

## Santé Smoothie Saga

(**Note:** This is a continuation of the Smoothie Saga from Chapters 1 through 6.)

**BYP7.6** Natalie is struggling to keep up with the recording of her accounting transactions. She is spending a lot of time marketing and selling smoothies and juicers. Her friend John is an accounting student who runs his own accounting service. He has asked Natalie if she would like to have him do her accounting.

John and Natalie meet and discuss her business. John suggests that he could perform the following procedures for Natalie:

1. Take the deposits to the bank every Friday. All cheques and cash received would be kept in a locked box at Natalie's house.
2. Write and sign all of the cheques. He would review the invoices and send out cheques as soon as the invoices are received.
3. Record all of the deposits in the accounting records.
4. Record all of the cheques in the accounting records.

5. Prepare the monthly bank reconciliation.
6. Transfer Natalie's manual accounting records to his computer accounting program. John maintains the accounting information that he keeps for his clients on his laptop computer.
7. Prepare monthly financial statements for Natalie to review.
8. Write himself a cheque every month for the work he has done for Natalie.

### Instructions

- a. Identify the weaknesses in internal control that you see in the system John is recommending. Can you suggest any improvements if Natalie hires John to do the accounting?
- b. Natalie would like you to help her. She asks you to prepare a bank reconciliation for October 31, 2021, and any necessary journal entries using the following information.

### GENERAL LEDGER—Santé Smoothies

Cash					
Date	Explanation	Ref	Debit	Credit	Balance
2021					
Oct. 1	Balance				2,657
1			750		3,407
3	Cheque #600			625	2,782
3	Cheque #601			95	2,687
8	Cheque #602			56	2,631
9			1,050		3,681
13	Cheque #603			425	3,256
20			155		3,411
28	Cheque #604			297	3,114
28			110		3,224

### PREMIER BANK Statement of Account—Santé Smoothies Oct. 31, 2021

Date	Explanation	Cheques	Deposits	Balance
Sept. 30	Balance			3,256
Oct. 1	Deposit		750	4,006
6	Cheque #600	625		3,381
6	Cheque #601	95		3,286
8	Cheque #602	56		3,230
9	Deposit		1,050	4,280
10	NSF cheque	100		
10	NSF cheque fee	35		4,145
14	Cheque #603	452		3,693
20	Deposit		125	3,818
23	EFT—TELUS	85		3,733
28	Cheque #599	361		3,372
30	Bank charges	13		3,359

Additional information:

1. On September 30, there were two outstanding cheques: #595 for \$238 and #599 for \$361.
2. Premier Bank made a posting error to the bank statement: cheque #603 was issued for \$425, not \$452.
3. The deposit made on October 20 was for \$125 that Natalie received for selling smoothies. Natalie made an error in recording this transaction.
4. Natalie decided to set up an automatic payment to Telus for her cell phone invoice every month. Remember that she uses this phone only for business.
5. The NSF cheque was from Ron Black. Natalie received this cheque for selling smoothies to Ron and his children. Natalie contacted Ron, and he assured her that she will receive a cheque in the mail for the outstanding amount of the invoice and the NSF bank charge.

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## Answers to Chapter Questions

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### Business Insight, p. 7-9

Q: What are some of the risks and benefits of using a nonregulated

### Ethics Insight, p. 7-17

Q: What are the ethical considerations in this case and who will

Record receivables transactions.

**P8.9B (LO 1, 3) AP** On January 2, 2021, Durand Co. had a \$20,000, five-month, 6% note receivable from Vincent Company dated October 31, 2020. Interest receivable of \$200 was accrued on the note on December 31, 2020. Interest on the note is due at maturity. Durand Co. has a December 31 fiscal year end and adjusts its accounts annually. In 2021, the following selected transactions occurred:

- Jan. 2 Sold \$25,000 of merchandise costing \$13,750 to Braun Company, terms 2/10, n/30. Durand Co. uses the perpetual inventory system.
- Feb. 1 Accepted Braun Company's \$25,000, three-month, 6% note for the balance due. (See January 2 transaction.) Interest is due at maturity.
- Mar. 31 Received payment in full from Vincent Company for the amount due.
- May 1 Collected Braun Company note in full. (See February 1 transaction.)
- 25 Accepted Noah Inc.'s \$12,000, two-month, 6% note in settlement of a past-due balance on account. Interest is payable monthly.
- June 25 Received one month's interest from Noah Inc. on its note. (See May 25 transaction.)
- July 25 The Noah Inc. note was dishonoured. (See May 25 transaction.) Future payment is not expected.
- Nov. 30 Gave UOA Corp. a \$10,000 cash loan and accepted UOA's four-month, 4.5% note. Interest is due at maturity.
- Dec. 31 Accrued interest is recorded on any outstanding notes at year end.

### Instructions

Record the above transactions. Assume Durand has no stated return policy.

**Taking It Further** Noah Inc. has recovered some of its financial health and would like to do business with Durand Co. once again; that is, by purchasing goods on credit. What should Durand Co. do? What conditions might Durand Co. put in its future agreements with Noah?