**P 5. Internal Control Components**

Jason Company, a small electronic distributer, has experienced losses of inventory over the past year. Sara Jason, the owner, on the advice of her accountant, has adopted a set of internal controls in an effort to stop the losses. Jason has taken the following steps:

1. She encourages employees to follow the rules.
2. She regularly considers ways in which inventory losses might occur.
3. She put separation of duties in place.
4. She gathers appropriate information and communicates it to employees.
5. She sees that new and existing employees are well trained and instructed in their duties.
6. She makes sure inventories are physically protected with locked storage and electronic monitors.
7. She observes and reviews how procedures by those who report her are carried out.
8. She had her accountant install a better accounting system over inventory.
9. She trains new employees in how to properly carry out control procedures.

**Required**

1. Show that Sara Jason’s new system engage all the components of internal control by matching each of the above steps with one of the internal control components below:
2. Control environment
3. Risk assessment
4. Information and communication
5. Control activities
6. Monitoring
7. As the owner of a small company, why is it important that Sara Jason take an active part in the management of the internal control system?

**P 6. Control Activities**

Industrial Service Company provides maintenance service to factories in and around West Bend, Wisconsin. The company, which buys a large amount of cleaning supplies, consistently has been over budget in its expenditures for these items. In the past, supplies were left out in the open in the warehouse to be taken each evening as needed by the onsite supervisor. A clerk in the accounting department periodically ordered additional supplies from a long time supplier. No records were maintained other than to record purchases. Once a year, in inventory of supplies was made for the preparation of the financial statement.

To solve the budgetary problem, management decides to implement a new system for purchasing and controlling supplies. The following action take place:

1. Management places a supplies clerk in charge of a secured store room for cleaning supplies.
2. Supervisor uses a purchase requisition to request supplies for the jobs they oversee.
3. Each job receives a predetermined amount of supplies based on a study of each job’s needs.
4. In the store room, the supplies clerk notes the level of supplies and completes the purchase requisition when new supplies needed.
5. The purchase requisition goes to the purchasing clerk, a new position. The purchasing clerk is solely responsible for authorizing purchases and preparing the purchase orders.
6. Supplier prices are monitored constantly by the purchasing clerk to ensure that the lowest price is obtained.
7. When suppliers are received, the supplies clerk checks them and prepares a receiving report. The supplies clerk sends the receiving report to accountant, where each payment to a supplier is documented by the purchase requisition, the purchase order, and the receiving report.
8. The accounting department also maintains a record of supplies inventory, supplies requisitioned by supervisor, and supplies received.
9. Once each month, the warehouse manager takes a physical inventory of cleaning supplies in the storeroom and compares it against the supplies inventory records that the accounting department maintains.

**Required**

1. Indicate which of the following controls activities applies to each of the improvements in the internal control system( more than once may apply):
2. Authorization
3. Recording transactions
4. Documents and records
5. Physical controls
6. periodic independence verification
7. separation of duties
8. sound personnel practices
9. Explain why each new control activity is an improvement over the activities of the old system.