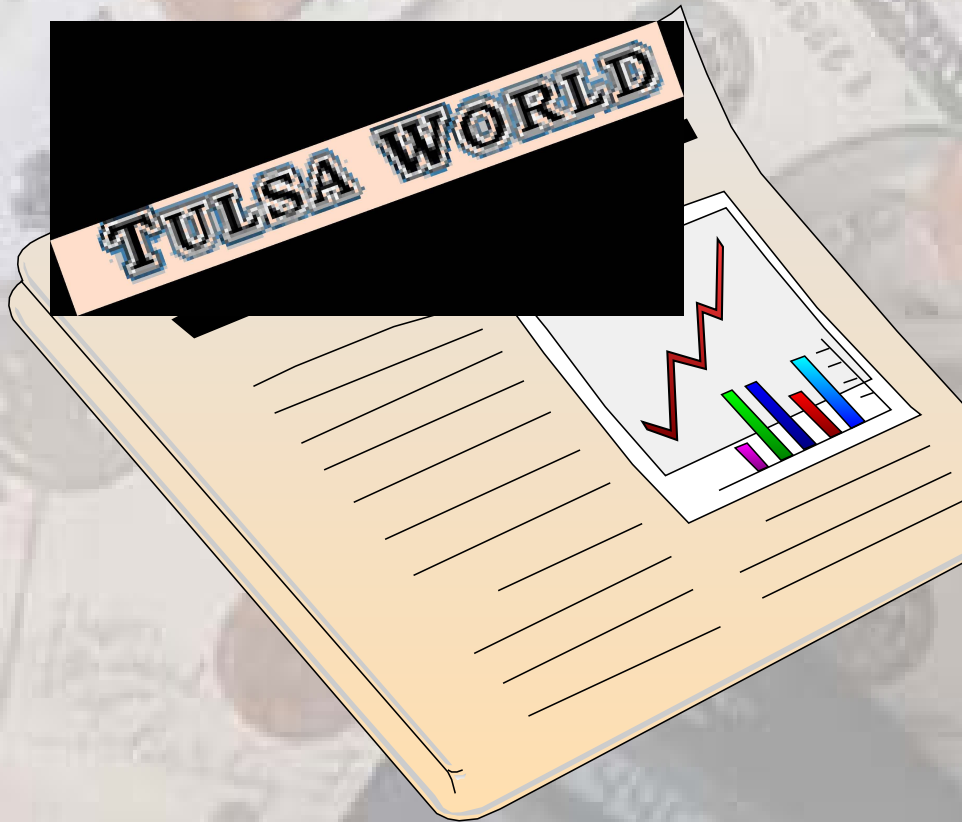
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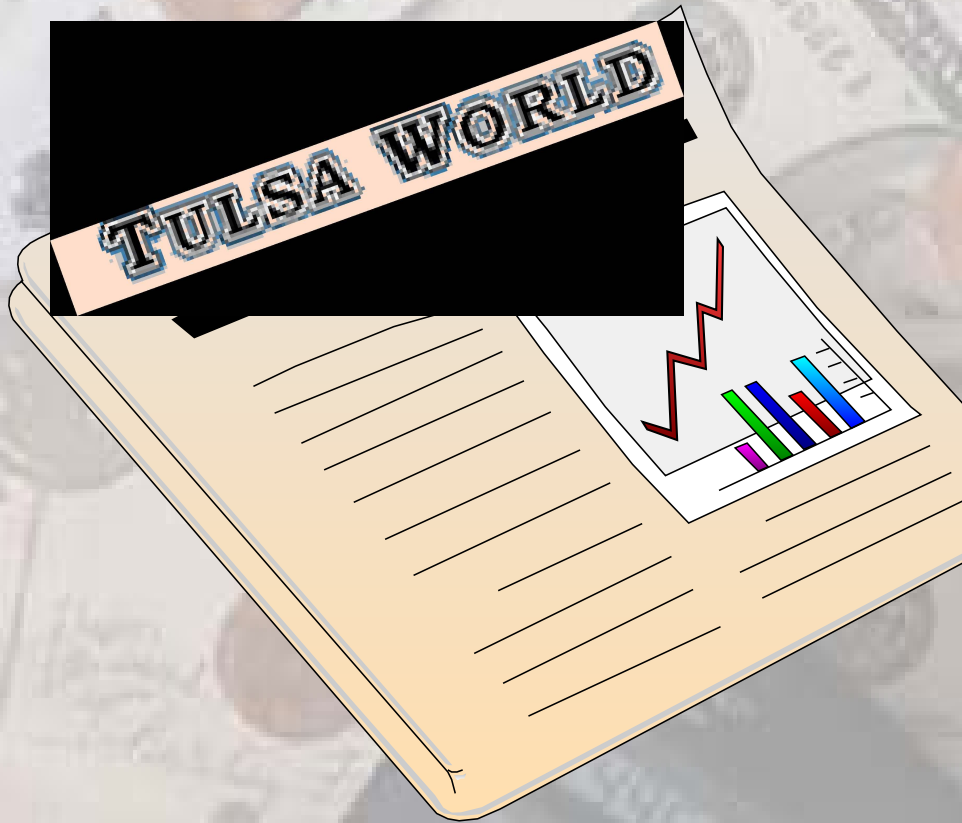
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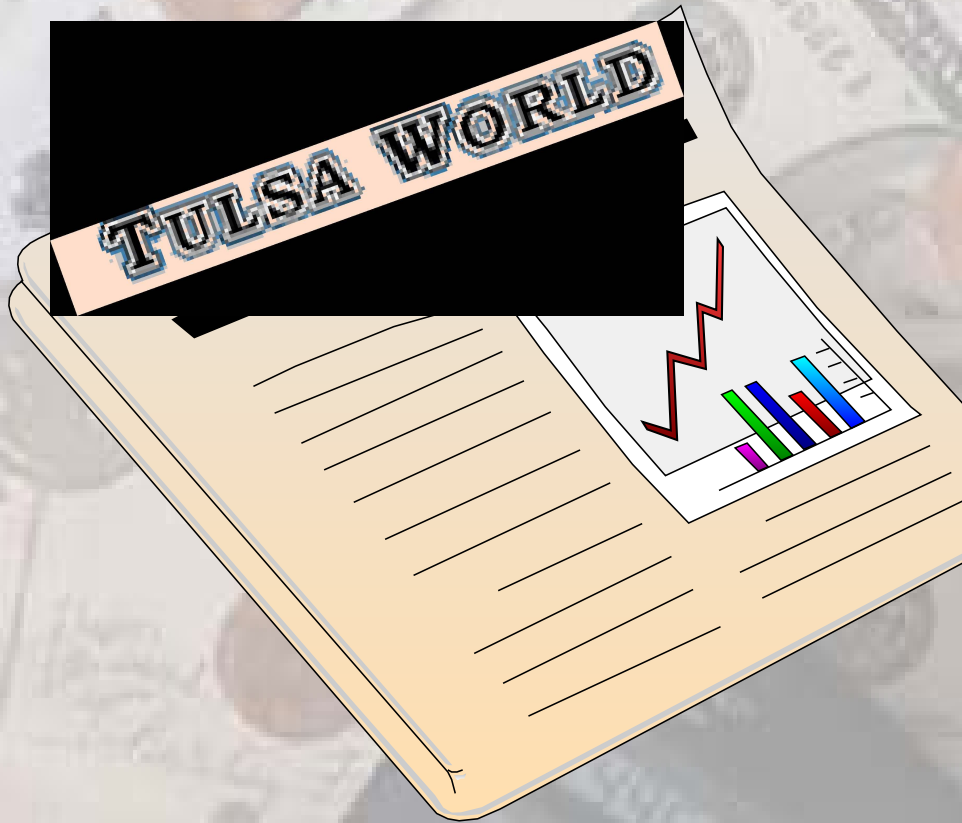
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Internal Control Procedures

- P Double-entry bookkeeping system
- P Subsidiary ledgers / control accounts
- P Cash registers



Fall Break 2002



Fall Break 2002



Fall Break 2002



Internal Control Procedures

- P Double-entry bookkeeping system
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- P Prenumbered sales tickets



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- P Keeping cash in bank account



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- P Subsidiary ledgers / control accounts
- P Cash registers
- P Prenumbered sales tickets
- P Keeping cash in bank account
- P Reconciling bank records and book records



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- P Keeping cash in bank account
- P Reconciling bank records and book records
- P Use of a petty cash fund



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Today

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1st discussion

Point of View Comparison

Our Books

Their Books

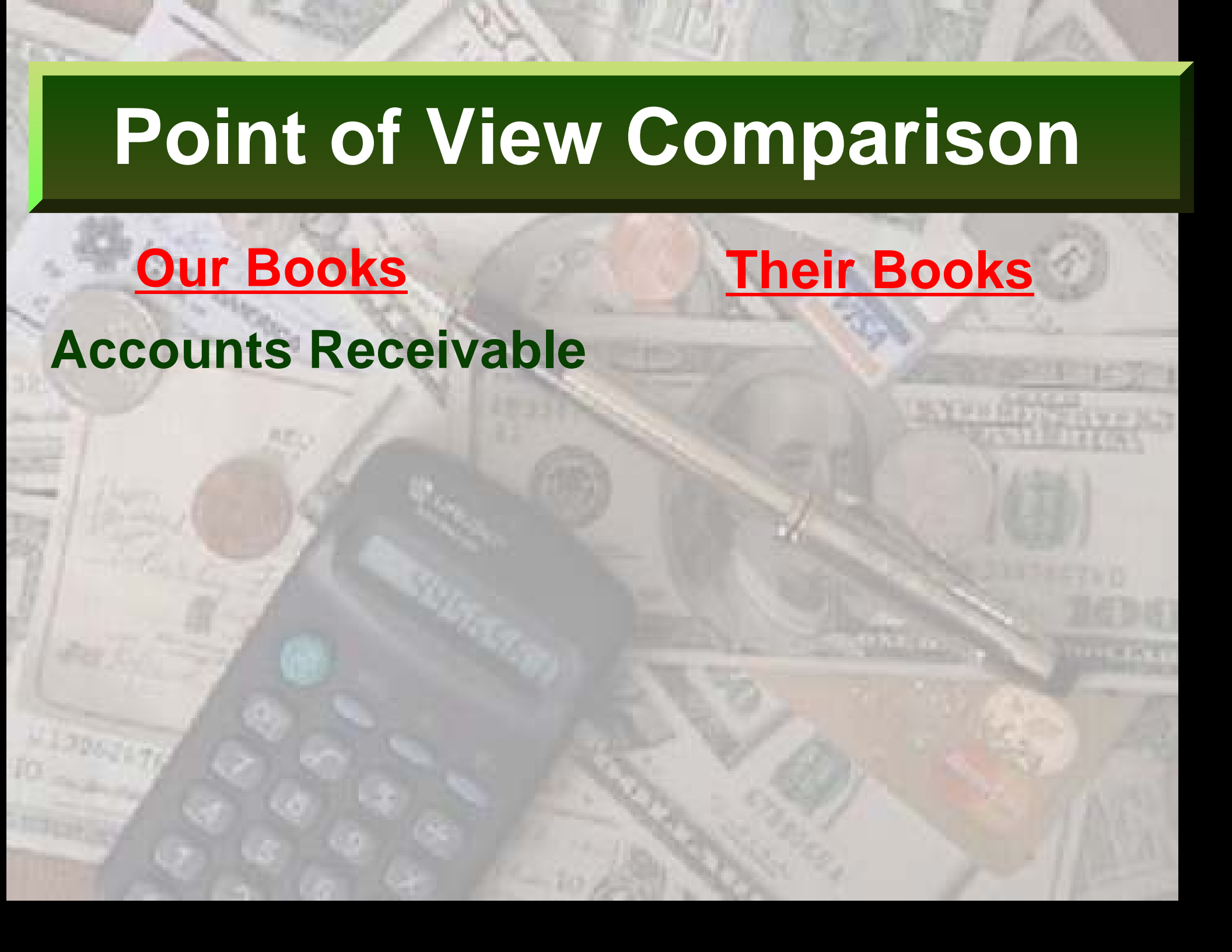


Point of View Comparison

Our Books

Their Books

Accounts Receivable



Point of View Comparison

Our Books

Accounts Receivable

Their Books

Accounts Payable

Point of View Comparison

Our Books

Accounts Receivable

Credit Memo

Their Books

Accounts Payable

Point of View Comparison

Our Books

Accounts Receivable

Credit Memo

Their Books

Accounts Payable

Debit Memo

Point of View Comparison

Our Books

Accounts Receivable

Credit Memo

Interest Expense

Their Books

Accounts Payable

Debit Memo

Point of View Comparison

Our Books

Accounts Receivable

Credit Memo

Interest Expense

Their Books

Accounts Payable

Debit Memo

Interest Revenue

Point of View Comparison

Our Books

Accounts Receivable

Credit Memo

Interest Expense

Cash in Bank

Their Books

Accounts Payable

Debit Memo

Interest Revenue

Point of View Comparison

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Credit Memo

Interest Expense

Cash in Bank

Their Books

Accounts Payable

Debit Memo

Interest Revenue

???

Point of View Comparison

Our Books

Accounts Receivable

Credit Memo

Interest Expense

Cash in Bank

ASSET - DEBIT

Their Books

Accounts Payable

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Interest Revenue

???

Point of View Comparison

Our Books

Accounts Receivable

Credit Memo

Interest Expense

Cash in Bank

ASSET - DEBIT

Their Books

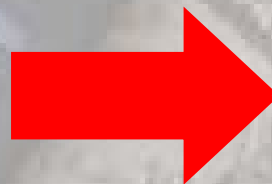
Accounts Payable

Debit Memo

Interest Revenue

???

LIABILITY - CREDIT



Ending Balances will agree if no . . .

P Time lags

P Errors

(on either set of records)



BANK RECONCILIATIONS



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EOM Bank Balance \neq EOM Book Balance

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EOM Bank Balance \neq **EOM Book Balance**

BANK RECONCILIATIONS

EOM Bank Balance \neq EOM Book Balance

+ deposits in transit

BANK RECONCILIATIONS

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**+ additions by bank
not on books ***

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not on books ***

**- deductions by bank
not deducted ***

= ADJUSTED BALANCE

*** require a journal entry
on OUR company's
books**

Format for Journal Entries

P One entry for **EACH** change.

P

P One entry for **ALL** changes.

Format for Journal Entries

- P One entry for **EACH** change.
- P One entry for **INCREASES**;
one entry for **DECREASES**.
- P One entry for **ALL** changes.

BANK RECONCILIATIONS

EOM Bank Balance \neq EOM Book Balance

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