Regional Medical Centers (RMC) hired a new physician, Fred Clark, who was ... success. Everyone loved his bedside manner; he could charm the most cantankerous patient. Indeed, he was a master salesman as well as an expert physician. Unfortunately, Clark misdiagnosed a case that resulted in serious consequences to the patient. The patient filed suit against RMC. In preparation for the defense, RMC's attorneys discovered that Clark was indeed an exceptional salesman. He had worked for several years as district marketing manager for a pharmaceutical company. In fact, he was not a physician at all! He had changed professions without going to medical school. He had lied on his application form. His knowledge of medical terminology had enabled him to fool everyone. RMC was found negligent and lost a $3 million lawsuit.

Required

Identify the relevant internal control procedures that could have prevented the company's losses. Explain how these procedures would have prevented Clark's deception.

LO 6-2

Exercise 6-5A *Internal control for cash*

Required

a. Why are special controls needed for cash?
b. What is included in the definition of *cash*?

LO 6-1, 6-2

Exercise 6-6A *Internal controls for small businesses*

Required

Assume you are the owner of a small business that has only two employees.

a. Which of the internal control procedures are most important to you?
b. How can you overcome the limited opportunity to use the segregation-of-duties control procedure?

LO 6-4

Exercise 6-7A *Treatment of NSF check*

Han's Supplies' bank statement contained a $270 NSF check that one of its customers had written to pay for supplies purchased.

Required

a. Show the effects of recognizing the NSF check on the financial statements by recording the appropriate amounts in a horizontal statements model like the following one:

Assets			=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow
Cash	+	Accts. Rec.										

b. Is the recognition of the NSF check on Han's books an asset source, use, or exchange transaction?
c. Suppose the customer redeems the check by giving Han $290 cash in exchange for the bad check. The additional $20 paid a service fee charged by Han. Show the effects on the financial statements in the horizontal statements model in Requirement *a*.
d. Is the receipt of cash referenced in Requirement *c* an asset source, use, or exchange transaction?
e. Record in general journal form the adjusting entry for the NSF check and the entry for redemption of the check by the customer.

Reconciling ...

Credit memo
Interest revenue
Deposits in transit
Debit memo
Service charge
Charge for printing checks
NSF check from customer
Note receivable collected by the bank
Outstanding checks

Exercise 6-9A *Adjustments to the balance per bank*

Required

Identify which of the following items are added to or subtract... balance to arrive at the true cash balance. Distinguish the addit... placing a + beside the items that are added to the unadjusted bank... that are subtracted from it. The first item is recorded as an examp...

Reconciling Items	Ba...
Bank service charge	
Outstanding checks	
Deposits in transit	
Debit memo	
Credit memo	
Certified checks	
Petty cash voucher	
NSF check from customer	
Interest revenue	

Exercise 6-10A *Adjusting the cash account*

As of June 30, 2016, the bank statement showed an ending bala... Cash account balance was $15,200. The following information is...

1. Deposit in transit, $2,400.
2. Credit memo in bank statement for interest earned in June, $...
3. Outstanding check, $6,690.
4. Debit memo for service charge, $20.

Required

a. Determine the true cash balance by preparing a bank rec... using the preceding information.
b. Record in general journal format the adjusting entries nec... book balance.

Credit memo	Yes	+
Interest revenue		
Deposits in transit		
Debit memo		
Service charge		
Charge for printing checks		
NSF check from customer		
Note receivable collected by the bank		
Outstanding checks		

Exercise 6-9A *Adjustments to the balance per bank* LO 6-3

Required

Identify which of the following items are added to or subtracted from the unadjusted *bank balance* to arrive at the true cash balance. Distinguish the additions from the subtractions by placing a + beside the items that are added to the unadjusted bank balance and a − beside those that are subtracted from it. The first item is recorded as an example.

Reconciling Items	Bank Balance Adjusted?	Added or Subtracted?
Bank service charge	No	NA
Outstanding checks		
Deposits in transit		
Debit memo		
Credit memo		
Certified checks		
Petty cash voucher		
NSF check from customer		
Interest revenue		

Exercise 6-10A *Adjusting the cash account* LO 6-3

As of June 30, 2016, the bank statement showed an ending balance of $19,500. The unadjusted Cash account balance was $15,200. The following information is available:

1. Deposit in transit, $2,400.
2. Credit memo in bank statement for interest earned in June, $30.
3. Outstanding check, $6,690.
4. Debit memo for service charge, $20.

Required

a. Determine the true cash balance by preparing a bank reconciliation as of June 30, 2016, using the preceding information.
b. Record in general journal format the adjusting entries necessary to correct the unadjusted book balance.

LO 6-3

Exercise 6-11A *Determining the true cash balance, starting with the unadjusted bank balance*

The following information is available for Trinkle Company for the month of June:

1. The unadjusted balance per the bank statement on June 30 was $81,500.
2. Deposits in transit on June 30 were $3,150.
3. A debit memo was included with the bank statement for a service charge of $40.
4. A $5,611 check written in June had not been paid by the bank.
5. The bank statement included a $950 credit memo for the collection of a note. The principal of the note was $900, and the interest collected amounted to $50.

Required

Determine the true cash balance as of June 30. (*Hint:* It is not necessary to use all of the preceding items to determine the true balance.)

LO 6-3

Exercise 6-12A *Determining the true cash balance, starting with the unadjusted book balance*

Nickleson Company had an unadjusted cash balance of $7,750 as of May 31. The company's bank statement, also dated May 31, included a $72 NSF check written by one of Nickleson's customers. There were $800 in outstanding checks and $950 in deposits in transit as of May 31. According to the bank statement, service charges were $50, and the bank collected a $800 note receivable for Nickleson. The bank statement also showed $13 of interest revenue earned by Nickleson.

Required

Determine the true cash balance as of May 31. (*Hint:* It is not necessary to use all of the preceding items to determine the true balance.)

LO 6-4

Exercise 6-13A *Effect of establishing a petty cash fund*

Chen Company established a $200 petty cash fund on January 1, 2016.

Required

a. Is the establishment of the petty cash fund an asset source, use, or exchange transaction?
b. Record the establishment of the petty cash fund in a horizontal statements model like the following one:

Assets			=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow
Cash	+	Petty Cash										

c. Record the establishment of the fund in general journal format.

LO 6-4

Exercise 6-14A *Effect of petty cash events on the financial statements*

Fresh Foods established a petty cash fund of $100 on January 2. On January 31, the fund con