AUDIT OF CASH AND CASH EQUIVALENTS

PROBLEM NO. 1

In connection with your audit of Caloocan Corporation for the year ended December 31, 2006, you gathered the following:

1. Current account at Metrobank P2,000,000
2. Current account at BPI (100,000)
3. Payroll account 500,000
4. Foreign bank account – restricted (in equivalent pesos) 1,000,000
5. Postage stamps 1,000
6. Employee’s post dated check 4,000
7. IOU from controller’s sister 10,000
8. Credit memo from a vendor for a purchase return 20,000
9. Traveler’s check 50,000
10. Not-sufficient-funds check 15,000
11. Money order 30,000
12. Petty cash fund (P4,000 in currency and expense receipts for P6,000) 10,000
13. Treasury bills, due 3/31/07 (purchased 12/31/06) 200,000
14. Treasury bills, due 1/31/07 (purchased 1/1/06) 300,000

Question:

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, 2006 balance sheet.

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

Suggested Solution:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account at Metrobank</td>
<td>P2,000,000</td>
</tr>
<tr>
<td>Payroll account</td>
<td>500,000</td>
</tr>
<tr>
<td>Traveler’s check</td>
<td>50,000</td>
</tr>
<tr>
<td>Money order</td>
<td>30,000</td>
</tr>
<tr>
<td>Petty cash fund (P4,000 in currency)</td>
<td>4,000</td>
</tr>
<tr>
<td>Treasury bills, due 3/31/07 (purchased 12/31/06)</td>
<td>200,000</td>
</tr>
<tr>
<td>Total</td>
<td>P2,784,000</td>
</tr>
</tbody>
</table>

Answer: A

PROBLEM NO. 2

In the course of your audit of the Las Piñas Corporation, its controller is attempting to determine the amount of cash to be reported on its December 31, 2006 balance sheet. The following information is provided:

1. Commercial savings account of P1,200,000 and a commercial checking account balance of P1,800,000 are held at PS Bank.
2. Travel advances of P360,000 for executive travel for the first quarter of the next year (employee to reimburse through salary deduction).
3. A separate cash fund in the amount of P3,000,000 is restricted for the retirement of a long term debt.
4. Petty cash fund of P10,000.
5. An I.O.U. from a company officer in the amount of P40,000.
6. A bank overdraft of P250,000 has occurred at one of the banks the company uses to deposit its cash receipts. At the present time, the company has no deposits at this bank.
7. The company has two certificates of deposit, each totaling P1,000,000. These certificates of deposit have maturity of 120 days.
8. Las Piñas has received a check dated January 2, 2007 in the amount of P150,000.
9. Las Piñas has agreed to maintain a cash balance of P200,000 at all times at PS Bank to ensure future credit availability.
10. Currency and coin on hand amounted to P15,000.

Question:

Based on the above and the result of your audit, how much will be reported as cash and cash equivalent at December 31, 2006?

a. P3,025,000  
   b. P2,825,000  
   c. P2,575,000  
   d. P5,025,000

1
Suggested Solution:

- Savings account at PS Bank: P1,200,000
- Checking account at PS Bank: 1,800,000
- Petty cash fund: 10,000
- Currency and coin: 15,000
- Total: P3,025,000

Answer: A

PROBLEM NO. 3

The cash account of the Makati Corporation as of December 31, 2006 consists of the following:

- On deposit in current account with Real Bank: P 900,000
- Cash collection not yet deposited to the bank: 350,000
- A customer’s check returned by the bank for insufficient fund: 150,000
- A check drawn by the Vice-President of the Corporation dated January 15, 2007: 70,000
- A check drawn by a supplier dated December 28, 2006 for goods returned by the Corporation: 60,000
- A check dated May 31, 2006 drawn by the Corporation against the Piggy Bank in payment of customs duties. Since the importation did not materialize, the check was returned by the customs broker. This check was an outstanding check in the reconciliation of the Piggy Bank account: 410,000
- Petty Cash fund of which P5,000 is in currency; P3,600 in form of employees’ I.O.U.s; and P1,400 is supported by approved petty cash vouchers for expenses all dated prior to closing of the books on December 31, 2006: 10,000
- Total: 1,950,000
- Less: Overdraft with Piggy Bank secured by a Chattel mortgage on the inventories: 300,000
- Balance per ledger: P1,650,000

Question:

At what amount will the account “Cash” appear on the December 31, 2006 balance sheet?

a. P1,315,000  
   b. P1,425,000  
   c. P1,495,000  
   d. P1,725,000

Suggested Solution:

- Current account with Real Bank: P 900,000
- Undeposited collection: 350,000
- Supplier’s check for goods returned by the Corporation: 60,000
- Unexpended petty cash: 5,000
- Current account with Piggy Bank (P410,000 - P300,000): 110,000
- Total: P1,425,000

Answer: B

PROBLEM NO. 4

You noted the following composition of Malabon Company’s “cash account” as of December 31, 2006 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, 2007): 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, 2007: 50,000
- Customer’s check outstanding for 18 months: 40,000
- Total: P7,760,000
Additional information follows:

a) Check of P200,000 in payment of accounts payable was recorded on December 31, 2006 but mailed to suppliers on January 5, 2007.

b) Check of P100,000 dated January 15, 2007 in payment of accounts payable was recorded and mailed on December 31, 2006.

c) The company uses the calendar year. The cash receipts journal was held open until January 15, 2007, during which time P400,000 was collected and recorded on December 31, 2006.

Question:

The cash and cash equivalents to be shown on the December 31, 2006 balance sheet is

a. P3,310,000 

b. P1,910,000 

c. P2,910,000 

d. P4,410,000

Suggested Solution:

Demand deposit account as adjusted:

Demand deposit account per books P2,000,000
Undelivered check 200,000
Postdated check issued 100,000
Window dressing of collection (400,000) P1,900,000
Time deposit - 30 days 1,000,000
Petty cash fund 10,000
Cash and cash equivalents P2,910,000

Answer: C

PROBLEM NO. 5

You were able to gather the following from the December 31, 2006 trial balance of Mandaluyong Corporation in connection with your audit of the company:

Cash on hand P  500,000
Petty cash fund 10,000
BPI current account 1,000,000
Security Bank current account No. 01 1,080,000
Security Bank current account No. 02 (80,000)
PNB savings account 1,200,000
PNB time deposit 500,000

Cash on hand includes the following items:

a. Customer’s check for P40,000 returned by bank on December 26, 2006 due to insufficient fund but subsequently redeposited and cleared by the bank on January 8, 2007.

b. Customer’s check for P20,000 dated January 2, 2007, received on December 29, 2006.

c. Postal money orders received from customers, P30,000.

The petty cash fund consisted of the following items as of December 31, 2006.

Currency and coins P  2,000
Employees’ vales 1,600
Currency in an envelope marked “collections for charity” with names attached 1,200
Unreplenished petty cash vouchers 1,300
Check drawn by Mandaluyong Corporation, payable to the petty cashier 4,000

Total P10,100

Included among the checks drawn by Mandaluyong Corporation against the BPI current account and recorded in December 2006 are the following:

a. Check written and dated December 29, 2006 and delivered to payee on January 2, 2007, P80,000.

b. Check written on December 27, 2006, dated January 2, 2007, delivered to payee on December 29, 2006, P40,000.

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, 2006.

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.
Questions:

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

1. Cash on hand
   a. P410,000   c. P470,000
   b. P530,000   d. P440,000

2. Petty cash fund
   a. P6,000   c. P2,000
   b. P7,200   d. P4,900

3. BPI current account
   a. P1,000,000   c. P1,080,000
   b. P1,120,000   d. P1,040,000

4. Cash and cash equivalents
   a. P2,917,200   c. P3,052,000
   b. P3,074,900   d. P3,066,000

Suggested Solution:

Question No. 1

Unadjusted cash on hand       P500,000
NSF check                  (40,000)
Post dated check received (20,000)
Adjusted cash on hand       P440,000

Question No. 2

Petty cash fund per total    P10,100
Employees’ vales (IOU)       (1,600)
Currency in envelope marked "collections for charity" (1,200)
Unreplenished petty cash vouchers (1,300)
Petty cash fund, as adjusted P  6,000

Alternative computation:

Currency and coins     P 2,000
Replenishment check   4,000
Petty cash fund, as adjusted P 6,000

Question No. 3

Unadjusted BPI current account P1,000,000
Unreleased check          80,000
Post dated check delivered 40,000
Adjusted BPI current account P1,120,000

Question No. 4

Cash on hand (see no. 1)       P  440,000
Petty cash fund (see no. 2)     6,000
BPI current account (see no. 3) 1,120,000
Security Bank current account (net of overdraft of P80,000) 1,000,000
PNB time deposit               500,000
Cash and cash equivalents, as adjusted P3,066,000

Answers: 1) D; 2) A; 3) B; 4) D

PROBLEM NO. 6

The books of Manila’s Service, Inc. disclosed a cash balance of P687,570 on December 31, 2006. The bank statement as of December 31 showed a balance of P547,800. Additional information that might be useful in reconciling the two balances follows:
(a) Check number 748 for P30,000 was originally recorded on the books as P45,000.
(b) A customer’s note dated September 25 was discounted on October 12. The note was dishonored on December 29 (maturity date). The bank charged Manila’s account for P142,650, including a protest fee of P2,650.
(c) The deposit of December 24 was recorded on the books as P28,950, but it was actually a deposit of P27,000.
(d) Outstanding checks totaled P98,850 as of December 31.
(e) There were bank service charges for December of P2,100 not yet recorded on the books.
(f) Manila’s account had been charged on December 26 for a customer’s NSF check for P12,960.
(g) Manila properly deposited P6,000 on December 3 that was not recorded by the bank.
(h) Receipts of December 31 for P134,250 were recorded by the bank on January 2.
(i) A bank memo stated that a customer’s note for P45,000 and interest of P1,650 had been collected on December 27, and the bank charged a P360 collection fee.

Questions:

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

1. Adjusted cash in bank balance
   a. P583,200
   b. P577,200
   c. P589,200
   d. P512,400

2. Net adjustment to cash as of December 31, 2006
   a. P104,370
   b. P110,370
   c. P98,370
   d. P175,170

Suggested Solution:

**Question No. 1**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per bank statement, 12/31/06</td>
<td>P547,800</td>
</tr>
<tr>
<td>Add: Deposits in transit</td>
<td>P134,250</td>
</tr>
<tr>
<td>Bank error-deposit not recorded</td>
<td>6,000</td>
</tr>
<tr>
<td>Total</td>
<td>688,050</td>
</tr>
<tr>
<td>Less: Outstanding checks</td>
<td>98,850</td>
</tr>
<tr>
<td>Adjusted bank balance, 12/31/06</td>
<td>P589,200</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per books, 12/31/06</td>
<td>P687,570</td>
</tr>
<tr>
<td>Add: Customer error - Check No. 748</td>
<td>P15,000</td>
</tr>
<tr>
<td>Customer note collected by bank</td>
<td>46,290</td>
</tr>
<tr>
<td>Total</td>
<td>748,860</td>
</tr>
<tr>
<td>Less: Dishonored note</td>
<td>142,650</td>
</tr>
<tr>
<td>Book error-improperly recorded deposit</td>
<td>1,950</td>
</tr>
<tr>
<td>NSF check</td>
<td>12,960</td>
</tr>
<tr>
<td>Bank service charges</td>
<td>2,100</td>
</tr>
<tr>
<td>Adjusted book balance, 12/31/06</td>
<td>P589,200</td>
</tr>
</tbody>
</table>

**Question No. 2**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unadjusted balance per books, 12/31/06</td>
<td>P687,570</td>
</tr>
<tr>
<td>Adjusted book balance, 12/31/06</td>
<td>589,200</td>
</tr>
<tr>
<td>Net adjustment to cash – credit</td>
<td>P98,370</td>
</tr>
</tbody>
</table>

Answers: 1) C; 2) C

**PROBLEM NO. 7**

Shown below is the bank reconciliation for Marikina Company for November 2006:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per bank, Nov. 30, 2006</td>
<td>P150,000</td>
</tr>
<tr>
<td>Add: Deposits in transit</td>
<td>24,000</td>
</tr>
<tr>
<td>Total</td>
<td>174,000</td>
</tr>
<tr>
<td>Less: Outstanding checks</td>
<td>P28,000</td>
</tr>
<tr>
<td>Bank credit recorded in error</td>
<td>10,000</td>
</tr>
<tr>
<td>Cash balance per books, Nov. 30, 2006</td>
<td>P136,000</td>
</tr>
</tbody>
</table>
The bank statement for December 2006 contains the following data:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total deposits</td>
<td>P110,000</td>
</tr>
<tr>
<td>Total charges, including an NSF check of P8,000 and a service charge of P400</td>
<td>96,000</td>
</tr>
</tbody>
</table>

All outstanding checks on November 30, 2006, including the bank credit, were cleared in the bank in December 2006.

There were outstanding checks of P30,000 and deposits in transit of P38,000 on December 31, 2006.

Questions:

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

1. How much is the cash balance per bank on December 31, 2006?
   a. P154,000
   b. P150,000
   c. P164,000
   d. P172,400

2. How much is the December receipts per books?
   a. P124,000
   b. P96,000
   c. P110,000
   d. P148,000

3. How much is the December disbursements per books?
   a. P96,000
   b. P79,600
   c. P89,600
   d. P98,000

4. How much is the cash balance per books on December 31, 2006?
   a. P150,000
   b. P170,400
   c. P180,400
   d. P162,000

5. The adjusted cash in bank balance as of December 31, 2006 is
   a. P141,600
   b. P162,000
   c. P172,000
   d. P196,000

Suggested Solution:

**Question No. 1**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per bank, Nov. 30, 2006</td>
<td>P150,000</td>
</tr>
<tr>
<td>Add: Total deposits per bank statement</td>
<td>110,000</td>
</tr>
<tr>
<td>Total</td>
<td>260,000</td>
</tr>
<tr>
<td>Less: Total charges per bank statement</td>
<td>96,000</td>
</tr>
<tr>
<td>Balance per bank, Dec. 31, 2006</td>
<td>P164,000</td>
</tr>
</tbody>
</table>

**Question No. 2**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total deposits per bank statement</td>
<td>P110,000</td>
</tr>
<tr>
<td>Less deposits in transit, Nov. 30</td>
<td>24,000</td>
</tr>
<tr>
<td>Dec. receipts cleared through the bank</td>
<td>86,000</td>
</tr>
<tr>
<td>Add deposits in transit, Dec. 31</td>
<td>38,000</td>
</tr>
<tr>
<td>December receipts per books</td>
<td>P124,000</td>
</tr>
</tbody>
</table>

**Question No. 3**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total charges per bank statement</td>
<td>P96,000</td>
</tr>
<tr>
<td>Less: Outstanding checks, Nov. 30</td>
<td>P28,000</td>
</tr>
<tr>
<td>Correction of erroneous bank credit</td>
<td>10,000</td>
</tr>
<tr>
<td>December NSF check</td>
<td>8,000</td>
</tr>
<tr>
<td>December bank service charge</td>
<td>400</td>
</tr>
<tr>
<td>Dec. disb. cleared through the bank</td>
<td>46,400</td>
</tr>
<tr>
<td>Add outstanding checks, Dec. 31</td>
<td>49,600</td>
</tr>
<tr>
<td>December disbursements per books</td>
<td>P79,600</td>
</tr>
</tbody>
</table>

**Question No. 4**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per books, Nov. 30, 2006</td>
<td>P136,000</td>
</tr>
<tr>
<td>Add December receipts per books</td>
<td>124,000</td>
</tr>
<tr>
<td>Total</td>
<td>260,000</td>
</tr>
<tr>
<td>Less December disbursements per books</td>
<td>79,600</td>
</tr>
<tr>
<td>Balance per books, Dec. 31, 2006</td>
<td>P180,400</td>
</tr>
</tbody>
</table>
Question No. 5

Balance per bank statement, 12/31/06  P164,000
Deposits in transit  38,000
Outstanding checks (30,000)
Adjusted bank balance, 12/31/06  P172,000

Balance per books, 12/31/06  P180,400
NSF check (8,000)
Bank service charges (400)
Adjusted book balance, 12/31/06  P172,000

Answers: 1) C; 2) A; 3) B; 4) C; 5) C

PROBLEM NO. 8

The accountant for the Muntinlupa Company assembled the following data:

<table>
<thead>
<tr>
<th></th>
<th>June 30</th>
<th>July 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash account balance</td>
<td>P 15,822</td>
<td>P 39,745</td>
</tr>
<tr>
<td>Bank statement balance</td>
<td>107,082</td>
<td>137,817</td>
</tr>
<tr>
<td>Deposits in transit</td>
<td>8,201</td>
<td>12,880</td>
</tr>
<tr>
<td>Outstanding checks</td>
<td>27,718</td>
<td>30,112</td>
</tr>
<tr>
<td>Bank service charge</td>
<td>72</td>
<td>60</td>
</tr>
<tr>
<td>Customer’s check deposited July 10, returned by bank on July 16 marked NSF, and redeposited immediately; no entry made on books for return or redeposit</td>
<td>8,250</td>
<td></td>
</tr>
<tr>
<td>Collection by bank of company's notes receivable</td>
<td>71,815</td>
<td>80,900</td>
</tr>
</tbody>
</table>

The bank statements and the company’s cash records show these totals:

Disbursements in July per bank statement  P218,373
Cash receipts in July per Muntinlupa’s books  236,452

QUESTIONS:

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 adjusted cash balance as of June 30?
   a. P87,565  
   b. (P3,695) 
   c. P107,082 
   d. P15,822

2. How much is the adjusted bank receipts for July?
   a. P253,787  
   b. P214,802 
   c. P245,537 
   d. P232,881

3. How much is the adjusted book disbursements for July?
   a. P220,767  
   b. P212,517 
   c. P181,782 
   d. P206,673

4. How much is the adjusted cash balance as of July 31?
   a. P137,817  
   b. P112,335 
   c. P22,513 
   d. P120,585

5. How much is the cash shortage as of July 31?
   a. P8,250  
   b. P71,815 
   c. P196,144 
   d. P0
### Suggested Solution:

**Muntinlupa Company**

Reconciliation of Receipts, Disbursements, and Bank Balance

For the month ended July 31

<table>
<thead>
<tr>
<th></th>
<th>Beginning</th>
<th>Receipts</th>
<th>Disb.</th>
<th>Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>June 30</strong></td>
<td>$107,082</td>
<td>$249,108</td>
<td>$218,373</td>
<td>$137,817</td>
</tr>
<tr>
<td><strong>July 31</strong></td>
<td>$8,201</td>
<td>$(8,201)</td>
<td>$12,880</td>
<td>$12,880</td>
</tr>
<tr>
<td><strong>Outstanding checks:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>June 30</strong></td>
<td>$(27,718)</td>
<td>$(27,718)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>July 31</strong></td>
<td>$30,112</td>
<td>$(30,112)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NSF check redeposited</strong></td>
<td></td>
<td>$(8,250)</td>
<td>$(8,250)</td>
<td></td>
</tr>
<tr>
<td><strong>Adjusted bank balance</strong></td>
<td>$87,565</td>
<td>$245,537</td>
<td>$212,517</td>
<td>$120,585</td>
</tr>
<tr>
<td><strong>Balance per books</strong></td>
<td>$15,822</td>
<td>$236,452</td>
<td>$212,529</td>
<td>$39,745</td>
</tr>
<tr>
<td><strong>Bank service charge:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>June</strong></td>
<td>$(72)</td>
<td>$(72)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>July</strong></td>
<td>$60</td>
<td>$(60)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Collection of notes receivable:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>June</strong></td>
<td>$71,815</td>
<td>$(71,815)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>July</strong></td>
<td>$80,900</td>
<td></td>
<td></td>
<td>$80,900</td>
</tr>
<tr>
<td><strong>Adjusted book balance</strong></td>
<td>$87,565</td>
<td>$245,537</td>
<td>$212,517</td>
<td>$120,585</td>
</tr>
</tbody>
</table>

\[a \ (P137,817 + P218,373 - P107,082) \]

\[b \ (P15,822 + 236,452 - P39,745) \]

**Answers:** 1) A; 2) C; 3) B; 4) D; 5) D

### PROBLEM NO. 9

In the audit of Pasig Company’s cash account, you obtained the following information:

The company’s bookkeeper prepared the following bank reconciliation as of November 30, 2006:

- **Bank balance – November 30, 2006:** P90,800
- **Undeposited collections:** 5,000
- **Bank service charges:** 100
- **Bank collection of customer’s note:** (8,000)
- **Outstanding checks:**
  - Number | Amount
  - 7159   | P3,000
  - 7767   | 5,000
  - 7915   | 2,000  (10,000)
- **Book balance – November 30, 2006:** P77,900

Additional data are given as follows:

a. **Company recordings for December:**
   - Total collections from customers: P165,000
   - Total checks drawn: 98,000

b. **Bank statement totals for December:**
   - Charges: P123,800
   - Credits: 169,000

c. **Check no. 7159 dated November 25, 2006,** was entered as P3,000 in payment of a voucher for P30,000. Upon examination of the checks returned by the bank, the actual amount of the check was P30,000.

d. **Check no. 8113 dated December 20, 2006** was issued to replace a mutilated check (no.7767), which was returned by the payee. Both checks were recorded in the amount drawn, P5,000, but no entry was made to cancel check no. 7767.

e. **The December bank statement included a check drawn by Sipag Company for P1,500.**

f. **Undeposited collections on December 31, 2006 - P8,000.**

g. **The service charge for December was P150 which was charged by the bank to another client.**

h. **The bank collected a note receivable of P7,000 on December 28, 2006, but the collection was not received on time to be recorded by Pasig.**
The outstanding checks on December 31, 2006, were:

<table>
<thead>
<tr>
<th>Check No.</th>
<th>Amount</th>
<th>Check No.</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>7767</td>
<td>P5,000</td>
<td>8910</td>
<td>P2,300</td>
</tr>
<tr>
<td>8856</td>
<td>1,300</td>
<td>8925</td>
<td>4,100</td>
</tr>
</tbody>
</table>

**QUESTIONS:**

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

1. **Unadjusted cash balance per books as of December 31, 2006**
   - a. P152,800
   - b. P152,750
   - c. P144,900
   - d. P165,700

2. **Adjusted cash balance as of November 30, 2006**
   - a. P85,800
   - b. P58,800
   - c. P63,800
   - d. P90,800

3. **Adjusted book receipts for December 2006**
   - a. P170,500
   - b. P182,000
   - c. P172,000
   - d. P134,650

4. **Adjusted bank disbursement for December 2006**
   - a. P120,150
   - b. P76,150
   - c. P125,150
   - d. P98,150

5. **Adjusted cash balance as of December 31, 2006**
   - a. P132,650
   - b. P137,650
   - c. P137,800
   - d. P134,650

**Suggested Solution:**

**Question No. 1**

Unadjusted book balance, 11/30/06  
P77,900

Add unadjusted book receipts:
- Collection from customers  
P165,000
- Note collected by bank in Nov. presumed recorded in Dec.  
  8,000
- Total  
  250,900

Less unadjusted book disbursements:
- Checks drawn  
  98,000
- BSC for Nov. presumed recorded in Dec.  
  100
- Unadjusted book balance, 12/31/06  
P152,800

**Question Nos. 2 to 5**

**Pasig Company**

**Proof of Cash**

For the month ended December 31, 2006

<table>
<thead>
<tr>
<th>Beginning Nov. 30</th>
<th>Receipts</th>
<th>Disbursements</th>
<th>Ending Dec. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per bank statement</td>
<td>P90,800</td>
<td>P169,000</td>
<td>P123,800</td>
</tr>
<tr>
<td>Deposits in transit:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November 30</td>
<td>5,000</td>
<td>(5,000)</td>
<td></td>
</tr>
<tr>
<td>December 31</td>
<td>8,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding checks:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November 30</td>
<td>(32,000)</td>
<td>(32,000)</td>
<td></td>
</tr>
<tr>
<td>December 31</td>
<td>7,700</td>
<td></td>
<td>(7,700)</td>
</tr>
<tr>
<td>Bank errors – Dec.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Check of Sipag Co.</td>
<td>(1,500)</td>
<td></td>
<td>1,500</td>
</tr>
<tr>
<td>BSC charged to another client</td>
<td></td>
<td></td>
<td>150</td>
</tr>
<tr>
<td>Adjusted bank balance</td>
<td>P63,800</td>
<td>P172,000</td>
<td>P 98,150</td>
</tr>
<tr>
<td>Balance per books</td>
<td>P77,900</td>
<td>P173,000</td>
<td>P98,100</td>
</tr>
<tr>
<td>Customer’s note collected by bank:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>8,000</td>
<td>(8,000)</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>7,000</td>
<td></td>
<td>7,000</td>
</tr>
<tr>
<td>Bank service charge:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>(100)</td>
<td></td>
<td>(100)</td>
</tr>
<tr>
<td>December</td>
<td>150</td>
<td></td>
<td>(150)</td>
</tr>
</tbody>
</table>
PROBLEM NO. 10

You obtained the following information on the current account of Parañaque Company during your examination of its financial statements for the year ended December 31, 2006.

The bank statement on November 30, 2006 showed a balance of P306,000. Among the bank credits in November was customer's note for P100,000 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 P1,200 and a P40,000 check which was charged by the bank in error against Parañaque Co. account. Also in November you ascertained that there were deposits in transit amounting to P80,000 and outstanding checks totaling P170,000.

The bank statement for the month of December showed total credits of P416,000 and total charges of P204,000. The company’s books for December showed total debits of P735,600, total credits of P407,200 and a balance of P485,600. Bank debit memos for December were: No. 121 for service charges, P1,600 and No. 122 on a customer's returned check marked “Refer to Drawer” for P24,000.

On December 31, 2006 the company placed with the bank a customer's promissory note with a face value of P120,000 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, 2007.

A check for P3,960 was recorded in the company cash payments books in December as P39,600.

QUESTIONS:

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, 2006?
   a. P339,600  
   b. P179,600  
   c. P219,600  
   d. P139,600

2. How much is the outstanding checks as of December 31, 2006?
   a. P191,960  
   b. P397,600  
   c. P361,960  
   d. P363,160

3. How much is the adjusted cash balance as of November 30, 2006?
   a. P216,000  
   b. P256,000  
   c. P176,000  
   d. P157,200

4. How much is the adjusted bank receipts for December?
   a. P635,600  
   b. P515,600  
   c. P475,600  
   d. P435,600

5. How much is the adjusted book disbursements for December?
   a. P395,960  
   b. P431,600  
   c. P225,960  
   d. P397,160

6. How much is the adjusted cash balance as of December 31, 2006?
   a. P625,640  
   b. P195,640  
   c. P220,000  
   d. P375,640
Suggested Solution:

Question No. 1

 Deposits in transit, 11/30/06  
 Add collections in December:  
 December book receipts  P735,600  
 Less receipts not representing collections in December:  
 Customer's note collected by bank in Nov. recorded in Dec.  P100,000  
 Uncollected customer's note treated as receipts  120,000  
 Total  595,600  
 Less deposits credited by the bank in December:  
 December bank receipts  P416,000  
 Less receipts not representing deposits:  
 Erroneous bank debit, Nov.; corrected Dec.  40,000  
 Deposits in transit, 12/31/06  P219,600  

Question No. 2

 Outstanding checks, 11/30/06  P170,000  
 Add checks issued in December:  
 December book disbursements  P407,200  
 Less disbursements not representing checks issued in December:  
 Bank service charge, Nov.; recorded Dec.  P1,200  
 Error in recording a check (should be P39,600, recorded as P3,960)  35,640  
 Total  370,360  
 Less checks paid by the bank in December:  
 December bank disbursements  P204,000  
 Less disbursements not representing checks:  
 Bank service charge, Dec.  P1,600  
 NSF check, Dec.  24,000  
 Outstanding checks, 12/31/06  P361,960  

Question Nos. 3 to 6

Parañaque Company  
Proof of Cash  
For the month ended December 31, 2006  

<table>
<thead>
<tr>
<th></th>
<th>Beginning Nov. 30</th>
<th>Receipts</th>
<th>Disb.</th>
<th>Ending Dec. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per bank statement</td>
<td>P306,000</td>
<td>P416,000</td>
<td></td>
<td>P518,000</td>
</tr>
<tr>
<td>Deposits in transit:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November 30</td>
<td>80,000</td>
<td>(80,000)</td>
<td></td>
<td>219,600</td>
</tr>
<tr>
<td>December 31</td>
<td>219,600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding checks:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November 30</td>
<td>(170,000)</td>
<td></td>
<td></td>
<td>(31,960)</td>
</tr>
<tr>
<td>December 31</td>
<td>361,960</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Erroneous bank debit-November</td>
<td>40,000</td>
<td>(40,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted bank balance</td>
<td>P256,000</td>
<td>P515,600</td>
<td>P395,960</td>
<td>P375,640</td>
</tr>
</tbody>
</table>
### Beginning

<table>
<thead>
<tr>
<th></th>
<th>Nov. 30</th>
<th>Receipts</th>
<th>Disb.</th>
<th>Ending Dec. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per books</td>
<td>P157,200</td>
<td>P735,600</td>
<td>P407,200</td>
<td>P485,600</td>
</tr>
<tr>
<td>Customer’s note collected by bank - November</td>
<td>100,000</td>
<td>(100,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank service charge: November</td>
<td>(1,200)</td>
<td>(1,200)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank service charge: December</td>
<td>1,600</td>
<td>(1,600)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NSF check - December</td>
<td>24,000</td>
<td>(24,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Book errors - December</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncollected customer’s note treated as receipts</td>
<td>(120,000)</td>
<td>(120,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Error in recording a check (should be P3,960, recorded as P39,600)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted book balance</td>
<td>P256,000</td>
<td>P515,600</td>
<td>P395,960</td>
<td>P375,640</td>
</tr>
</tbody>
</table>

\[a \ (P306,000 + P416,000 - P204,000)\]
\[b \ (P485,600 + 407,200 - P735,600)\]

**Answers:** 1) C; 2) C; 3) B; 4) B; 5) A; 6) D

### PROBLEM NO. 11

You were able to obtain the following information in connection with your audit of the Cash account of the Pasaway Company as of December 31, 2006:

<table>
<thead>
<tr>
<th></th>
<th>November 30</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Balances per bank</td>
<td>P480,000</td>
<td>P420,000</td>
</tr>
<tr>
<td>b. Balances per books</td>
<td>504,000</td>
<td>539,000</td>
</tr>
<tr>
<td>c. Undeposited collections</td>
<td>244,000</td>
<td>300,000</td>
</tr>
<tr>
<td>d. Outstanding checks</td>
<td>150,000</td>
<td>120,000</td>
</tr>
<tr>
<td>e. The bank statement for the month of December showed total credits of P240,000 while the debits per books totaled P735,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. NSF checks are recorded as a reduction of cash receipts. NSF checks which are later redeposited are then recorded as regular receipts. Data regarding NSF checks are as follows: 1. Returned by the bank in Nov. and recorded by the company in Dec., P10,000. 2. Returned by the bank in Dec. and recorded by the company in Dec., P25,000. 3. Returned by the bank in Dec. and recorded by the company in Jan., P29,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Check of Pasaway Company amounting to P90,000 was charged to the company’s account by the bank in error on December 31.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>h. A bank memo stated that the company’s account was credited for the net proceeds of Anito’s note for P106,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. The company has hypothecated its accounts receivable with the bank under an agreement whereby the bank lends the company 80% of the hypothecated accounts receivable. The company performs accounting and collection of the accounts. Adjustments of the loan are made from daily sales reports and deposits.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>j. The bank credits the company account and increases the amount of the loan for 80% of the reported sales. The loan agreement states specifically that the sales report must be accepted by the bank before the company is credited. Sales reports are forwarded by the company to the bank on the first day following the date of sale. The bank allocates each deposit 80% to the payment of the loan, and 20% to the company account. Thus, only 80% of each day’s sales and 20% of each collection deposits are entered on the bank statement. The company accountant records the hypothecation of new accounts receivable (80% of sales) as a debit to Cash and a credit to the bank loan as of the date of sales. One hundred percent of the collection on accounts receivable is recorded as a cash receipt; 80% of the collection is recorded in the cash disbursements books as a payment on the loan. In connection with the hypothecation, the following facts were determined:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Included in the undeposited collections is cash from the hypothecation of accounts receivable. Sales were P180,000 on November 30, and P200,000 at December 31. The balance was made up from collections which were entered on the books in the manner indicated above.

Collections on accounts receivable deposited in December, other than deposits in transit, totaled P725,000.

k. Interest on the bank loan for the month of December charged by the bank but not recorded in the books, amounted to P38,000.

QUESTIONS:

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, 2006?
   a. P574,000
   b. P594,000
   c. P430,000
   d. P350,000

2. How much is the adjusted book receipts for December, 2006?
   a. P860,000
   b. P280,000
   c. P876,000
   d. P296,000

3. How much is the adjusted book disbursements for December, 2006?
   a. P180,000
   b. P905,000
   c. P180,000
   d. P760,000

4. How much is the adjusted cash balance as of December 31, 2006?
   a. P690,000
   b. P905,000
   c. P440,000
   d. P350,000

5. How much is the cash shortage as of December 31, 2006?
   a. P32,000
   b. P90,000
   c. P8,000
   d. P0

Suggested Solution:

Pasay Company
Proof of Cash
For the month ended December 31, 2006

<table>
<thead>
<tr>
<th></th>
<th>Beginning Nov. 30</th>
<th>Receipts</th>
<th>Disb.</th>
<th>Ending Dec. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per bank</td>
<td>P480,000</td>
<td>P240,000</td>
<td>P300,000(a)</td>
<td>P420,000</td>
</tr>
<tr>
<td>statement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits in transit:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November 30</td>
<td>100,000(c)</td>
<td></td>
<td></td>
<td>(100,000)</td>
</tr>
<tr>
<td>December 31</td>
<td>140,000(d)</td>
<td></td>
<td></td>
<td>140,000</td>
</tr>
<tr>
<td>Outstanding checks:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November 30</td>
<td>(150,000)</td>
<td></td>
<td></td>
<td>(150,000)</td>
</tr>
<tr>
<td>December 31</td>
<td></td>
<td></td>
<td></td>
<td>120,000</td>
</tr>
<tr>
<td>Erroeneous bank debit-December</td>
<td></td>
<td></td>
<td></td>
<td>(120,000)</td>
</tr>
<tr>
<td>Deposits with loan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>payment (P725,000 x 80%)</td>
<td></td>
<td></td>
<td></td>
<td>580,000</td>
</tr>
<tr>
<td>Adjusted bank balance</td>
<td>P430,000</td>
<td>P386,000</td>
<td>P760,000</td>
<td>P530,000</td>
</tr>
<tr>
<td>Balance per books</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NSF checks:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Returned in Nov.,</td>
<td>(10,000)</td>
<td></td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>recorded in Dec.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Returned and</td>
<td>(10,000)</td>
<td></td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>recorded in Dec.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Returned in Dec.,</td>
<td>25,000</td>
<td></td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>recorded in Jan.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer’s note collected by bank - December</td>
<td>29,000</td>
<td></td>
<td>29,000</td>
<td>(29,000)</td>
</tr>
<tr>
<td>Anticipated loan proceeds from AR hypothecation:</td>
<td>106,000</td>
<td></td>
<td>106,000</td>
<td></td>
</tr>
<tr>
<td>Nov. 30 sales</td>
<td>(P180,000 x 80%)</td>
<td></td>
<td>144,000</td>
<td>(144,000)</td>
</tr>
<tr>
<td>Dec. 31 sales</td>
<td>(P200,000 x 80%)</td>
<td></td>
<td>160,000</td>
<td>(160,000)</td>
</tr>
</tbody>
</table>
Anticipated loan payment from undeposited collections:

<table>
<thead>
<tr>
<th>Date</th>
<th>Receipts</th>
<th>Disb.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 30</td>
<td>80,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Dec. 31</td>
<td>(112,000)</td>
<td>112,000</td>
</tr>
</tbody>
</table>

Interest charge for bank loan in Dec.:

<table>
<thead>
<tr>
<th>Date</th>
<th>Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 30</td>
<td>80,000</td>
</tr>
<tr>
<td>Dec. 31</td>
<td>(112,000)</td>
</tr>
</tbody>
</table>

Adjusted book balance:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>P430,000</td>
<td>P860,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a)</td>
<td>(P480,000 + P240,000 – P420,000)</td>
<td></td>
</tr>
<tr>
<td>b)</td>
<td>(P504,000 + 735,000 – P539,000)</td>
<td></td>
</tr>
<tr>
<td>c)</td>
<td>(P244,000 – P180,000 x 80%)</td>
<td></td>
</tr>
<tr>
<td>d)</td>
<td>(P300,000 – P200,000 x 80%)</td>
<td></td>
</tr>
</tbody>
</table>

Answers: 1) C; 2) A; 3) D; 4) B; 5) D

PROBLEM NO. 12

In connection with your audit, Quezon Metals Company presented to you the following information:

Quezon Metals Company
Comparative Balance Sheets
December 31, 2006 and 2005

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>P 476,000</td>
<td>P 392,000</td>
</tr>
<tr>
<td>Available for sale securities</td>
<td>236,000</td>
<td>-</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>1,248,000</td>
<td>1,016,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>1,112,000</td>
<td>956,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>140,000</td>
<td>84,000</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>3,212,000</td>
<td>2,448,000</td>
</tr>
<tr>
<td>Property, plant, and equipment</td>
<td>2,144,000</td>
<td>1,636,000</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(304,000)</td>
<td>(212,000)</td>
</tr>
<tr>
<td>Total Assets</td>
<td>P5,052,000</td>
<td>P3,872,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities and Stockholders’ Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>P 848,000</td>
<td>P 792,000</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>392,000</td>
<td>304,000</td>
</tr>
<tr>
<td>Dividends Payable</td>
<td>160,000</td>
<td>-</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>1,400,000</td>
<td>1,096,000</td>
</tr>
<tr>
<td>Notes Payable - due 2008</td>
<td>500,000</td>
<td>-</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>1,900,000</td>
<td>1,096,000</td>
</tr>
<tr>
<td>Stockholders’ Equity:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Stock</td>
<td>2,400,000</td>
<td>2,200,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>752,000</td>
<td>576,000</td>
</tr>
<tr>
<td>Total Stockholders’ Equity</td>
<td>3,152,000</td>
<td>2,776,000</td>
</tr>
<tr>
<td>Total Liabilities and Stockholders’ Equity</td>
<td>P5,052,000</td>
<td>P3,872,000</td>
</tr>
</tbody>
</table>

Quezon Metals Company
Condensed Comparative Income Statements
For the Years Ended December 31, 2006 and 2005

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>P14,244,000</td>
<td>P13,016,000</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>11,156,000</td>
<td>10,272,000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>3,088,000</td>
<td>2,744,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>2,084,000</td>
<td>1,944,000</td>
</tr>
<tr>
<td>Net Income</td>
<td>P 1,004,000</td>
<td>P 800,000</td>
</tr>
</tbody>
</table>
Additional information for Quezon:
(a) All accounts receivable and accounts payable relate to trade merchandise.
(b) The proceeds from the notes payable were used to finance plant expansion.
(c) Capital stock was sold to provide additional working capital.

QUESTIONS:
Based on the above and the result of your audit, compute the following for 2006:

1. Cash collected from accounts receivable, assuming all sales are on account.
   a. P14,012,000
   b. P 796,000
   c. P14,476,000
   d. P16,508,000

2. Cash payments made on accounts payable to suppliers, assuming that all purchases of inventory are on account.
   a. P11,368,000
   b. P,020,000
   c. P10,944,000
   d. P11,256,000

3. Cash payments for dividends.
   a. P 828,000
   b. P500,000
   c. P 668,000
   d. P 0

4. Cash receipts that were not provided by operations.
   a. P1,412,000
   b. P 744,000
   c. P508,000
   d. P1,176,000

Suggested Solution:
Question No. 1
Accounts receivable, 1/1/06 P 1,016,000
Add sales for 2006 14,244,000
Total collectible accounts 15,260,000
Less accounts receivable, 12/31/06 1,248,000
Cash collected from accounts receivable P14,012,000

Question No. 2
Accounts payable, 1/1/06 P 792,000
Add purchases for 2006:
   Cost of goods sold for 2006 P11,156,000
   Add Inventory, 12/31/06 1,112,000
Total goods available for sale 12,268,000
Less Inventory, 1/1/06 956,000 11,312,000
Total accounts to be paid 12,104,000
Less accounts payable, 12/31/06 848,000
Cash payments made on AP P11,256,000

Question No. 3
Retained earnings, 1/1/06 P 576,000
Add net income for 2006 1,004,000
Total 1,580,000
Less retained earnings, 12/31/06 752,000
Total dividends declared 828,000
Less increase in dividends payable 160,000
Cash payments for dividends P 668,000

Question No. 4
Proceeds from notes payable P500,000
Proceeds from issuance of common stock (P2,400,000 - P2,200,000) 200,000
Cash receipts not provided by operations (cash provided from financing) P700,000

Question No. 5
Purchase of available for sale securities P236,000
Purchase of PPE (P2,144,000 - P1,636,000) 508,000
Cash payments for assets that were not reflected in operations P744,000

Answers: 1) A; 2) D; 3) C; 4) C; 5) B
PROBLEM NO. 13

The Valenzuela Corporation was organized on January 15, 2006 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 estate purchased and paid in full 1,000,000
Mortgage liability secured by real estate 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

QUESTIONS:

Based on the above and the result of your audit, compute for the following as of November 15, 2006:

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

2. Payments for purchases
   a. P1,854,620  c. P1,207,204
   b. P1,391,780  d. P922,180

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

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

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

Suggested Solution:

Question No. 1
Sales P1,615,040
Less accounts receivable, 11/15 426,900
Collections from sales P1,188,140

Question No. 2
Cost of sales (P1,615,040/1.4) P1,153,600
Add Merchandise inventory, 11/15 469,600
Purchases 1,623,200
Less Accounts payable, 11/15 231,420
Payments for purchases P1,391,780

Question No. 3
Purchase of real estate P1,000,000
Payment for furniture and fixtures (P145,000 - P30,000) 115,000
Expenses paid 303,780
Payments for purchases (see no. 2) 1,391,780
Total cash disbursements P2,810,560

Question No. 4
Proceeds from issuance of common stock P1,600,000
Proceeds from mortgage note payable 400,000
Proceeds from notes payable - bank 160,000
Collections from sales (see no. 1) 1,188,140
Total cash receipts 3,348,140
Less cash disbursements (see no. 3) 2,810,560
Unadjusted cash balance P 537,580

Question No. 5
Cash accountability P537,580
Less cash accounted (Adjusted cash balance):
Unadjusted bank balance P131,640
Deposit in transit 25,700
Outstanding checks (9,260) 148,080
Cash shortage P389,500

Answers: 1) A; 2) B; 3) C; 4) D; 5) B

PROBLEM NO. 14
You were engaged to audit the accounts of Taguig Corporation for the year ended December 31, 2006. In your examination, you determined that the Cash account represents both cash on hand and cash in bank. You further noted that the company’s internal control over cash is very poor.

You started the audit on January 15, 2007. Based on your cash count on this date, cash on hand amounted to P19,200. Examination of the cash book and other evidence of transactions disclosed the following:

a. January collections per duplicate receipts, P75,200.

b. Total duplicate deposit slips, all dated January, P44,000. This amount includes a deposit representing collections on December 31.

c. Cash book balance at December 31, 2006 amounted to P186,000, representing both cash on hand and cash in bank.

d. Bank statement for December showed a balance of P170,400.

e. Outstanding checks at December 31:

<table>
<thead>
<tr>
<th>November checks</th>
<th>December checks</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. 280</td>
<td>No. 331</td>
</tr>
<tr>
<td>P1,800</td>
<td>P2,400</td>
</tr>
<tr>
<td>6,600</td>
<td></td>
</tr>
<tr>
<td>290</td>
<td>339</td>
</tr>
<tr>
<td></td>
<td>1,600</td>
</tr>
<tr>
<td></td>
<td>345</td>
</tr>
<tr>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td>353</td>
</tr>
<tr>
<td></td>
<td>3,600</td>
</tr>
<tr>
<td></td>
<td>364</td>
</tr>
<tr>
<td></td>
<td>10,000</td>
</tr>
</tbody>
</table>

f. Undeposited collections at December 31, 2006 amounted to P20,000.

g. An amount of P4,400 representing proceeds of a clean draft on a customer was credited by bank, but is not yet taken up in the company’s books.

h. Bank service charges for December, P400.

The company cashier presented to you the following reconciliation statement for December, 2006, which he has prepared:

Balance per books, December 31, 2006 P180,600
Add outstanding checks:
No. 331 P2,400
339 1,600
345 2,000
353 3,600
364 10,000
Total 191,200
Bank service charge (400)
Undeposited collections (20,400)
Balance per bank, December 31, 2006 P170,400

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

1. How much is the adjusted cash balance as of December 31, 2006?
   a. P152,800  
   c. P180,200
   b. P144,400  
   d. P 0

2. How much is the cash shortage as of December 31, 2006?
   a. P45,600   
   c. P37,200
   b. P 4,400   
   d. P41,200
3. How much is the cash shortage for the period January 1 to 15, 2007?
   a. P30,800  c. P31,200
   b. P32,400  d. P32,000

4. Which of the following is not a method used by the cashier to cover-up the shortage as of December 31, 2006?
   a. Understating outstanding checks by P27,000.
   b. Not recording the bank collection of P4,400.
   c. Understating the book balance by P5,400.
   d. Overstatement of undeposited collections by P400.

Suggested Solution:

Questions No. 1 and 2

<table>
<thead>
<tr>
<th></th>
<th>Bank</th>
<th>Books</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unadjusted balances</td>
<td>P170,400</td>
<td>P186,000</td>
</tr>
<tr>
<td>Add (deduct) adjustments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding checks:</td>
<td>(46,000)</td>
<td></td>
</tr>
<tr>
<td>Undeposited collections</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Unrecorded bank collection</td>
<td></td>
<td>4,400</td>
</tr>
<tr>
<td>Bank service charge</td>
<td></td>
<td>(400)</td>
</tr>
<tr>
<td>Balances</td>
<td>144,400</td>
<td>190,000</td>
</tr>
<tr>
<td>Shortage</td>
<td>(45,600)</td>
<td></td>
</tr>
<tr>
<td>Adjusted balances</td>
<td>P144,400</td>
<td>P144,400</td>
</tr>
</tbody>
</table>

Question No. 3

Collections per records                  P75,200
Add undeposited collections, Dec. 31     20,000
Total cash that should be deposited in January 95,200
Less January deposits                    44,000
Undeposited collections, Jan. 15         51,200
Less undeposited collections per cash count 19,200
Shortage, Jan. 1 to 15, 2007              P32,000

Question No. 4

Cover-up for the December 31, 2006 shortage:
Non-recording of bank collection          P 4,400
Understatement of book balance           (P186,000 - P180,600)
Understatement of outstanding checks     (P46,000 - P10,600)
Overstatement of undeposited collections  (P20,400 - P20,000)
Total shortage, December 31, 2006         P45,600

Answers: 1) B; 2) A; 3) D; 4) A

PROBLEM NO. 15

Select the best answer for each of the following:

1. An auditor would consider a cashier’s job description to contain compatible duties if the cashier receives remittance from the mailroom and also prepares the

2. Which of the following internal control procedures will most likely prevent the concealment of a cash shortage resulting from improper write-off of a trade account receivable?
   a. Write-offs must be supported by an aging schedule showing that only receivables overdue for several months have been written off.
   b. Write-offs must be approved by the cashier who is in a position to know if the receivables have, in fact, been collected.
   c. Write-offs must be approved by a responsible officer after review of credit department recommendations and supporting evidence.
   d. Write-offs must be authorized by company field sales employees who are in a position to determine the financial standing of the customers.

3. An entity’s internal control structure requires every check request that there be an approved voucher, supported by a prenumbered purchase order and a prenumbered receiving report. To determine whether checks are being issued for unauthorized expenditures, an auditor most likely would select items for testing from the population of all
   b. Approved vouchers. d. Receiving reports.
4. Which of the following auditing procedures would the auditor not apply to a cutoff bank statement?
   a. Trace year end outstanding checks and deposits in transit to the cutoff bank statement.
   b. Reconcile the bank account as of the end of the cutoff period.
   c. Compare dates, payees and endorsements on returned checks with the cash disbursements record.
   d. Determine that the year end deposit in transit was credited by the bank on the first working day of the following accounting period.

5. A client maintains two bank accounts. One of the accounts, Bank A, has an overdraft of P100,000. The other account, Bank B, has a positive balance of P50,000. To conceal the overdraft from the auditor, the client may decide to
   a. Draw a check for at least P100,000 on Bank A for deposit in Bank B. Record the receipt but not the disbursement and list the receipt as a deposit in transit. Record the disbursement at the beginning of the following year.
   b. Draw a check for at least P100,000 on Bank B for deposit in Bank A. Record the receipt but not the disbursement and list the receipt as a deposit in transit. Record the disbursement at the beginning of the following year.
   c. Draw a check for P100,000 on Bank B for deposit in Bank A. Record the disbursement but not the receipt. List the disbursement as an outstanding check, but do not list the receipt as a deposit in transit. Record the receipt at the beginning of the following period.
   d. Draw a check for at least P100,000 on Bank A for deposit in Bank B. Record the disbursement but not the receipt and list the disbursement as an outstanding check. Record the receipt at the beginning of the following year.

6. While performing an audit of cash, an auditor begins to suspect check kiting. Which of the following is the best evidence that the auditor could obtain concerning whether kiting is taking place?
   a. Documentary evidence obtained by vouching credits on the latest bank statement to supporting documents.
   b. Documentary evidence obtained by vouching entries in the cash account to supporting documents.
   c. Oral evidence obtained by discussion with controller personnel.
   d. Evidence obtained by preparing a schedule of interbank transfers.

7. Two months before year-end, the bookkeeper erroneously recorded the receipt of a long-term bank loan by a debit to cash and a credit to sales. Which of the following is the most effective procedure for detecting this type of error?
   a. Analyze bank confirmation information.
   b. Analyze the notes payable journal.
   c. Prepare year-end bank reconciliation.
   d. Prepare a year-end bank transfer schedule.

8. Postdated checks received by mail in settlement of customer’s accounts should be
   a. Returned to customer.
   b. Stamped with restrictive endorsement.
   c. Deposited immediately by the cashier.
   d. Deposited the day after together with cash receipts.

9. The cashier of Milady Jewelries covered a shortage in the cash working fund with cash obtained at December 31 from a bank by cashing but not recording a check drawn on the company out of town bank. How would you as an auditor discover the manipulation?
   a. By confirming all December 31 bank balances.
   b. By counting the cash working fund at the close of business on December 31.
   c. By investigating items returned with the bank cut-off statements of the succeeding month.
   d. By preparing independent bank reconciliations as of December 31

10. An essential phase of the audit of the cash balance at the end of the year is the auditor’s review of cutoff bank statement. This specific procedure is not useful in determining if
    a. Kiting has occurred.
    b. Lapping has occurred.
    c. The cash receipts journal was held open.
    d. Disbursements per the bank statement can be reconciled with total checks written.

Answers: 1) A; 2) C; 3) A; 4) B; 5) B; 6) D; 7) A; 8) B; 9) C; 10) B

-end-