



Dutchess Community College
ACC 104 – Financial Accounting
Chapter 7 Quiz Prep
Internal Control & Cash

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March 2007

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Disclaimer

This *Quiz Prep* is provided as an outline of the key concepts from the chapter.

It is not intended to be comprehensive or exhaustive.

Quizzes may include material from the classroom lectures, the text or the homework assignments.

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Internal Control

Internal Controls are the policies and procedures within a company with the goal of

- Safeguarding the Assets
- Enhancing the Accuracy & Reliability of the Accounting Records

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Sarbanes-Oxley Act of 2002 (SOX)

The Chief Executive Officer (CEO)
and the Chief Financial Officer (CFO)
are personally responsible for

- the reasonableness of the financial statements
- and the maintenance of sufficient internal controls to insure that the statements can be relied upon.

They may be subject to jail time if the statements prove to be inaccurate.

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Sarbanes-Oxley Act of 2002 (SOX)

The internal controls must be assessed by independent external auditors.

The Board of Directors Audit Committee must consist of independent directors (i.e., not employees of the company) and at least one of them must be familiar with accounting.

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Principals of Internal Control

1. Establish Responsibility
2. Segregation of Duties
3. Documentation Procedures
4. Physical, mechanical and electronic controls
5. Independent Internal Verification
6. Other Controls

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One person must be responsible for a task.

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Related activities (e.g., writing checks and reconciling the bank statements must be assigned to different people.

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Principals of Internal Control

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2. Segregation of Duties
3. Documentation Procedures
4. Physical, mechanical and electronic controls
5. Independent Internal Verification
6. Other Controls

Require a paper-trail using pre-numbered documents

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Principals of Internal Control

1. Establish Responsibility
2. Segregation of Duties
3. Documentation Procedures
4. Physical, mechanical and electronic controls
5. Independent Internal Verification
6. Other Controls

Locks, Safes, Alarms, etc.

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Principals of Internal Control

1. Establish Responsibility
2. Segregation of Duties
3. Documentation Procedures
4. Physical, mechanical and electronic controls
5. Independent Internal Verification
6. Other Controls

*Trust everyone,
but always cut
the cards*

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Principals of Internal Control

1. Establish Responsibility
2. Segregation of Duties
3. Documentation Procedures
4. Physical, mechanical and electronic controls
5. Independent Internal Verification
6. Other Controls

Bonding,
Rotate Duties,
Background
checks

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Cash Equivalents

Cash Equivalents are:

- **Highly liquid investments:**
readily convertible to known amounts of cash
- **Short Term:**
So near to their maturity that their market value is relatively insensitive to changes interest rates

Examples:

- Treasury Bills (T-Bills)
- Commercial Paper
- Money Market Funds

Note that Stocks are not Cash Equivalents due to their uncertain cash value

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Bank Reconciliation

Balance Per Books		Balance Per Bank
+ Collection of notes by bank		+ Deposits in Transit
- NSF (Not Sufficient Funds)		- Outstanding Checks
- Bank Fees		
+/- Booking Errors		+/- Bank Errors
= Adjusted Balance Per Books	=	= Adjusted Balance Per Bank

These must Balance

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Cash Management

1. Increase the speed of receivable collection
2. Keep Inventory levels low
3. Delay Payment of Liabilities
4. Plan the timing of major expenditures
5. Invest Idle Cash