

ACCOUNTING 201

CHAPTER 8 & APPENDIX D

TRUE-FALSE STATEMENTS

1. Internal control is mainly concerned with the amount of authority a supervisor exercises over a subordinate.
2. A highly automated computerized system of accounting eliminates the need for internal control.
3. A business's assets need to be safeguarded from employee theft and unauthorized use.
4. Management is responsible for establishing a system of internal control.
5. Internal control is most effective when only one person is responsible for a given task.
6. The responsibility for keeping the records for an asset should be separate from the physical custody of that asset.
7. Requiring employees to take vacations is a weakness in the system of internal controls because it does not promote operational efficiency.
8. Segregation of duties means that employees should duplicate efforts so that one employee can evaluate the work of the other.
9. Segregation of duties ensures accountability for assets.
10. Only large companies need to be concerned with a system of internal control

Multiple Choice Questions

11. Which one of the following is *not* an objective of a system of internal controls?
 - a. Safeguard company assets
 - b. Overstate liabilities in order to be conservative
 - c. Enhance the accuracy and reliability of accounting records
 - d. Reduce the risks of errors
12. Internal controls are concerned with
 - a. only manual systems of accounting.
 - b. the extent of government regulations.
 - c. safeguarding assets.
 - d. preparing income tax returns.
13. Internal control is concerned with all of the following except
 - a. safeguarding assets from theft.
 - b. reducing errors in the accounting records.
 - c. increasing the reliability of the accounting records.
 - d. increasing the profitability of the business.

14. Internal control is defined, in part, as a plan that safeguards
 - a. all balance sheet accounts.
 - b. assets.
 - c. liabilities.
 - d. capital stock.

15. Having one person post entries to accounts receivable subsidiary ledger and a different person post to the Accounts Receivable Control account in the general ledger is an example of
 - a. inadequate internal control.
 - b. duplication of effort.
 - c. external verification.
 - d. segregation of duties.

16. Having one person responsible for the related activities of ordering merchandise, receiving goods, and paying for them
 - a. increases the potential for errors and fraud.
 - b. decreases the potential for errors and fraud.
 - c. is an example of good internal control.
 - d. is a good example of safeguarding the company's assets.

17. Which of the following expenditures might be made from petty cash?
 - a. purchase of gas for delivery truck.
 - b. purchase of computer equipment.
 - c. payment of employee salaries.
 - d. payment of interest on loans.

18. All of the following disbursements could be made from petty cash except
 - a. purchase of supplies.
 - b. purchase of postage stamps.
 - c. purchase of office furniture.
 - d. purchase of gas for delivery truck

19. Lisa Ball's regular rate of pay is \$15 per hour with one and one-half times her regular rate for any hours which exceed 40 hours per week. She worked 48 hours last week. Therefore, her gross wages were
 - a. \$720.
 - b. \$600.
 - c. \$780.
 - d. \$1,080.

20. Assuming a FICA tax rate of 8% on the first \$87,000 in wages, and a federal income tax rate of 20% on all wages, what would be an employee's net pay for the year if he earned \$95,000?
 - a. \$88,040
 - b. \$68,400
 - c. \$76,000
 - d. \$69,040

ANSWERS

True and False

1. F 2. F 3. T 4. T 5. F 6. T 7. F 8. F 9. F 10. F

Multiple Choice

11. B 12. C 13. B 14. B 15. D 16. A 17. A 18. C 19. C 20. D