1. Which of the following is not an objective of control systems?

1. Prevention
2. Detection
3. Protection
4. Correction

Ans: c. Control systems have 3 basic goals: Prevention, Detection, and Correction

2. Which of the following are not mechanisms of control systems?

1. Separation of duties
2. Monitoring
3. Limited Access
4. Appraisal

Ans: d. The 4 mechanisms are separation of duty, monitoring, limited access, and approval

3. Which of the following is not a limitation of control systems?

1. Collusion
2. Subversion
3. Fatigue
4. Negligence

Ans: b. Limitations of control systems are collusion, fatigue and negligence

4. Fraud can occur so long as there is Opportunity and Motivation for it. True or False?

 Ans: False. For fraud to occur, there must exist opportunity, rationalization and motivation

5. You recorded a deposit of $500 and paid $100 to Costa by cheque, but the bank statement does not reflect these transactions. Cash reconciliation would require:

1. Bank side: +500 -100
2. Bank side: -500 +100
3. Book side: +500 -100
4. Book side: -500 -100

Ans: a. The bank has yet to process these transactions.

6. The bank recorded an EFT receipt of dividends for $10, a bank collection for accounts receivable of $100, an NSF cheque of $50, all of which you have not yet recorded. Cash reconciliation would require:

1. Bank side: +10 +100 -50
2. Bank side: -10 -100 +50
3. Book side: +10 +100 -50
4. Book side: -10 -100 +50

Ans: c. Dividends and bank collections are in-flows while NSF checks are out-flows, both of which have yet to be recorded on the book side

7. A company’s accounts receivable can be calculated by adding Net accounts receivable to the allowance for uncollectible accounts. True or False?

 Ans: True. Net accounts receivable is simply accounts receivable less allowance for uncollectible accounts.

8. Costa estimates that 1%, 15% and 20% of receivables that are 1-30 days, 31-60 days, and over 60 days outstanding, respectively, will be uncollectible. SOE owes Costa $300 that is 32 days outstanding. Estimate Costa’s allowance for uncollectible accounts.

1. $3
2. $15
3. $45
4. $60

Ans: c. 15% x $300 = $45

9. Calculate Allowance for uncollectible accounts

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 1-30 | 31-60 | 61-90 | Over 90 |
| Receivable | 1000 | 300 | 600 | 400 |
| Percentage Uncollectible | 1% | 5% | 15% | 20% |

1. $243.5
2. $200
3. $143.5
4. $195

Ans: d. Sum up the products of receivables and percentage uncollectible

10. Costa just calculated that $10,000 of its receivables will be uncollectible. The allowance for uncollectible accounts last year was $7,000. The journal entry to correct the amount should be:

|  |  |
| --- | --- |
| Bad debt expense | ? |
| Allowance for uncollectible accounts | ? |

1. 10,000; 10,000
2. 7,000; 7,000
3. 3,000; 3,000
4. 3,000; 7,000

Ans: c. You want the final value of the allowance for uncollectible accounts to be $10,000

11. Costa’s estimation of allowance for uncollectible accounts went down from $5,400 to $4,500. Complete the relevant journal entry.

|  |  |
| --- | --- |
| Allowance for uncollectible accounts | ? |
| Gain on re-estimation of uncollectible accounts | ? |

1. $5,400
2. $900
3. $4,500
4. $9,900

Ans: b. Allowance should be reduced from $5,400 to $4,500, and $5,400 - $4,500 = $900

12. Starbucks, which had $,1000 dollars of debt to Costa, goes bankrupt. Complete the journal entry to write-off the receivables from Starbucks.

|  |  |
| --- | --- |
|  ?  | 1000 |
| ? | 1000 |

1. Accounts payable, accounts receivable
2. Allowance for uncollectible accounts, accounts receivable
3. Bad debt expense, accounts receivable
4. Miscellaneous Expense, accounts receivable

Ans: b. All of the receivables from Starbucks are expected to be uncollectible