PRINCIPLES OF ACCOUNTING EXAMINATION BSA 201-2
Chapters 7 & 8
November 6, 2008
Name_____________________

I. Please answer the following statements as either True or False.

  1. Accurate source documents are crucial to accounting systems to limit the possibility of entering faulty data into the system.

  2. Under the perpetual inventory system, special journals are not required.

  3. Each transaction in the sales journal yields a debit to Accounts Receivable and a credit to Sales.

  4. Two common subsidiary ledgers are cash disbursements and cash receipts.

  5. The purchases journal is used to record cash purchases of merchandise inventory.

  6. Input devices are the means to make accounting information available to users.

  7. Technology such as cash registers, check protectors, time clocks and personal identification scanners can improve internal control.

  8. On a bank statement, deposits are listed as debits because the bank increases its cash account when the deposit is made.

  9. A check involves three parties; the maker who signs the check, the payee who is the recipient, and the bank on which the check is drawn.

  10. Two important limitations of internal control are 1) human error or human fraud and 2) the compatibility principle.

  11. If the Cash Over and Short account has a debit balance at the end of the period, the account is reported as miscellaneous revenue.

  12. Deposits in transit are deposits made and recorded by the depositor but not yet recorded on the bank statement.

II. Complete the following sentences with the proper word(s).

  1. A/an __________________________ is used to record and post transactions of a similar type.

  2. Explain the cost-benefit principle. __________________________
3. Why should a Schedule of Accounts Receivable be prepared at the end of every month?

4. If you found 'CR 3' in the Post Reference column of the Cash account in the General Ledger, what would that signify?

5. Explain the term *collusion*?

6. Describe the purpose of the voucher system in a business.

7. Why is it important that business documents be issued in numerical sequence?

8. List the two usual reasons for establishing a Petty Cash Fund.

9. Why aren't individual department managers allowed to order goods for their departments directly from suppliers?

10. Provide two of the fraud stories we discussed in class.
III. Select the best answer to each statement.

__ 1. A subsidiary ledger that contains a separate account for each supplier to the company is a(n):
   a. controlling account
   b. accounts receivable ledger
   c. accounts payable ledger
   d. general ledger
   e. special journal

__ 2. Assume that a company using a purchases journal made an error in totaling the journal’s columns. The error should be discovered:
   a. when the purchases journal is posted to the general ledger
   b. when the trial balance is prepared
   c. when the total of the schedule of accounts payable is compared with the balance of the Accounts Payable account
   d. when the creditors received their payments
   e. when the financial statements are prepared

__ 3. Accounting information systems:
   a. collect and process data from transactions and events
   b. organize data in useful forms
   c. communicate information to business decision makers
   d. are crucial to effective decision making
   e. all of the above

__ 4. When the sales journal’s column for accounts receivable and sales is totaled at the end of the month, its total is:
   a. debited to Sales and credited to Accounts Receivable
   b. debited to Accounts Receivable and credited to Cash
   c. debited to Cash and credited to Accounts Receivable
   d. debited to Accounts Receivable and credited to Sales
   e. debited to Cash and credited to Sales

__ 5. The principles of internal control include:
   a. maintain minimal records
   b. use only computerized systems
   c. establish responsibilities
   d. bond all employees
   e. require automated sales systems

__ 6. When two clerks share the same cash register, it is a violation of which internal control principle?
   a. establish responsibilities
   b. maintain adequate records
c. insure assets
d. bond key employees
e. apply technological controls

7. An income statement account that is used to record cash overages and cash shortages arising from omitted petty cash receipts and from errors in making change is titled the
a. Cash Lost Account
b. Bank Reconciliation Account
c. Petty Cash Account
d. Cash Over and Short Account
e. Cash Receivable Account

8. When a petty cash fund is in use:
a. Expenses paid with petty cash are recorded when the fund is replenished
b. Petty Cash is debited when funds are replenished
c. Petty Cash is credited when funds are replenished
d. Expenses are not recorded
e. Cash is debited when funds are replenished

9. An analysis that explains any difference between the checking account balance according to the depositor’s records and the balance reported on the bank statement is a(n):
a. internal audit
b. bank reconciliation
c. bank audit
d. trial reconciliation
e. analysis of debits and credits

10. The internal document that is prepared to notify the appropriate persons that ordered goods have been received and describes the quantities and condition of the goods is the:
a. purchase requisition
b. purchase order
c. invoice
d. receiving report
e. invoice approval

IV. Essay
1. Explain how the voucher system works in a company.
2. Why should the individual who has custody of cash receipts never be the individual to record the cash received in the Cash Receipts Journal? Be specific.

V. Petty Cash Problem
Montana Outfitters, Inc. established a petty cash fund of $200 on September 1, 2008. On September 30 the petty cash fund was replenished when there was $20 remaining in the fund. There were petty cash receipts for office supplies, $75; COD charges on inventory purchased, $45; postage, $38; mileage, $15. On September 30 the petty cash fund was increased to $250.

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Titles and Explanation</th>
<th>P.R.</th>
<th>Debit</th>
<th>Credit</th>
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VI. Special Journals
Yellowstone Mercantile uses four special journals found on the next page. The following transactions were incurred during October, 2008:

Oct 3 Sold merchandise on credit for $3,700 to MAC Co., Invoice 415. The cost of the goods sold is $2,900.
8 Purchased merchandise on credit for $2,300 from the Badlands Co., terms 2/10, n30.
11 Sold merchandise for $700 cash to Big Horn Co. The cost of the goods sold is $400.
14 Collected $3,700 cash from the MAC Co. for merchandise sold on Oct 3.
17 Paid amount owed to Badlands Co., Check No. 3011.
25 Sold merchandise on credit for $2,100 to Missouri Co, Invoice 416. The cost of goods sold is $1000. Terms 1/10, n30
27 Paid $600 cash for monthly rent to Poly Properties, Check No. 3012
31 Purchased equipment for $4,290 from Big Sky, Inc, Check No 3013
31 Received payment from Missouri Co. for sale of October 25
VI. Continued

Record these transactions in the appropriate special journals below.

### Sales Journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Debit</th>
<th>Invoice Number</th>
<th>PR</th>
<th>Accounts Receivable Dr.</th>
<th>Cost of Goods Sold Dr.</th>
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### Purchases Journal

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<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Date of Invoice</th>
<th>Terms</th>
<th>PR</th>
<th>Accounts Payable Cr.</th>
<th>Inventory Dr.</th>
<th>Office Supplies Dr.</th>
<th>Other Accounts Dr.</th>
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### Cash Receipts Journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Credited</th>
<th>Explanation</th>
<th>PR</th>
<th>Cash Dr.</th>
<th>Sales Discount Dr.</th>
<th>Sales Receivable Cr.</th>
<th>Sales Cr.</th>
<th>Other Accounts Cr.</th>
<th>Cost of Goods Sold Dr.</th>
<th>Inventory Cr.</th>
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### Cash Disbursements Journal

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<tr>
<th>Date</th>
<th>Ck. No.</th>
<th>Payee</th>
<th>Account Debited</th>
<th>PR</th>
<th>Cash Cr.</th>
<th>Inventory Cr.</th>
<th>Other Accounts Dr.</th>
<th>Accounts Payable Dr.</th>
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VII. The following information is available for the Custer Company for the month of November, 2008. Prepare the November bank reconciliation and related journal entries on November 30, 2008.

a. On November 30, after all the transactions have been recorded, the balance in the company’s Cash account is $3,620.

b. The company’s bank statement shows a balance on November 30 of $3,740.

c. A debit memo included with the bank statement shows a $105 NSF from customer, Fil Fraud.

d. A credit memo included with the bank statement indicates that the bank collected $800 on a note receivable for Custer Company. The bank deducted a $30 collection fee and credited the remainder of $770 to their bank account.

e. A deposit placed in the night depository on November 30 totaled $1,025 and did not appear on the bank statement.

f. Outstanding checks at November 30 include check #3004 in the amount of $185 and check #3010 in the amount of $340.

g. Included with the bank statement was another debit memorandum in the amount of $18 for bank service charges.

h. Examination of the checks on the bank statement with the entries in the accounting records reveals that check #3002 for the payment of Repairs Expense was correctly written for $130 but was recorded in the accounting records at $103.