

Case Study 4: Cash Control and Theft

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Instructions:

1. Print and read the following case study.
2. On your own, complete the **Accounting Application** questions.
3. As a class, complete the **Class Interaction and Discussion** questions.
4. Optional: Complete the **Small Group Extension Activity** and **Internet Exploration and Research Activity**.
5. Complete the **Summary Questions**.

Objectives:

After completing the following case study, you will be able to:

- Describe several security procedures used by businesses to discourage employee theft
 - Compare the effect of employee theft on net income
 - Discuss different examples of employee theft
 - Identify four internal cash controls described in the text
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Study Tips:

Complete this case study after Chapter 11 or Chapter 29, Glencoe Accounting, First-Year Course. Approximate time to complete: 45 minutes.

Overview:

The following information was obtained from “The Heavy Burden of Light Fingers,” *BusinessWeek* (December 16, 1996), by Barbara Hetzer.

One day while his bookkeeper was at lunch, Ron Knight, owner of a construction business in Gilbert, Arizona, happened to open the mail. Usually only the bookkeeper reviewed bank statements, but on this afternoon, Knight discovered a cancelled check made out to the bookkeeper for \$1,000. After some exploration, Knight learned that during the past six months, the bookkeeper had taken a total of \$20,000.

Most experts believe that while all businesses have some problems with employee theft, small businesses are more affected by it. A fraud examiners’ study found that small businesses suffered a median loss of \$120,000 per incident, but the loss for companies with 10,000 or more employees was reported to be \$126,000. As you can imagine, \$120,000 is much more important to smaller businesses than \$126,000 is to companies with 10,000 employees. Therefore, the loss to smaller businesses is more devastating.

Small businesses also run a greater risk for employee theft because of the high level of trust that exists between owners and employees. Chris Daniel, who owns a small advertising firm in Charlotte, North Carolina, treated employees like family until his bookkeeper allegedly took \$122,000.

Small businesses can defend themselves. By adding a few security procedures, they can discourage employee theft or catch it early. The following are safeguards against theft:

1. Limit the number of persons who handle cash.
2. Separate accounting tasks to decrease the likelihood of theft. The person who handles cash receipts and payments should not keep the accounting records that show amounts received or paid out.
3. Insure or bond employees who handle cash.
4. Use a safe or a cash register.
5. Deposit cash receipts daily.
6. Use checks to make as many cash payments as possible.
7. Prepare a written code of ethics. Owners should spell out which uses of company resources they view as theft.
8. Screen prospective employees very thoroughly. Use court records and credit references. This can reduce fraud losses by as much as 30%.
9. Examine the company’s bank statements.
10. Motivate employees by tying a portion of compensation to a reduction in shrinkage (company losses due to theft, paperwork errors, and so on).

Class Interaction and Discussion:

Instructions: Read the following question. As a class, discuss your responses.

Discuss examples of employee theft.

Optional Small Group Extension Activity:

Instructions: Break into small groups of three or four students. Discuss your answers to the following.

Imagine that you are the owners of a small business. After choosing a small business, write the part of your company's code of ethics that describes which uses of company resources you would view as theft.

Summary Questions:

1. Describe the purpose of cash controls.

2. List four internal cash controls.
