Internal Controls

Chapter 4 covers some of the most fascinating topics in Accounting! It is actually my specialty as a Certified Fraud Examiner. We uncover fraud and look for control weaknesses. A main objective for accounting managers is to implement the proper controls so that no one can easily hack the system. Fraud is rampant and more common if controls are inadequate or non-existent.

Some great ideas for internal controls are listed in the chapter. Another item that needs control is CASH. As you can imagine, cash is very easy to STEAL. Your dollars look like my dollars. It is difficult to trace where it went. It is our job to have controls that protect the cash.

We see that fraud is best described in the fraud triangle! The triangle shows us that there will usually be opportunity for fraud, pressure of some sort and rationalization. Think of that topic and see if you agree!

A bank reconciliation is great to know and you can always practice with your own personal checking account. Just get your last bank statement, either on paper or online. You can follow the instructions that your bank gives you. Basically, you are looking for debits that are on the statement but not in your records. You are also looking for credits that you have in your records (check register) that the bank has not credited you for yet. And the same for fees and charges, checks that have not yet cleared the bank, etc. Once you are done looking for these differences, you should have a bank balance to equal the register balance. Give it a try!

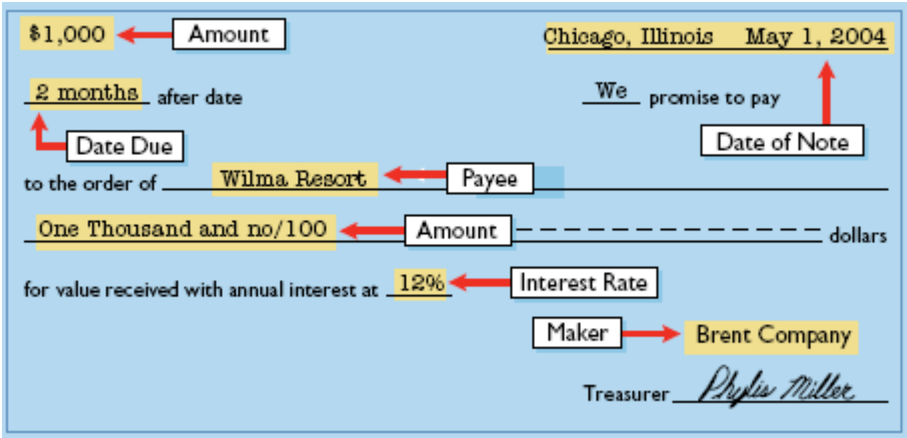
** Video Alert**

Here is a good video to illustrate this! Copy/Paste into your browser.

http://www.youtube.com/watch?v=EO5Dp9-eNpE&list=FLRdNV_L3nGyG8QdcTYFwKHw&index=14&feature=plpp_video

Accounting for Receivables and Inventory Cost Flow

We begin with Accounts Receivable. This is when you allow your customers to receive their order and pay later. It is very common in business and the payments are usually made within the month. If the terms will be longer than a month, a note (or loan) is usually signed to ensure payment. Now that we understand what A/R is, we learn that we do not always get paid for every amount owed to us! Therefore, our company must set aside a reserve for these unpaid balances. There are various methods that we may use to account for this, including direct write-off and percentage of sales.



Notes are an important topic to be familiar with. The note is used when an amount is owed to someone. A note has an interest rate, just like any other loan. If you have ever calculated interest, it is a good time to refresh yourself on the basic interest formula: P*R*T. Take the principle amount being received times the interest rate and times the time it is borrowed for. You can use this formula for many basis examples!

As we head towards the section on inventory cost flow methods, we see that inventory can be accounted for in numerous ways. The company makes that determination and follows one of the methods that you learn this week.

*** Video Alert***

The following video focusses on Accounts Receivable. It is really good.

http://www.youtube.com/watch?v=fspQOutKvsk

Long Term Operational Assets

Ok, we'll keep going! This section teaches you more about ASSETS. We see that there are short-term and longer term assets. Also, there are assets that we can touch and feel versus intangible ones. We account for our assets using the Historical Cost Method, which you can read about in the book. It is worth some good discussion!

Pay special attention to DEPRECIATION. There are a number of ways that we can depreciate (or write down) our assets. These include: straight line, double declining balance and units of production. Each method has a different effect on taxes owed and the bottom line profit for the period. We choose the method for various reasons. Some companies use straight line because it is easy to follow and record. Others use more complex methods to save on taxes, by taking MORE depreciation up-front so that they get a deduction for that. In any method that you use, just remember that you are writing down the asset to its salvage value.

Web Site Alert!

http://www.accountingcoach.com/online-accounting-course/11Xpg01.html

The above site has great information on depreciation.

Most assets DO lose value over time. This can be due to "wear and tear". It is important to have a basic idea of what depreciation is, how it is calculated and how it affects your company's taxes.

Summary

Although we have a lot to accomplish I can promise you that the information is very relevant to your everyday lives! Whether you are in a health care position making decisions about purchases and expansions OR just working with your small family business, these concepts will serve you well!

Enjoy your week!

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Reference

Edmonds, T. O., & Tsay, B. (2010). Survey of Accounting (2nd edition ed.). New York: McGraw-Hill Irwin.