

## HOMEWORK PROBLEM 8-1

Jack Sprat owns and manages the Spicy-Saucer Restaurant, a 24-hour restaurant near the city's medical complex. Jack employs nine full-time employees and sixteen part-time employees. He pays all of the full-time employees by check, the amounts of which are determined by Jack's public accountant, Clarence P. Hankes. Jack pays all of his part-time employees in currency that he computes and withdraws directly from his cash register. Clarence has repeatedly urged Jack to pay all employees by check. But as Jack has told his competitor and friend, Bud Juice, who owns the Tasty Diner, "First of all, my part-time employees prefer the currency over a check, and secondly I don't withhold or pay any taxes or workmen's compensation insurance on those wages because they go totally unrecorded and unnoticed."

Required:

1. What are the legal and ethical considerations regarding Jack's handling of his payroll?
2. Clarence P. Hankes is aware of Jack's payment of the part-time payroll in currency. What are his ethical responsibilities in this case?
3. What internal control principle is violated in this payroll process?