



AUDITING PROBLEM

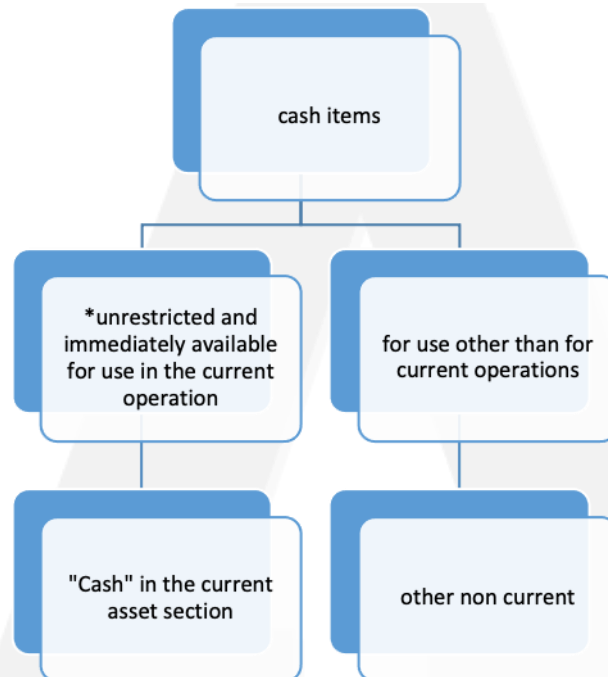
AP01

AUDIT OF CASH AND CASH EQUIVALENTS

HANDOUT

Audit of Cash and Cash Equivalents

Summary of Generally Accepted Accounting Principles for Cash



*for payment of operating expense, current liabilities and current assets

Definition of Cash

Cash includes money and other negotiable instrument that is payable in money and acceptable by the bank for deposit and immediate credit. It includes cash on hand, demand deposits and other items that are **unrestricted** for use in the current operations.

- a. **Cash on hand**
 - 1. undeposited dated customer's checks or customer's checks awaiting deposit
 - 2. Traveler's check
 - 3. Cashier's/ Treasurer's and Manager's checks
 - 4. Postal money orders (a demand credit instrument issued and payable by a post office)
 - 5. Undeposited cash collections (currencies such as bills and coins)
 - 6. Bank drafts (a written order addressed to the bank to pay an amount of money to the order of the maker)

- b. **Cash in bank**

1. Demand deposit/commercial deposit/current account/checking account
 - * generally non-interest bearing
 - * withdrawable by checks against bank

2. Savings deposit (Savings Account-SA)
 - * Generally non-interest bearing
 - * Depositor is issued an ATM card or passbook
 - * Withdrawable in ATM station or within the bank.

- c. **Cash fund (current operations)**
 1. Change fund
 2. Payroll fund
 3. Purchasing fund (for purchasing of inventories)
 4. Revolving fund (fund that is used for limited or specific purpose set by management)
 5. Interest fund
 6. Petty cash fund (for small and miscellaneous disbursements)
 7. Dividend fund
 8. Travel fund
 9. Tax fund

Fund For Non Current Operations

1. Pension fund – if related liability is current, then pension fund is current, thus part of cash.
2. Preferred redemption fund - non current investment (unless the preferred share capital has a mandatory redemption and the redemption is already within one year from the reporting period in which case this fund is already part of cash equivalent)
3. Acquisition of Property, plant and equipment – always noncurrent even if expected to be disbursed next year.
4. Contingent fund – non current investment
5. Insurance fund – Non current investment
6. Sinking fund – if the related bonds payable is current, then sinking fund is current, thus part of cash.

Classification of cash fund as current or non current should parallel the classification applied to the related liability. Thus, an entity should classify such non current asset if the related liability becomes current.

Cash Equivalents

are short-term and **highly liquid** investments that are readily convertible into cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Examples:

1. Time deposit
 - **acquired** within three months from maturity date
2. Money market instrument and commercial paper

3. Treasury bills
4. Redeemable preference shares with mandatory redemption period and acquired three months before maturity.
 - If an item cannot be included as cash equivalent because it did not qualify the cut-off time period (ie three months), it will always be classified as **investments** (short term or long term) depending on the period up to maturity.
 - If the problem is silent with regard to:
 1. Treasury note – assumed investment
 2. Cash in money market account – cash and cash equivalent
 3. Time deposit – cash and cash equivalent

Measurement Issues in Cash and Cash Equivalents

- | | | | |
|----|--|---|---|
| 1. | Cash | - | measured at face value |
| 2. | Cash in foreign currency | - | translated to Philippine Peso |
| 3. | Deposit in foreign bank | - | unrestricted (included as cash)
Restricted (if material, classified separately among noncurrent assets as receivables) |
| 4. | Cash in closed bank/banks
In bankruptcy | - | non current asset (estimated realizable value) |
| 5. | Bank overdraft | - | Different banks (current liabilities)
Same bank (netted against the account with positive balance but cannot be offset against restricted account. |
| 6. | Compensating balance | - | is the minimum checking or demand deposit account balance that must be maintained in connection with a borrowing agreement with a bank

not legally restricted – part of cash
legally restricted <ol style="list-style-type: none"> a. short term- presented as “cash held as compensating balance”, current (Receivable) b. long term- presented as “cash held as compensating balance” , noncurrent (Receivable) |

*If the problem is silent with regard to compensating balance, it is assumed not legally restricted.

- | | | | |
|-----|---|---|--|
| 7. | Undelivered/unreleased check | - | Reverted back to cash |
| 8. | Stale checks/Checks outstanding for more than six months from the date of check | - | Reverted back to cash |
| 9. | Postdated checks | - | checks dated after reporting period
Company's check – reverted back to cash
Customer's check – not yet cash (A/R) |
| 10. | IOUs (I owe you) | - | Part of receivable |
| 11. | Equity securities | - | cannot be classified as cash equivalents because shares do not have maturity a date (except redeemable preference shares) |
| 12. | Redeemable preference shares | - | specified redemption date and acquired three months before maturity date are classified as cash equivalents |
| 13. | Callable preference shares | - | shareholder's equity |
| 14. | NSF/DAUD/DAIF | - | Reverted back as part of receivables.
NSF – no sufficient funds
DAUD – drawn against uncleared deposits
DAIF – drawn against insufficient funds |
| 15. | Expenses advances | - | Receivable or prepaid expenses |
| 16. | Temporary investments in shares of stock | - | either FVTPL or FVTOCI |
| 17. | Unused credit line | - | Disclosed in the notes |
| 18. | Treasury warrants | - | a warrant for the payment of money into or from public treasury. (included as part of cash) |

- | | | | |
|-----|-------------------------------|---|--|
| 19. | Escrow deposit | - | restricted amount held in trust for another party, ie deposit required by court of law for a pending case. (other current or noncurrent) |
| 20. | Unrecorded cash disbursements | - | increase recording of disbursements |
| 21. | Unrecorded cash collections | - | increase recording of receipts |
| 22. | Certificate of deposits | - | Invested 3 months before maturity – cash equivalents
Invested for more than three months – investment (short or long term) |
| 23. | Postage stamps on hand | - | office supplies |

Substantive Test of Cash and Cash Equivalents

AUDIT OBJECTIVES

- a. **EXISTENCE** – to ascertain that cash in the custody of the client is actually on hand or deposited in the bank.

Audit procedures:

1. Count all cash on hand simultaneously
2. Follow up the subsequent disposition of items included in the count
3. Preparation of bank reconciliation statements
4. Preparation of Bank transfer schedules
5. Confirm bank deposit and loan balances with the bank

- b. **RIGHTS AND OBLIGATIONS** – to ascertain that recorded cash is owned by the company and available for use without any restriction.

Audit procedures:

1. Determine if cash is restricted
2. Review bank statements

- c. **COMPLETENESS** – to ascertain that cash in the custody of the client is recorded in the proper accounting period.

Audit procedures:

1. Preparation of Proof of cash
2. Verify cash receipts/deposits and cash disbursement during the test period
3. Obtain a cut off bank statement directly from the bank
4. Account for all check numbers

5. Examine all items returned with bank statements
- d. VALUATION** – to ascertain that cash is valued, recorded and presented at proper amounts.
Audit procedures:
1. Obtain or prepare year end bank reconciliation
 2. Test translation of foreign currency
 3. Trace a sample of entries in the Cash Receipts journals to the Accounts Receivable subsidiary ledgers, bank validated deposit slips and general ledger
- e. PRESENTATION AND DISCLOSURE** – to ascertain that cash balances are properly classified, presented and adequately disclosed.
Audit procedures:
1. Review disclosures to ascertain that cash is disclosed in accordance with GAAP.

MULTIPLE CHOICE QUESTIONS
THEORY

1. Which one of the following is **not** a risk associated with cash?
 - a. Susceptibility to error because of the large volume of transactions.
 - b. Susceptibility to fraud by misstatement.
 - c. Susceptibility to poorly developed automated systems with strong audit trail requirements.
 - d. Susceptibility to fraud by theft.
2. A cash management arrangement with a bank whereby the organization's customers send payments directly to the client's bank, which deposits the remittance to the client's account, is a
 - a. Lockbox.
 - b. Bank transfer.
 - c. Imprest bank account.
 - d. Collar.
3. Which one of the following is a reason that the cash account is material to the auditor?
 - a. The cash account is the culmination of transactions that are of little significance.
 - b. The cash account is more susceptible to fraud than most other accounts.
 - c. Many debt or loan agreements may be tied to dividend restrictions.
 - d. Automated systems may have strong electronic controls built-in.
4. Which one of the following is an example of proper internal control that the auditor would expect to find in place for cash processing systems?
 - a. Periodic internal audits of cash controls and cash management.
 - b. The treasurer performs monthly bank reconciliations on a timely basis.
 - c. Prenumbered turnaround documents such as bills of lading.
 - d. Authentication such as passwords allowing the controller to execute wire transfers.

5. As cash processing systems become more automated and integrated, the general concept of segregation of duties
- Becomes less important.
 - Becomes more important.
 - Does not change.
 - Becomes completely computerized without human interaction.
6. Which of the following best prevents the theft of customer checks received in the mail?
- Custody by the accounts receivable manager.
 - Restricted endorsements placed on the check as soon as it arrives.
 - Weekly deposits to a secure bank.
 - Reconciliation of bank accounts each month.
7. Which of the following controls over cash would an auditor expect to observe?
- Reconciliation of the general ledger to the subsidiary ledger.
 - Checks permanently marked "for deposit only" with the proper routing information.
 - Internal audits of marketable securities held in the company's lockbox.
 - Authorization privileges given only to those employees using the accounting system.
8. What form of evidence is used by the auditor to verify bank reconciliation items?
- Cash counting observation.
 - General ledger.
 - Invoices.
 - Cutoff statement.
9. Electronic authorization privileges for cash transactions may be best assigned to individuals based on
- Roles and activities falling within appropriate segregation of duties.
 - Identification cards with picture identification.
 - Encrypted passwords memorized by employees.
 - The principle of "absolute knowledge".
10. Which of the following best represents kiting?
- Theft of cash for personal use and cover-up using the bank statement.
 - A fraudulent cash scheme to overstate cash assets at year end by recording deposits in transit.
 - Manipulation of financial reporting by increasing both cash and debt by the same amount.
 - Colluding to steal cash by wiring money to a fictional vendor and concealing it with customer payments.
11. Which of the following represents a normal substantive audit procedure for cash balances?
- Verify material deposits-in-transit to subsequent statements.
 - Review cash confirms received by the client from the bank.
 - Foot cutoff bank statements provided by the financial institutions.
 - Perform kiting techniques to transfer cash between two client accounts.
12. The auditor obtains and reviews a cutoff bank statement primarily to

- a. Verify the balance of cash per the bank's general ledger at the balance sheet date.
- b. Verify the reconciling items on the year-end bank reconciliation.
- c. Test for intentional lapping of bank transfers.
- d. Foot the cutoff bank statement for completeness.

13. The auditor will send a standard bank confirmation to which of the following?

- a. Financial institutions of customers using the lockbox.
- b. Financial institutions for which the client has a balance greater than P500,000 at the end of the year.
- c. Financial institutions with which the client has transacted during the year.
- d. Financial institutions used by significant shareholders.

14. A fraudulent cash scheme to overstate cash assets at year end by recording deposits in transit in both the account from which the cash is withdrawn and the account to which it is transferred is

- a. Lapping of cash.
- b. Kiting of cash.
- c. Embezzlement of cash.
- d. Restrictive endorsements of cash.

15. Operational audits of cash management seek to identify areas in which cash management may be improved to contribute to the overall profitability and effectiveness of the organization. The internal auditor would use which of the following procedures on an operational audit of cash?

- a. Determine the compliance of treasury activities with company policy
- b. Review procedures for identifying and investing excess funds
- c. Review procedures for handling cash receipts
- d. All of the above

16. How does the auditor typically test for the existence of cash?

- a. Counting cash at the depository institution.
- b. Inquiry of management.
- c. Standard bank confirmation.
- d. Tracing the bank reconciliation to the general ledger.

17. In the course of testing cash balances at the balance sheet date, the auditor foots the bank reconciliation and traces its reported book balance to the trial balance and its bank balance to the standard confirmation in addressing the assertion(s) of

- a. Rights.
- b. Valuation.
- c. Existence.
- d. All of the above.

Cash management techniques have been developed for all of the following reasons **except**

- a. Speed the collection and deposit of cash.
- b. Reduce the effect of compensating balances.

- c. Reduce the amount of paperwork.
- d. Automate the cash management process.

19. Which of the following is **not** a fundamental control element the auditor would expect to find in place for all cash processing systems?

- a. Restrictive endorsement of checks.
- b. Independent reconciliation.
- c. Walkthrough.
- d. Prenumbered cash receipt documents.

Which of the following is **not** a normal edit test as part of computerized control for checks?

- a. Field checks.
- b. Self-checking digits.
- c. Cross-references.
- d. Reasonableness tests.

MULTIPLE CHOICE QUESTIONS
PRACTICAL

Problem 1

In connection with your audit of Miko Corporation for the year ended December 31, 2020, you gathered the following:

Current account at Metrobank	P2,000,000
Current account at BPI	(100,000)
Payroll account	500,000
Foreign bank account – restricted (in equivalent pesos)	1,000,000
Postage stamps	1,000
Employee’s post dated check	4,000
IOU from controller’s sister	10,000
Credit memo from a vendor for a purchase return	20,000
Traveler’s check	50,000
Not-sufficient-funds check	15,000
Money order	30,000
Petty cash fund (P4,000 in currency and expense receipts for P6,000)	10,000
Treasury bills, due 3/31/21 (purchased 12/31/20)	200,000
Treasury bills, due 1/31/21 (purchased 1/1/20)	300,000

Based on the above information and the result of your audit, compute for the cash and cash equivalent that would be reported on the December 31, 2020.

- a. P2,784,000
- b. P3,084,000
- c. P2,790,000
- d. P2,704,000

Problem 2

You noted the following composition of Jowell Company’s “cash account” as of December 31, 2020 in connection with your audit:

Demand deposit account	P2,000,000
Time deposit – 30 days	1,000,000
NSF check of customer	40,000
Money market placement (due June 30, 2021)	1,500,000
Savings deposit in a closed bank	100,000
IOU from employee	20,000
Pension fund	3,000,000
Petty cash fund	10,000
Customer’s check dated January 1, 2021	50,000
Customer’s check outstanding for 18 months	<u>40,000</u>
Total	<u>P7,760,000</u>

Additional information follows:

- a) Check of P200,000 in payment of accounts payable was recorded on December 31, 2020 but mailed to suppliers on January 5, 2021.
- b) Check of P100,000 dated January 15, 2021 in payment of accounts payable was recorded and mailed on December 31, 2020.
- c) The company uses the calendar year. The cash receipts journal was held open until January 15, 2021, during which time P400,000 was collected and recorded on December 31, 2020.

The cash and cash equivalents to be shown on the December 31, 2020 statement of financial position.

- a. P3,310,000
- b. P1,910,000
- c. P2,910,000
- d. P4,410,000

Problem 3

You were able to gather the following from the December 31, 2020 trial balance of National Notebook store Corporation in connection with your audit of the company:

Cash on hand	372,000
Petty cash fund	10,000
BPI current account	950,000
Security Bank current account No. 01	1,280,000
Security Bank current account No. 02	(40,000)
PNB savings account	500,000
PNB time deposit	300,000

Cash on hand includes the following items:

- a. Customer's check for P60,000 returned by bank on December 26, 2020 due to insufficient fund but subsequently redeposited and cleared by the bank on January 8, 2021.
- b. Customer's check for P30,000 dated January 2, 2021, received on December 29, 2020.
- c. Postal money orders received from customers, P36,000.

The petty cash fund consisted of the following items as of December 31, 2020.

Currency and coins	P 2,100
Employees' vales	1,600
Currency in an envelope marked "collections for charity" with names attached	1,200
Unreplenished petty cash vouchers	800
Check drawn by National Notebook store Corporation, payable to the petty cashier	<u>4,600</u>
	<u>P10,300</u>

Included among the checks drawn by National Notebook store Corporation against the BPI current account and recorded in December 2020 are the following:

- a. Check written and dated December 29, 2020 and delivered to payee on January 2, 2021, P50,000.
- b. Check written on December 27, 2020, dated January 2, 2021, delivered to payee on December 29, 2020, P86,000.

The credit balance in the Security Bank current account No. 2 represents checks drawn in excess of the deposit balance. These checks were still outstanding at December 31, 2020.

The savings account deposit in PNB has been set aside by the board of directors for acquisition of new equipment. This account is expected to be disbursed in the next 3 months from the balance sheet date.

Based on the above and the result of your audit, compute for the adjusted balances of following:

1. Cash on hand
 - a. P210,000
 - b. P230,000
 - c. P282,000
 - d. P340,000
2. Petty cash fund
 - a. P6,700
 - b. P7,200
 - c. P2,000
 - d. P4,900
3. BPI current account
 - a. P1,000,000
 - b. P1,120,000
 - c. P1,086,000
 - d. P1,040,000

4. Cash and cash equivalents
- | | |
|---------------|---------------|
| a. P2,914,700 | c. P3,052,000 |
| b. P3,074,900 | d. P3,066,000 |

Problem 4

The Cash in Bank account of **Yves Company** disclosed a balance of P203,000 as of December 31, 2020. The bank statement as of December 31, 2020 showed a balance of P106,000. Upon comparing the bank statement with cash records, the following facts were developed:

- a. The company's account was charged on December 26 for a customer's uncollectible check amounting to P30,000.
- b. A P60,000 customer's note dated November 25, discounted on December 12, was dishonored on December 25, and the bank charged the company P62,000, which included a protest fee of P2,000.
- c. A customer's check for P15,400 was entered as P14,500 by both the depositor and the bank but was later corrected by the bank.
- d. Check no. 142 for P12,425 was entered in the cash disbursements journal at P12,245 and check no. 156 for P3,290 was entered as P32,900.
- e. Bank service charges of P1,830 for December were not yet recorded on the books.
- f. A bank memo stated that a customer's note for P25,000 and interest of P1,000 had been collected on December 28; and the bank charged P500. (No entry was made on the books when the note was sent to the bank for collection).
- g. Receipts on December 31 for P24,000 were deposited on January 2.
- h. The following checks were outstanding on December 31:

No. 123	P3,000	No. 154	P4,000
143	* 2,000	157	6,000
144	7,000	159	7,000
147	3,000	169	5,000

* *Certified by the bank in December*

- i. A deposit of P20,000 was recorded by the bank on December 5, but it should have been recorded for Yboss Company rather than Yves Company.
- j. Petty cash of P10,000 was included in the Cash in Bank balance.

- k. Proceeds from cash sales of P60,000 for December 18 were stolen. The company expects to recover this amount from the insurance company. The cash receipts were recorded in the books, but no entry was made for the loss.
- l. The December 21 deposit included a check for P20,000 that had been returned on December 15 marked NSF. Yves Company had made no entry upon return of the check. The redeposit of the check on December 21 was recorded in the cash receipts journal of Yves Company as a collection on account.
1. How much is the adjusted cash balance as of December 31, 2020?
- | | |
|------------|------------|
| a. P60,000 | c. P80,000 |
| b. P75,000 | d. P85,000 |

Problem 5

You were able to obtain the following information during your audit of **Jayson Company**:

Reconciling items:

	<u>November 30</u>	<u>December 31</u>
Undeposited collections	P200,000	P120,000
Outstanding checks	80,000	60,000
Customer's notes collected by bank	100,000	120,000
Bank service charges	2,000	3,000
Erroneous bank debits	10,000	20,000
Erroneous bank credits	40,000	30,000
NSF checks not redeposited	5,000	7,000
Customer's check deposited December 10, returned by bank on December 16 marked NSF, and redeposited immediately; no entry made on books for return or redeposit		10,000

Unadjusted balances:

Books	?	90,000
Bank	230,000	?

December Transactions:

	<u>Bank</u>	<u>Books</u>
Receipts	P420,000	P270,000
Disbursements	500,000	407,000

1. How much is the adjusted cash balance as of November 30, 2020?
- | | |
|-------------|-------------|
| a. P320,000 | c. P340,000 |
| b. P330,000 | d. P350,000 |

2. How much is the adjusted bank receipts for December?
 - a. P250,000
 - b. P270,000
 - c. P290,000
 - d. P310,000
3. How much is the adjusted book disbursements for December?
 - a. P410,000
 - b. P430,000
 - c. P450,000
 - d. P470,000
4. How much is the adjusted cash balance as of December 31, 2020?
 - a. P180,000
 - b. P200,000
 - c. P210,000
 - d. P225,000

Problem 6

In your audit of the cash account of **Tabonchan Company**, you are required to prepare a four-column reconciliation of receipts, disbursements, and balances using the adjusted balance method and to submit adjusting journal entries as of December 31, 2020.

	<u>November30</u>	<u>December 31</u>
a) Balances per bank	P14,010	P19,630
b) Balances per books	13,290	18,195
c) Deposits in transit	2,740	3,110
d) Outstanding checks	4,260	3,870
e) Bank collections not in books	1,200	1,600
f) Bank charges not in books	950	640
g. Of the checks outstanding on December 31, one check for P700 was certified at the request of the payee.		
h. Receipts for December, per bank statement – P281,070.		
i. December disbursements, per cash journal – P274,635.		
j. NSF check from customer was charged by the bank on December 28, and has not been recorded – P800.		
k. NSF check returned in November and recorded in December, P1,050.		
l. NSF check returned and recorded in December, P900.		
m. Check of Tabeen ChenCompany charged by the bank in error, P2,010.		
n. Receipt on December 6 paid out in cash for travel expenses, P750.		

- o. Error in recording customer's check on December 20, P165 instead of P465.
- p. Error in disbursements journal for December, P3,250 instead of P325.

You noted in your audit that that the NSF checks returned by the bank are recorded as a reduction on the cash receipts journal instead of recording it at cash disbursements journal; redeposits are recorded as regular cash receipts.

1. How much is the adjusted cash balance as of November 30, 2020?
 - a. P11,640
 - b. P12,490
 - c. P12,890
 - d. P13,110
2. How much is the adjusted bank receipts for December?
 - a. P278,320
 - b. P282,190
 - c. P300,400
 - d. P273,100
3. How much is the adjusted book disbursements for December?
 - a. P278,320
 - b. P282,190
 - c. P300,400
 - d. P273,100
4. How much is the adjusted cash balance as of December 31, 2020?
 - a. P18,490
 - b. P18,710
 - c. P20,620
 - d. P21,580

Problem 7

You obtained the following information on the current account of **Ramen Company** during your examination of its financial statements for the year ended December 31, 2020.

The bank statement on November 30, 2020 showed a balance of P76,500. Among the bank credits in November was customer's note for P25,000 collected for the account of the company which the company recognized in December among its receipts. Included in the bank debits were cost of checkbooks amounting to P300 and a P10,000 check which was charged by the bank in error against Ramen Co. account. Also in November you ascertained that there were deposits in transit amounting to P20,000 and outstanding checks totaling P42,500.

The bank statement for the month of December showed total credits of P104,000 and total charges of P51,000. The company's books for December showed total receipts of P183,900, disbursements of P101,800 and a balance of P121,400. Bank debit memos for December were: No. 143 for service charges, P400 and No. 145 on a customer's returned check marked "DAIF" for P6,000.

On December 31, 2020 the company placed with the bank a customer's promissory note with a face value of P30,000 for collection. The company treated this note as part of its receipts although the bank was able to collect on the note only in January, 2021.

A check for P990 was recorded in the company cash payments books in December as P9,900.

Based on the application of the necessary audit procedures and appreciation of the above data, you are to provide the answers to the following:

1. How much is the undeposited collections as of December 31, 2020?
 - a. P84,900
 - b. P54,900
 - c. P44,900
 - d. P34,900
2. How much is the outstanding checks as of December 31, 2020?
 - a. P47,990
 - b. P90,490
 - c. P99,400
 - d. P90,790
3. How much is the adjusted cash balance as of November 30, 2020?
 - a. P54,000
 - b. P64,000
 - c. P44,000
 - d. P39,300
4. How much is the adjusted bank receipts for December?
 - a. P158,900
 - b. P128,900
 - c. P118,900
 - d. P108,900
5. How much is the adjusted book disbursements for December?
 - a. P56,490
 - b. P98,990
 - c. P107,900
 - d. P99,290
6. How much is the adjusted cash balance as of December 31, 2020?
 - a. P156,410
 - b. P93,910
 - c. P55,000
 - d. P48,910

Problem 8

In connection with your examination, the **Infinijuice Company** presented to you the following information regarding its Cash in Bank account for the month of December, 2020:

- a) Balances per bank statements: November 30, P107,800, and December 31, P115,200.
- b) Balances of cash in bank account in company's books: November 30, P82,725, and December 31, P113,400.
- c) Total receipts per books were P1,110,950 of which P6,050 was paid in cash to a creditor on December 24.
- d) Total charges in the bank statement during December were P1,094,850.

- e) Undeposited receipts were: November 30, P45,300 and December 31, P50,600.
- f) Outstanding checks were: November 30, P13,375, and December 31, P9,650, of which a check for P2,500 was certified by the bank on December 26.
- g) NSF checks returned, recorded as reduction of cash receipts, were:
- Returned by bank on December, recorded also in December, P5,200.
 - Returned by bank on December but recorded in January, P4,300
- h) Collections by bank not recorded by Company were P60,750 in November and P58,200 in December.
- i) Bank service charges not entered in company's books were: November 30, P3,750 and December 31, P2,100.
- j) A check for P4,750 of InfinijokeCompany was charged to InfinijuiceCompany in error.
- k) A check drawn for P4,200 was erroneously entered in the books as P2,400.

Based on the above and the result of your audit, answer the following:

1. How much is the adjusted cash balance as of November 30, 2020?
2. How much is the adjusted book receipts for December, 2020?
3. How much is the adjusted book disbursements for December, 2020?
4. How much is the adjusted cash balance as of December 31, 2020?
5. How much is the cash shortage of December 31, 2020?

Problem 9

The **Asan Kana Corporation** was organized on January 15, 2020 and started operation soon thereafter. The Company cashier who acted also as the bookkeeper had kept the accounting records very haphazardly. The manager suspects him of defalcation and engaged you to audit his account to find out the extent of the fraud, if there is any.

On November 15, when you started the examination of the accounts, you find the cash on hand to be P25,700. From inquiry at the bank, it was ascertained that the balance of the Company's bank deposit in current account on the same date was P131,640. Verification revealed that the check issued for P9,260 is not yet paid by the bank. The corporation sells at 40% above cost.

Your examination of the available records disclosed the following information:

Capital stock issued at par for cash	P1,600,000
Real state purchased and paid in full	1,000,000
Mortgage liability secured by real state	400,000

Furniture and fixtures (gross) bought on which there is still balance unpaid of P30,000	145,000
Outstanding notes due to bank	160,000
Total amount owed to creditors on open account	231,420
Total sales	1,615,040
Total amount still due from customers	426,900
Inventory of merchandise on November 15 at cost	469,600
Expenses paid excluding purchases	303,780

Based on the above and the result of your audit, compute for the following as of November 15, 2020:

1. Collections from sales
 - a. P1,188,140
 - b. P1,153,600
 - c. P1,615,040
 - d. P2,041,940

2. Payments for purchases
 - a. P1,854,620
 - b. P1,391,780
 - c. P1,207,204
 - d. P 922,180

3. Total cash disbursements
 - a. P2,340,960
 - b. P3,273,400
 - c. P2,810,560
 - d. P2,625,984

4. Unadjusted cash balance
 - a. P 74,740
 - b. P722,156
 - c. P1,007,180
 - d. P 537,580

5. Cash shortage
 - a. P574,076
 - b. P389,500
 - c. P859,100
 - d. P 0

Problem 10

You were engaged to audit the books of **Andito Na Company**. From the records of the company, you gathered the following information:

Andito Na Company started operations on October 2, 2020 with the owners investing P150,000 cash. Monthly bank reconciliation statements have not been prepared; however, bank statements for October, November, and December were made available to you. Your analysis of these bank statements showed total bank credits (deposits) of P575,000 including the owners' initial investment and a bank loan, details of which are in additional data. The bank statement in December 2020 showed an ending balance of P30,200.

Examination of the paid checks disclosed that checks totaling P4,500 were issued by the company in December, 2020, and were presented for payment only in January, 2020. Cash count of the cashier's

accountability amounted to P6,300. You were told by the cashier that P5,000 of these, in checks, were cash sales on December 29, 2020, deposited on January 3, 2021. The balance, in currency and coins, represents petty cash.

Additional information are as follows:

- a. Accounts receivable subsidiary ledgers had a total balance of P70,000 at December 31, 2020. P5,000 of this was ascertained to be uncollectible.
- b. Suppliers' unpaid invoices for merchandise totaled P15,000; while an account for store fixtures bought for P50,000 had an unpaid balance of P5,000.
- c. Merchandise inventory at December 31, 2020 amounted to P30,000 but P5,000 of these were spoiled with no resale value.
- d. The bank statement in October showed a bank credit for P98,000, dated October 2, 2020. Inquiry from the cashier disclosed that the amount represents proceeds of a 90-day, discounted bank note. P80,000 of this loan was paid by check in December, 2020.
- e. Operating expenses paid during the period totaled P180,000; while merchandise purchases amounted to P250,000.
- f. The gross profit rate is 120% of cost.

Compute for the cashier's shortage at December 31, 2020.