1. What are the documents used to control a bank account?
2. Cheque
3. Bank Statement
4. Bank Reconciliation
5. (a) and (b)
6. All of the above

Answer: E
Explanation: The bank reconciliation explains all differences between your cash records and your bank balance. The person who prepares the bank reconciliation should have no other cash duties. Otherwise, he or she can steal cash and manipulate the reconciliation to conceal the theft. Hence this is a form of control procedure.

1. The books and the bank statement usually show different cash balances due to a difference in manpower inefficiency.

True/False?

Answer: False
Explanation: It is due to a time lag in recording transactions.

1. What is the adjusted bank balance?

The bank statement balance is $4,500 and shows a service charge of ${X}, interest earned of ${Y}, and an NSF cheque for ${Z}. Deposits in transit total $1,200; outstanding cheques are ${R}. The bookkeeper recorded a cheque of $125 in payment of an account payable as $152; this created a book error of $27 (positive amount to correct the error).

X=(10,20,5), Y=(5,15,5), Z=(200,300,5), R=(500,650,5)

Answer: $5,125 (4,500 + 1,200- R).

Bank cash + deposits in transit – outstanding checks

1. What was the book balance of cash before the reconciliation?

The bank statement balance is $4,500 and shows a service charge of ${X}, interest earned of ${Y}, and an NSF cheque for ${Z}. Deposits in transit total $1,200; outstanding cheques are ${R}. The bookkeeper recorded a cheque of $125 in payment of an account payable as $152; this created a book error of $27 (positive amount to correct the error).

X=(10,20,5), Y=(5,15,5), Z=(200,300,5), R=(500,650,5)

Answer: $5,408 ($5,125 + $15 - $5 + $300 - $27). The adjusted book and bank balances are the same. The answer can be determined by working backward from the adjusted balance.

1. BAE Company uses the aging method in setting its allowance for doubtful receiv- ables. Allowance for doubtful accounts prior to adjustment has a credit balance of $2,000. Management estimates that due to the economic crisis, a higher level of allowance is necessary and decides that a $5,900 allowance is an appropriate amount at the year-end. The amount of expense to report on the income statement will be:
2. $3,900.
3. $1,000.
4. $5,200.
5. $5,900.

Answer: A
Explanation: ($5,900 - $2,000 = $3,900) An adjustment should be made by debiting bad debt expense $3,900 and crediting allowance for uncollectible account to reflect a net balance of $5,900 at the end of the period.

1. If a bookkeeper mistakenly recorded a $35 deposit as $53, the error would be shown on the bank reconciliation as a:
2. $53 deduction from the book balance.
3. $18 deduction from the book balance.
4. $53 addition to the book balance.
5. $18 addition to the book balance.

Answer: B
Explanation: $53 is recorded by the bookkeeper instead of the right amount ($35), resulting in an excess of $18 that is non-existent/invalid. Hence, the error reflected on the bank recon should be a $18 deduction from the book balance.

1. Under the allowance method for uncollectible receivables, the entry to record uncollectible-account expense has what effect on the financial statements?
2. Decreases owners' equity and increases liabilities
3. Increases expenses and increases owners' equity

Decreases assets and has no effect on net income

1. Decreases net income and decreases assets

Answer: B
Explanation: Refer to Week 4 slide 36 – The allowance method results in debiting Bad debt expense and CR Allowance for uncollectible accounts. The allowance for uncollectible account is a contra-equity account which means that it reduces owners’ equity.

1. Accounts Receivable has a debit balance of $2,800, and the Allowance for Uncollectible Accounts has a credit balance of $400. A $90 account receivable is written off. What is the amount of net receivables after the write-off?
2. $2,490
3. $2,310
4. $2,710
5. $2,400

Answer: D
Explanation: ($2,800- $90) - ($400- $90). Note that this is the same as the net receivables prior to writing off ($2,800 - $400), as writing off a bad debt does not affect the amount of *net* receivables.
Net receivables = A/R balance – Allowance for Uncollectible account balance