I. Accounting Systems
   A. Methods & procedures for collecting, classifying, summarizing, and reporting a business’s financial and operating information.
   
   B. Manual vs computerized.
   
   C. Development of an accounting system
      1. Analysis
      2. Design
      3. Implementation
   
II. Internal Control
   
   A. Consists of the policies and procedures and source documents used to help:
      1. Safeguard assets from misappropriation
      2. Ensure transactions are properly authorized and transactions are recorded properly
         a. Permits preparation of reliable financial statements
      3. Ensure compliance with laws and regulations
   
   B. Elements of internal control
      1. Control environment
         2. Risk assessment
         3. Control procedures
            a. Separation of duties
               (1) People who have custody of assets should not be doing the accounting work related to those assets
               (2) Tasks related to certain activities should be broken out. For example: ordering, receiving, and recording payment for purchasing activities should not be performed by only one person.
               (3) Provides a series of “checks and balances” on the work of others without duplicating effort.
            
            b. Establish responsibility for given tasks
            
            c. Use of prenumbered documents to provide evidence that transactions and events have occurred.
               (1) Account for numerical sequence
               (2) Space on document to indicate that other review and checks have been performed
d. Physical controls (security measures)
   (1) Safeguard assets - limit access thereto
   (2) Data processing systems with passwords and other software controls

e. Independent internal verification which consists of review, comparison, and reconciliation
   of information from two different sources
   (1) Internal auditors -- determine compliance with prescribed policies and monitor
   system to identify weaknesses and improve controls.

f. Other miscellaneous controls
   (1) Bonding of employees who handle cash
   (2) Rotation of employee duties and required vacations

C. Note internal control procedures are not fool proof. They can be circumvented.
   1. Cost vs. benefit of establishing controls

D. Book discusses various control procedures for cash collection transactions and cash disbursement
   transactions
   1. Cash receipts
      a. Segregate duties -- those who handle cash are not the same as those who keep records for
         cash
      b. Use of cash register with register tapers locked inside, or register is directly connected to
         the computer.
      c. Use of pre-numbered sales tickets
      d. Deposit all cash receipts intact on a daily basis

   2. Cash disbursements
      a. Pay all but small items by check
      b. Use a petty cash fund for small items
      c. Mark invoices as "paid" when check is issued for them
      d. Use of voucher system

   3. Voucher System
      a. System utilized to gain good control over expenditures
      b. Before any item is paid it must be supported by a properly authorized voucher (page 281)
         (1) Prepared as soon as the liability is incurred.
      c. "Vouchers Payable" account replaces the "Accounts Payable" account in General Ledger.
      d. Approved, but unpaid, vouchers are filed by due date. Paid on due date.
         (1) Unpaid voucher file acts as a subsidiary ledger. The control account is "Vouchers
             Payable"

   4. Electronic funds transfer payments
III. Bank Reconciliation

A. Necessary to test controls over recording of transactions
   1. Makes sure books agree with bank and vice versa

B. How to begin reconciliation
   1. Examine books (journals) and bank statements for differences (reconciling items)
   2. Determine whose records should be adjusted for reconciling items
   3. Put into format of bank reconciliation (see pages 286)

C. Examples of reconciling items (differences)
   1. Items affecting bank records
      a. Outstanding checks
      b. Deposits in transit
      c. Errors made by bank
   2. Items affecting book balance
      a. Bank charges (service fees and miscellaneous)--debit memorandums
      b. NSF checks
      c. Collections by bank as collecting agent--credit memorandums
      d. Errors in recording transactions

D. **YOU MUST** prepare an adjusting journal entry for the reconciling items affecting the books.

IV. Petty Cash Fund
A. Small amount of money set aside from which to pay for incidental expenses

B. Entry to set up:
   
   Petty Cash 100
   Cash 100

C. Method of Operating Fund
   1. Use of petty cash vouchers or receipts, (prenumbered)
   2. Fund should always contain cash plus vouchers which equal size of the fund.
   3. Replenishment of petty cash fund
      a. Use of cash short and over