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COURSE NAME: Internal Controls and Cash

An Exam on Internal Controls and Cash

Presented to

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In Partial Fulfillment of the Requirements

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Introduction:

(Libby) In business, internal controlis defined as the methods an organization uses to protect against the theft of assets,enhance the reliability of accounting information, promote efficient and effective operations,and ensure compliance with applicable laws, regulations, and codes of ethical conduct.

(Libby) All businesses have one thing in common: To be successful, they must control their operations. They must hire the right people, pay them the right amount of wages, order and receive the right products, pay suppliers the right amounts at the right times, set the right prices, collect and deposit the right amount of cash, and so on.

The exam begins by highlighting and defining the (Libby) meaning of internal control and explain the policies and procedures companies employed in order prevent avoidable losses, plan operations, monitor company and employee performance as well as ensuring that compliance with applicable laws, regulations, and codes of ethical conduct are being upheld.

The exam also explains the (Libby) common principles of controls such as establish responsibility, segregate duties, restrict access, document prepare and independently verification. In addition, the exam shows that despite a company effort in implementing internal controls there are (Libby) limitations since internal controls can never completely prevent and detect errors and fraud.

Additionally, the exam tests my knowledge on the proper application of internal controls principles to cash receipts and payments. Next, (Libby) we also examine the operation of voucher and the petty cash systems that are used for small payments.

The questions concluded with how companies prepare a bank reconciliation and also the reporting of cash and cash equivalents that proofs to assist with the company’s finances.

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Questions to answer

1. What are internal controls and why are they needed?

(Libby) Internal control is defined as the methods an organization uses to protect against the theft of assets, enhance the reliability of accounting information, promote efficient and effective operations, and ensure compliance with applicable laws, regulations, and codes of ethical conduct.

(Wild and Shaw) Internal Control System Managers use an internal control system to monitor and control business activities. An internal control system is policies and procedures used as listed below:

(Wild and Shaw)Protect assets.

(Wild and Shaw)Promote efficient operations.

(Wild and Shaw)Ensure reliable accounting.

(Wild and Shaw)Uphold company policies.

(Wild and Shaw) Managers use internal control systems to prevent avoidable losses, plan operations, and monitor company and employee performance. For example, internal controls for UnitedHealth Group protect patient records and privacy.

2. What ***aspect(s)*** of the Sarbanes-Oxley Act of 2002 might counteract the incentive to  
commit fraud?

(Wild and Shaw) Sarbanes-Oxley Act (SOX) Sarbanes-Oxley Act (SOX) requires managers and auditors of companies whose stock is traded on an exchange (called public companies) to document and verify internal controls.

Aspects of Sarbanes-Oxley act to Counteract Incentives for Committing Fraud are as follows:

* (Libby) Repaying any money obtained via fraud and can be assessed additional fines of up to $5 million.
* (Libby) Executives cannot avoid penalties by declaring personal bankruptcy.
* (Libby) (Wild and Shaw) Violators receive harsh penalties—up to 25 years in prison with fines.

3. What aspect(s) of the Sarbanes-Oxley Act of 2002 might reduce opportunities for  
fraud?

(Libby)The aspects of the Sarbanes-Oxley Act of 2002 that reduce opportunities for fraud are as follows:

* (Libby)Internal control report from management
* (Libby)Stronger oversight by directors
* (Libby)Internal control audit by external auditors

1. (Libby) Internal control report from management. Every year managers must review their company’s internal controls and issue a report that indicates whether controls over

financial reporting was effective. This new requirement means that most marketing

managers, for example, now have some accounting responsibilities, such as determining whether their staff members submit accurate sales and expense reports.

2. (Libby) Stronger oversight by directors. Each company must establish an independent audit committee to oversee the company’s financial matters. One of the main roles of this committee is to hire external auditors and ensure that they perform their work effectively.

3. (Libby) Internal control audit by external auditors. The company’s external auditor’s must test the effectiveness of the company’s internal controls and issue a report that gives an opinion about the effectiveness of the company’s internal controls over financial reporting. As was the case before SOX, external auditors must also examine the company’s financial statements and report whether they were prepared using GAAP.

4. What aspect(s) of the Sarbanes-Oxley Act of 2002 might allow the good character of  
employees to prevail?

The aspects of the Sarbanes Oxley Act of 2002 that encourage good character in employees are as follows:

* (Libby) Anonymous tip lines
* (Libby) Whistle-blower protection
* (Libby) Code of ethics

(Libby) For example, audit committees are now required to create tip lines that allow employees to secretly submit concerns they may have about suspicious accounting or auditing practices. SOX gives these “whistle-blowers” legal protection from retaliation by those charged with fraud. That is, if you tattle on your boss for submitting a fraudulent expense claim, you cannot be fired for doing so. Finally, to reinforce good character, public companies must adopt a code of ethics for senior financial officers.

5. From the perspective of a CEO or CFO, what does internal control mean?

(Libby) From the perspective of a company’s chief executive officer (CEO), chief financial officer (CFO), and board of directors, internal control is a broad concept that includes more than accounting.

It includes setting strategic objectives, identifying risks the company faces, hiring good employees, instilling ethical principles in them, motivating them to achieve the company’s objectives, and providing the resources and information they need to fulfill those objectives.

6. What are five common internal control principles?

* (Libby)Establish responsibility -Whenever possible, assign each task to only one employee. Doing so will allow you to determine who caused any errors or thefts that may have occurred.
* (Libby)Segregate duties- Segregation of duties involves assigning responsibilities so that one employee cannot make a mistake or commit a dishonest act without someone else discovering it.
* (Libby)Restrict access- Do not provide access to assets or Home Depot secures valuable information unless it is needed to fulfill assets such as cash and access assigned responsibilities.
* (Libby)Document Prepare - documents to show activities. Digital and paper documents are such common features of business that you may not realize they represent an internal control. By documenting each business activity, a company creates a record of whether goods were shipped, customers were billed, cash was received, and so on.
* (Libby)Independently Check others` work- A business can perform independent verification in various ways. The most obvious is to hire someone (an internal auditor) to check that the work done by others within the company is appropriate and is supported by documentation

7. Why is it a good idea to assign each task to only one employee?

(Libby) Assigning each task to an individual employee is a good idea since it can determine who caused any errors or thefts that may have occurred.

(Wild and Shaw) When a problem occurs in a company where responsibility is not established, determining who is at fault is difficult.

(Wild and Shaw) For example, if two salesclerks share the same cash register and cash is missing, neither clerk can be held accountable. To prevent this problem, a company can use separate cash drawers for each clerk.

For instance, at my company the toll collectors use separate register to record their transactions. This type of separated responsibilities allows the company to know who is at fault if there is an error, shortage or theft.

For instance, at my company only account receivable clerk has access to check cash, hence if there is a shortage the supervisor is aware of the individual responsible for the shortage.

8. Why should certain responsibilities like cash handling and cash recording should be separated? What specific responsibilities should be separated?

(AccountingTools) The separation of duties concept prohibits the assignment of [responsibility](https://www.accountingtools.com/articles/2018/8/25/responsibility) to one person for the acquisition of [assets](https://www.accountingtools.com/articles/what-is-an-asset.html), their custody, and the related record keeping.

(AccountingTools) By separating duties, it is much more difficult to commit [fraud](https://www.accountingtools.com/articles/what-is-fraud.html), since at least two people must work together to do so which is far less likely than if one person is responsible for all aspects of an accounting transaction.

(AccountingTools) For instance the separation of duties for cash ensure that one person opens envelopes containing [checks](https://www.accountingtools.com/articles/2017/5/14/check), and another person records the checks in the [accounting system](https://www.accountingtools.com/articles/2017/5/7/accounting-system). This reduces the risk that checks will be removed from the company and deposited into a person's own [checking account](https://www.accountingtools.com/articles/2017/5/14/checking-account).

(Wild and Shaw) Consequently, certain responsibilities like cash handling and cash recording should be separated in order to minimize errors and avoiding fraudulent transaction. In addition, separation of duties ensures the work of one person acts as a check on the other to prevent fraud and errors. This principle, called separation of duties, does not mean duplication of work.

9. What are some of the methods for restricting access?

(Libby) Some controls involve rather obvious steps such as physically locking

up valuable assets and electronically securing access to other assets and information.

* (Libby) (Passwords) The example of “The Home Depot” restricts access to check-signing equipment, requires a password to open cash registers, and protects computer systems with firewalls.
* (Libby) (Control Access) The company provides access to important assets and valuable information on an as-needed basis. Also only authorized individuals are given access.
* (Libby)If employees do not need assets or information to fulfill their assigned responsibilities, they are denied access.
* (Libby) For instance, the use of a vault only the accounting staff has access.

10. In what ways does documentation act as a control?

(Libby) Digital and paper documents are such common features of

business that you may not realize they represent an internal control. By documenting each business activity, a company creates a record of whether goods were shipped, customers were billed, cash was received, and so on. Without these documents, a company would not know what transactions have been or need to be entered into the accounting system.

(Libby) To enhance this control, most companies assign sequential numbers to their documents and then check at the end of every accounting period to make sure that each document number corresponds to one and only one accounting entry.

(Libby) For example, The Home Depot’s computer system automatically assigns sequential numbers to cash sales so that the accounting staff can ensure that every sale has been recorded.

For instance, by assigning a sequential number to all documents prevent duplication and allows employees and managers to have a proper tract record of each items.

11. In what ways can independent verification occur?

(Libby) business can perform independent verification in various ways.

(Libby) The most obvious is to hire someone (an internal auditor) to check that the work done by others within the company is appropriate and is supported by documentation. Independent verification can also be made part of a person’s job.

For example, before The Home Depot issues a check to pay for a truckload of lumber, a clerk first verifies that the bill relates to goods that were actually received and that it has been calculated correctly.

(Libby) A third form of independent verification involves comparing the company’s accounting information to information kept by an independent third party, such as a bank. For example, the company may compare internal cash records to a statement of account issued by the bank.

12. In what way does a mandatory vacation policy act as a control?

(Libby) Point: Many companies have a mandatory vacation policy for employees

who handle cash. When another employee must cover for the one on vacation, it is more difficult to hide cash frauds.

13. What are the three limitations of internal control?

The three limitations of internal controls are as follows:

* (Libby) (Wild and Shaw) Cost benefit principle - First, an organization will implement internal controls only to the extent that their benefits exceed their costs. The Home Depot could nearly eliminate shoplifting by body searching every customer who leaves the store, but such an irritating policy would soon drive customers away. The cost of the lost sales would far exceed the benefits of reduced shoplifting.
* (Libby) (Wild and Shaw) Human Error - Second, internal controls can fail as a result of human error or fraud. People do make simple mistakes in performing control procedures, especially if they are tired, careless, or confused.
* (Libby) (Wild and Shaw) Human Fraud - Finally, criminally minded employees have been known to override (disarm) internal controls or collude (work together) to get around them.

14. What is the primary internal control goal for cash receipts?

(Libby) The primary internal control goal for cash receipts is to ensure that the business receives the appropriate amount of cash and safely deposits it in the bank.

15. What internal control functions are performed by a cash register? How are these  
functions performed when cash is received by mail?

The internal controls performed by a cash register are document procedures, restrict access, independently verify.

(Libby) The register performs three important functions as follows:

(Libby) (1) it restricts access to cash

(Libby) (2) it documents the amount charged for each item sold

(Libby) (3) it summarizes the total cash sales. By restricting access, the cash register reduces the risk of cash being lost or stolen. In documenting each item sold (both on screen and on a paper receipt), the cash register reduces errors by allowing customers to dispute overcharges should they occur.

(Libby) By summarizing the total cash sales, the cash register provides an independent record of the amount of cash the cashier should have collected and passed on for deposit at the bank.

(Wild and Shaw) Cash Register Insight Walmart uses a network of information links with its point-of-sale cash registers to coordinate sales, purchases, and distribution. Its stores ring up tens of thousands of separate sales on heavy days. By using cash register information, the company can fix pricing mistakes quickly and capitalize on sales trends.

(Libby) (Wild and Shaw) These functions performed when cash is received by mail involves the assignment of two people who are assigned the task of opening the mail. In this case, theft of cash receipts by mail requires collusion between these two employees. In this instance cash received by mail procedure is properly documented and properly verified.

(Wild and Shaw) The person(s) opening the mail enters a list (in triplicate) of money received. This list has each sender’s name, the amount, and an explanation of why the money was sent.

(Wild and Shaw) The first copy is sent with the money to the cashier.

(Wild and Shaw) A second copy is sent to the record keeper.

(Wild and Shaw) A third copy is kept by the person(s) who opened the mail. The cashier deposits the money in a bank, and the record keeper records the amounts received.

16. How is cash received in person independently verified?

(Libby)The accounting department compares the record of cash sales maintained by the cash register with the count sheet prepared by the cashier, the daily cash receipts summary prepared by the supervisor and the stamped bank deposit slip returned by the bank. This comparison provides independent verification that the amount of cash rung up at the time of sale was deposited into the bank account.

17. What is the primary internal control goal for cash payments?

(Libby) the primary goal of internal controls for cash payments is to ensure that the business pays only for properly authorized transactions.

(Libby) These payments should be made efficiently to minimize the cost to the organization and take advantage of discounts when possible. Internal control is generally more effective and efficient when payments are made using pre-numbered checks or EFTs rather than cash.

18. In what ways is a petty cash system similar to and different from an imprest payroll system?

(Libby) A petty cash fund is a system used to reimburse employees for expenditures they have made on behalf of the organization.

(Libby) Like the imprest payroll account, a petty cash fund acts as a control by establishing a limited amount of cash to use for specific types of expenses.

(Libby) The main difference between the two is that rather than transfer funds from a general bank account to another special account at the bank, the company removes cash from its general bank account to hold at its premises in a locked cash box.

19. Describe three ways in which banking services help businesses control cash.

(Libby) 1. Safeguarding. Because banks provide a secure place to deposit cash, businesses need to keep only a limited amount of cash on hand, which reduces the risk that it will be stolen or misplaced.

(Libby) 2. Improving efficiency and effectiveness. By processing payments made by check or EFT, banks facilitate business transactions.

(Libby) 3. Independently verifying. Company accountants can use the statement of account prepared by the bank to double-check the accuracy of the cash records. By comparing these two sets of records and investigating any differences, they can verify that the company’s records are accurate or identify necessary adjustments.

20. What are the purposes of a bank reconciliation? What balances are reconciled?

(Libby) The purpose of a bank reconciliation is an internal accounting report that compares the company’s cash records with the bank’s record; that provides an independent verification of all cash transactions that the bank has processed for the company.

(Wild and Shaw)bank reconciliationexplains differences between the checking account balance in the depositor’s records and the balance on the bank statement.

21. Define cash and indicate the types of items that should be reported as cash.

Define cash equivalents and give two examples of a cash equivalent.

(Libby) Cash includes currency, coins, and deposits in bank accounts. Cash also includes items that can be deposited in these accounts such as customer checks, cashier’s checks, certified checks, and money orders.

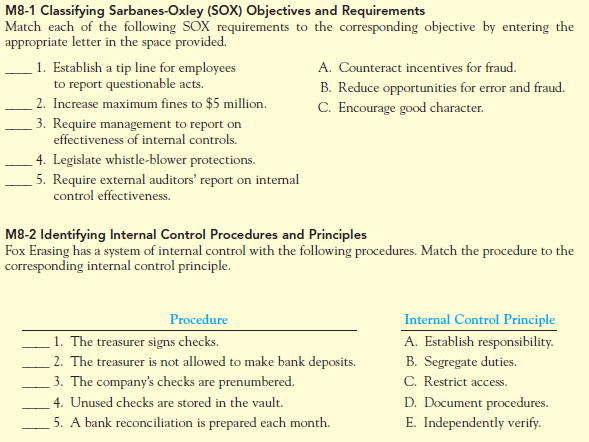
Cash equivalents are short-term, highly liquid investment assets meeting two criteria:

(Libby)(1) readily convertible to a known cash amount and

(Libby)(2) close enough to their due date so that their market value will not greatly change. Only investments within three months of their due date usually meet these criteria.

Example 1) (Libby) (Wild and Shaw) U.S. Treasury bills.

Example 2) (Libby) Certificates of deposit



M8-1 M8-2

C 1. A 1.

A 2. B 2.

B 3. D 3.

C 4. C 4.

B 5. E 5.



M8-3

Answer 1. Establish responsibility

Answer 2. Segregates duties

Answer 3. Restrict access

Answer 4. Document procedures

Answer 5. Independently verify



M8-4

Answer 1. D

Answer 2. E

Answer 3. C

Answer 4. B

Answer 5. A

Answer M8-5

1) (Libby) Segregation of Duties is violated in this instance. It is clear in this example that the cashier controls all aspects of the transactions working independently of his\her supervisor demonstrating that there is a weakness in the company internal control. Considering that the Cashier initiate all these activities and next submitting to the accounting department for review and recording could lead to theft or cashier committing fraud.

(Libby)The change that would improve this weakness is the Cashier would prepare a cash count summary, attaches the tapes from the cash register showing total receipts and next the supervisor validates the cashier summary, next checks and cash are given to the person who prepares the bank deposit whereas the cash receipts list and remittance advices are sent to the accounting department. Next, the accounting department then independently verifies that all cash received by mail was deposited in the bank by ensuring that the total on the cash receipts list equals the stamped deposit slip received from the bank. The accounting department then uses the cash receipts list to record the journal entries that debit Cash and credit Accounts Receivable from each customer.

2) (Libby)Restrict access is violated in this scenario, the weakness with this scenario is that everyone who come in contact with the register has access the fact that the password is written on a note stuck to the side of the cash register. To remedy this situation, the company should ensure that passwords are protected and only staff who has access to the register has a password and password must not be written and be readily accessible to others, therefore, each staff should memorize their password and thus protect their register denied access to those who are not privy to such information.

3) (Libby) Segregation of duties is violated, receptionist open the mails sort and give the checks to mail clerk who deliver the checks to the accounting department. Weakness in this scenario duties are not properly segregated – the receptionist can easily take a check or two due to the fact that she is not supervise. Next the mail clerk did not receive a checklist of the checks to verify and signed off on between self and supervisor before checks are delivered to the accounting department. To remedy the situation, both the mail clerk and the supervisor sign the completed cash receipts list. To ensure that no one diverts the checks for personal use, the clerk stamps each check “For Deposit Only,” which instructs the bank to deposit the check in the company’s

account rather than exchange it for cash. Next, checks and money orders are given to the person who prepares the bank deposit whereas the cash receipts list and remittance advices are sent to the accounting department. The accounting department then independently verifies that all cash received by mail was deposited in the bank by ensuring that the total on the cash receipts list equals the stamped deposit slip

received from the bank. The accounting department then uses the cash receipts list to record the journal entries that debit Cash and credit Accounts Receivable from each customer.

4) (Libby) Document procedures is violated in this instance. Instead of filing by customer number the documents are files by the register number. Cash count sheet is filed by employee number instead of customer number or the activities that had taken place.

The situation may be remedy by (Libby) preparing the documents to show activities that have occurred using an automatically assigns sequential numbers to cash sales so that the accounting staff can ensure that every sale has been recorded and a sequential number is assigned to each documents and corresponds to one and only one accounting entry.

5) (Libby)Establish responsibility is violated due to the fact that the cashier is trading off with other employees to avoid boredom. In this scenario because responsibility is not established it will be a challenged to determine who caused any errors or thefts that may have occurred. (Libby) To improve internal controls, the company should assign a separate cash register drawer to each employee at the beginning of a shift. If two cashiers were to use the same drawer, determining which cashier caused the drawer to be short of cash would not be possible. With just one person responsible for adding and removing money from the drawer, however, no doubt exists about who is responsible for a cash shortage.

6) (Libby)Segregation of duty is violated because a single employee should not initiate, approve, record, and access the items involved in the same transaction. To remedy this situation, the company should assign responsibilities so that one employee cannot make a mistake or commit a dishonest act without someone else discovering it.



Answer M8-6

Answer 1. C

Answer 2. A

Answer 3. E

Answer 4. D

Answer 5. B



ANSWER FOR M8-8

Answer 1. PC

Answer 2. PC

Answer 3. PC

Answer 4. V



Answer M8-10

Account Titles Debit Credits

|  |  |  |
| --- | --- | --- |
| Taxi fare | $40 |  |
| Delivery Charges | $12 |  |
| Office Supplies | $30 |  |
| Cash | 82 | 100 |
| Reimburse petty cash 100  $18 Cash in box |  |  |

Answer M8-11

Reconciling Item Bank Statement Company’s Books

|  |  |  |
| --- | --- | --- |
| Outstanding checks of $12,000 | * Deduct |  |
| Bank Service Charge of $15 |  | * Deduct |
| Deposit in transit of $2,300 | + Add |  |
| Interest earned of $5 |  | + Add |



Answer to M8-13 and M8-14

Trigger Company Bank Recon June 30, 2009

|  |  |
| --- | --- |
| Balances per bank …........ $10,000 | Balance per Company…… $9,030 |
| + Deposit in Transit……. $3,000 | + Interest earned……… $50 |
| -Outstanding Checks……. $4,000 | - Bank Service charges …. $80 |
| Adjusted Balance per Bank … $9,000 | Adjusted Balance per company $9,000 |
| Balances are equal reconciled | Balances are equal reconciled |

Answer to M8-15

1. Cash Equivalent
2. Cash Equivalent
3. Cash
4. Cash

How could you apply the content of your assignment, to your daily professional, and/ or to your routine life?

(Libby) In my personal life, internal controls include basic precautions, such as

locking your car door, checking the accuracy of my bank statement and with online banking checking my current amounts and usage of my credit card amounts. In, addition, check to ensure that loan amounts are correctly apply by banks and also, that salary deductions are being delivered to the appropriate individuals or company that are due payment on my behalf, therefore validating my pay slip and checking with the various vendors. Internal control will also assist me to properly budget my funds.

I can apply the content in my professional life by being up to date with current procedures and ensure that company policies and procedures are kept at the highest standards and are not violated.

Advantages and Disadvantages of internal controls.

(Team) As with any business system, there are advantages and disadvantages to internal controls:

Some advantages of internal controls could include:

* (Team) Internal controls are accessible to a limited number of [trusted upper-level employees](https://www.indeed.com/career-advice/finding-a-job/top-executive-titles). The fewer people involved, the easier it is to oversee their actions and guard against irregularities.
* (Team) Properly designed and executed internal controls increase efficiency by making transactions transparent to any business unit needing them.
* (Team) When internal controls are well-balanced between providing transparency and encouraging efficiency, they protect employees from accusations of irregularities or misappropriations of funds.

Disadvantages

Possible disadvantages of internal controls include:

* (Team) There is no foolproof way to ensure that employees do not override those controls because human behavior is an unpredictable element in the internal control process.
* (Team) If a company poorly plans or incorrectly implements its internal controls, employees using them may become frustrated and apathetic about enforcing them.

Conclusion:

The exam highlights the importance of internal controls (Wild and Shaw). However, for a company to benefit from internal controls it is of utmost important that employees are honest, confidential, integrity keepers and conscientious members who will adhere to the internal controls that are in place.

It is noteworthy that internal controls can monitoring transaction and safeguard the company assets and members, controls raise productivity, cut expenses, reduce fraud, and enhance the member experience in order for the possibilities managers must ensure compliance with applicable laws regulations and codes of ethical conduct are upheld. Thus, CFO of a company will ensure that the (Libby) internal controls are periodically audit in an effort to avoid fraud etc. and also, in keeping with the company’s policies and procedures. For instance, auditors who will visit our company each quarter to ensure compliance of policies and procedures for example in relation to how documents are process taking into consideration if documents are checked signed and approved by those who are authorized to do so.

In addition, I have come to appreciate the importance of internal controls as it relates to handling of cash and the processes. (Team) Without proper internal controls funds could have being mishandled for instance our company has implemented a procedure where cash & checks received are deposit immediately. As I examined the material for internal control a method that could eliminate mishandling of funds, or even misplaced customer checks which occur due to (Libby)human error is that of allowing customers to deposit funds directly to the companies bank account in an effort to avoid mishandling of funds are theft.

In my current capacity as an acting payables supervisor the exam help me to appreciate the importance of cash management therefore I am encouraged to employ the methods more fully to pay suppliers when the invoices are due or as mention the (Libby) last bill day, (Wild and Shaw) delay payment of liabilities and to encourage my colleague on the receivables team to collect revenues earlier, this means that ensuring that invoices are prepared early that way our receivables will be kept on high.

The principles of controls such as establish responsibility help me to appreciate fully the need to have (Wild and Shaw) one individual responsible for a task this really allow the company or the manager to determine who is at fault when an error is made or theft in involved. For instance, if too many persons are assigned the same task it definitely will be a challenged in case cash is missing and especially if the controls are not followed.

It is obvious that even with the best internal (Wild and Shaw) controls it will not eliminate errors or fraud. We can conclude this because humans are imperfect and some employees will (Wild and Shaw) collude with each other to be dishonest if that is their nature or perhaps they are of the impression that the company or their managers have dealt with them in an in just manner.

(Libby) The exam further, help me to appreciate the principle of separation of duties which is critical to effective internal control because it reduces the risk of both erroneous and inappropriate actions. On a departmental basis each should attempt to separate functional responsibilities to ensure that errors, intentional or unintentional, cannot be made without being discovered by another person. (Libby) Consequently, this will safeguard companies’ assets and ensure that business information is accurate. And more importantly ensure employees are acting in harmony with internal control compliance with regulations of SOX ethical behavior.

The exam helps me to implement a more efficient filing system at work in regards to document procedures for instance I am more fully aware of the need to ensure that documents are not delayed and process on a timely manner. I am now more insistence on colleagues as well as vendors to send invoices on time.

The exam helps to appreciate the need to keep (Libby) on the lookout for ethical risk such as for instance colleagues who refuses to leave job for vacation since such behavior could conceal fraudulent behavior, and pay attention to lifestyle changes considering that such behavior could be embezzlement.

Additionally, the exam tests my knowledge on the proper application of internal controls principles to cash receipts and payments. Next, (Libby) we also examine the operation of voucher and the petty cash systems that are used for small payments. I have also learnt how to prepare a bank reconciliation, noting the items that are relating to the bank and the items that are related directly to the company, I have also come to appreciate the items that are added and deducted and how to make an adjustment to the company’s book. (Wild and Shaw) Hence, we can rightly conclude that the bank reconciliation is an essential tool to detect and also preventing fraud.

Lastly (Libby) internal controls proof to be beneficial to companies and even in our personal lives. (Libby) Interestingly, one group of researchers found companies that emphasized internal control and an ethical culture grew their revenues four times faster and increased their stock prices 12 times as much as companies without those practices. transactions processed by the company each year are completed with consistency, efficiency, accuracy, and honesty.

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