

Chapter 7: Banking and Payroll

TRUE/FALSE

1. The goal of detective internal controls is to reduce the loss of cash due to employee error or theft.
2. Audits are done to see whether internal controls are being applied correctly.
3. Proving cash (balancing a cash register drawer) is an important type of internal control.
4. Bank deposits can be made electronically at some automated teller machines.
5. Before depositing a check, you should carefully stamp or write an endorsement on the right edge of the back of the check.
6. Business checks should always be prepared by hand rather than printed via computer software.
7. A certified check is a check written by a bank on its own funds and can be purchased with cash or with an ordinary check.
8. Many companies allow customers the option of having payments deducted directly from a bank account.
9. A bank reconciliation is a report used to compare bank and company account records.
10. Under a salary plan, an employee is paid a certain amount per week, month, or year.
11. Federal income tax deductions from pay are recommended but not required by law.
12. Health insurance pays a benefit to a designated person or company in the event of the covered person's death.
13. COBRA is a law that gives many workers the right to continue their health insurance through a former employer's group plan for a limited time.
14. A 403(b) retirement account is for employees of private companies.
15. An IRA (individual retirement arrangement) account is a personal savings plan.

MULTIPLE CHOICE

1. A type of internal control that seeks to find losses that have taken place is a
 - a. preventive internal control
 - b. detective internal control
 - c. corrective internal control
 - d. both A and C
2. Which type of check endorsement provides little protection because anyone who has the check can easily transfer it to another person or cash the check?
 - a. blank endorsement
 - b. restrictive endorsement
 - c. special endorsement
 - d. none of the above

3. A deposit form or slip is used to record
 - a. currency, coins, and checks to be added to a bank account
 - b. only checks to be added to a bank account
 - c. cash but not checks to be added to a bank account
 - d. none of the above

4. When preparing a check
 - a. the amount of the check is written in numbers and words on the check
 - b. the check register should show the check number, the date of the check, the payee, and the amount of the check
 - c. the purpose of the payment can be shown on the face of the check on the memo line
 - d. all the above

5. Electronic funds transfer
 - a. can be used for a one-time payment but not for regular monthly payments
 - b. is the use of a computer network to transfer funds from one party to another
 - c. is used for transactions between companies only
 - d. all the above

6. The balance shown on the bank statement is \$25,304.75. There is one outstanding check for \$2,005.53, and one outstanding deposit for \$5000.00. What should the adjusted bank statement balance be on the bank reconciliation??
 - a. \$20,304.75
 - b. \$27,310.28
 - c. \$28,299.22
 - d. \$32,310.28

7. When preparing a bank reconciliation, you should
 - a. compare the amount of each check with that shown on the bank statement
 - b. add outstanding check amounts to the check register balance
 - c. subtract outstanding deposit amounts from the bank balance
 - d. all the above

8. Salary or wages earned before deductions are made is called
 - a. net pay
 - b. gross pay
 - c. overtime pay
 - d. disability pay

9. Overtime pay is
 - a. for hours worked beyond the set standard hours per week
 - b. typically for workers paid on a salary plan
 - c. typically for workers paid on an hourly wage plan
 - d. both A and C

10. A salesperson is paid \$500 per week plus 5 percent commission on sales. The sales for the week were \$2,500. What is this person's gross pay for the week?
 - a. \$3,000
 - b. \$625
 - c. \$750
 - d. \$650

11. Insurance that helps pay for costs such as doctors' bills, medicine, and hospital stays is
 - a. life insurance

- b. disability insurance
 - c. health insurance
 - d. both A and C
12. Retirement accounts that are fully paid for by the employer are called
 - a. defined benefit pension plans
 - b. 401(k) retirement accounts
 - c. 403(b) retirement accounts
 - d. individual retirement arrangements
 13. Deductions from payroll that are required by law include
 - a. federal income tax
 - b. contributions to Social Security and Medicare
 - c. charitable contributions
 - d. both A and B
 14. Examples of voluntary deductions from pay include
 - a. charitable donations
 - b. local income taxes
 - c. employee contributions to retirement plans
 - d. both A and C
 15. A document that shows the earnings and deductions for all employees for the payroll period is
 - a. an employee earnings record
 - b. a payroll register
 - c. a wage and tax statement
 - d. both A and C

MATCHING

Match each item with the correct statement below.

- a. audit
 - b. bonding
 - c. check
 - d. compensation
 - e. debit card
 - f. endorsement
 - g. forge
 - h. insurance
 - i. payroll
 - j. premium
1. To verify or check facts or procedures
 2. Pay or benefits given for a service or a loss
 3. A name placed on the back of a check that authorizes a bank to cash or deposit the check
 4. A process in which a company agrees to pay compensation for loss in return for payments by the individual
 5. A written order to a bank to make a payment using funds from the depositor's bank account
 6. The payment for an insurance plan
 7. A list of the amount of salary, wages, or other payments for work due to employees
 8. Imitate or counterfeit for illegal purposes
 9. A type of card used to make payments from a depositor's bank account
 10. Insurance for financial loss due to employee theft or fraud