Accounting
Ch. 7

Accounts Receivables

No matter how thorough a business checks a customer's credit, there will be some customers who **cannot** or **will not** pay what they owe. These AR that cannot be collected are called ________________or Bad Debts.

Methods of Accounting for Uncollectibles

- ____________ Method
- Direct Write-off

When you use the Direct Write-off Method, you write off the account when it is determined to be uncollectible

- But, this method does not follow the ______________ principle
- Therefore, businesses with many Account Receivables will use the Allowance method that matches revenue with expenses

Uncollectible Accounts—the Allowance Method

At the end of each period, record an ______________ of the uncollectible accounts.

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
			$$$$	
				$$$$

Selling expense

Contra-asset account

Writing Off an Uncollectible Account Receivable

When an account is determined to be uncollectible, it no longer qualifies as an asset and should be __________ ______.

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
			$$$$	
				$$$$

The Allowance for Doubtful Accounts

Accounts receivable
Less: Allowance for doubtful accounts
Net realizable value of accounts receivable

The _________ **realizable value** is the amount of accounts receivable that the business expects to collect.

Example: Writing Off an Uncollectible Account Receivable

Assume that on January 5, K-Max determined that Jason Clark would not pay the $500 he owes.

K-Max would make the following entry.

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
Jan.	5		500	
				500

Monthly Estimates of Credit Losses

At the end of each month, management should _______________ the probable amount of uncollectible accounts and adjust the Allowance for Doubtful Accounts to this new estimate.

Two Approaches to Estimating Credit Losses:

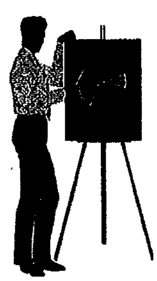
1. Balance Sheet Approach
2. Income Statement Approach

Estimating Credit Losses — The Balance Sheet Approach

❶ Year-end Accounts Receivable is broken down into age classifications.

❷ Each age grouping has a different likelihood of being uncollectible.

❸ Compute a separate allowance for each age grouping.



Estimating Credit Losses — The Balance Sheet Approach

At December 31, the receivables for EastCo, Inc. were categorized as follows:

EastCo, Inc.
Schedule of Accounts Receivable by Age
December 31, 2007

Days Past Due	Accounts Receivable Balance	Estimated Bad Debts Percent	Estimated Uncollectible Amount
Current	$ 45,000		
1 - 30	15,000		
31 - 60 ❶	5,000		
Over 60	2,000		
	$ 67,000		

Estimating Credit Losses — The Balance Sheet Approach

At December 31, the receivables for EastCo, Inc. were categorized as follows:

EastCo, Inc.
Schedule of Accounts Receivable by Age
December 31, 2007

Days Past Due	Accounts Receivable Balance	Estimated Bad Debts Percent	Estimated Uncollectible Amount
Current	$ 45,000	1%	
1 - 30	15,000	3%	
31 - 60 ❶	5,000	❷ 5%	
Over 60	2,000	10%	
	$ 67,000		

Estimating Credit Losses — The Balance Sheet Approach

At December 31, the receivables for EastCo, Inc. were categorized as follows:

EastCo, Inc.
Schedule of Accounts Receivable by Age
December 31, 2007

Days Past Due	Accounts Receivable Balance	Estimated Bad Debts Percent	Estimated Uncollectible Amount
Current	$ 45,000	1%	$ 450
1 - 30	15,000	3%	450
31 - 60 ❶	5,000	❷ 5%	❸ 250
Over 60	2,000	10%	200
	$ 67,000		$ 1,350

Estimating Credit Losses — The Balance Sheet Approach

EastCo's unadjusted balance in the allowance account is $500.
Per the previous computation, the desired balance is $1,350.

Allowance for Doubtful Accounts

	500
	850
	1,350

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
Dec.	31		850	
				850

Let's look at another way to estimate credit losses!

Estimating Credit Losses — The Income Statement Approach

Uncollectible accounts' percentage is based on actual uncollectible accounts from prior years' ____________ sales.

Focus is on determining the amount to record on the income statement as Uncollectible Accounts Expense.

Estimating Credit Losses — The Income Statement Approach

Net ________ Sales
× % Estimated Uncollectible
Amount of Journal Entry

Estimating Credit Losses — The Income Statement Approach

In 2010, EastCo had credit sales of $60,000.

Historically, 1% of EastCo's credit sales has been uncollectible.

For 2010, the estimate of uncollectible accounts expense is $600.

($60,000 × .01 = $600)

Now, prepare the adjusting entry for December 31, 2010.

Estimating Credit Losses — The Income Statement Approach

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
Dec.	31		600	
				600

Recovery of an Account Receivable Previously Written Off

Occasionally a customer who was previously written off will pay you!

In order to record recovery of a previous bad debt, you must first reinstate the account (Put it back on the accounting books):

Ex: Discount Dan sends you a check for payment in full, $4,000. His account was previously written off.

First, reinstate the account:
Debit: ______________ 4,000
Credit: ______________ $4,000

Now the entry to record the payment should be:

Debit: ______________ $4,000
Credit: ______________ $4,000

ACCOUNTING
Chapter 7—Financial Assets

- $ **Cash** *(money on deposit in banks and any items that banks will accept for deposit)*

  - o **How Much Cash Should a Business Have?**

    - ▪ **Financial assets**—*those assets easily and directly convertible into known amounts of cash*

    - ▪ **Examples of financial assets**
      - •
      - •
      - •

- o **Valuation of Financial Assets**—How are Financial Assets valued on the balance sheet?
  - • **Cash**—___________ *amount*
  - • **Short-term investments (marketable securities)**—
  - • **Receivables**—*appear at the* *estimated* *collectible amount*— called ___________ ***realizable value***

- $ **Reporting Cash in the Balance Sheet**
  - o **Examples of cash:** ___________________, ___________________, ___________________, ___________________, ___________________

  - o **Cash equivalents (combined w/cash on balance sheet)**
    ___________________ *short-term investment; they have a stable market value and mature within 90 days*
    - ▪ **Money market funds**
    - ▪ **U.S. Treasury bills**
    - ▪ **High-grade commercial paper** *(short-term notes payable of large, credit-worthy corporations)*

- o **Restricted Cash**—*earmarked for some future use*
  - ▪ **Not available for paying current** _______________
  - ▪ **Not a current asset**
  - ▪ **Listed as an** _______________

  - o **Lines of Credit**—*bank agrees in advance to lend the company money up to a specified limit.*
    - ▪ ___________________ is incurred when line of credit is used
    - ▪ Unused line of credit is **disclosed in** _______________.

8

$ Cash Management

- Refers to *planning*, *controlling*, and *accounting* for cash transactions and cash balances—efficient management of these resources is essential to the success and even survival of a business organization.
- ***Basic objectives of cash management:***
  - Accurately account for cash
  - Prevent or minimize losses from theft and __________.
  - Assure the availability of adequate amounts of cash.
  - Prevent unnecessarily large amounts of ___________ cash
- Using Excess Cash Balances Efficiently
  - Cash available for **long-term** ____________ may be used to finance growth and expansion or to repay debt
  - Cash not needed for business purposes may be distributed to ____________________

$ Internal Control

- A means of *preventing fraud and theft*; a good system will also aid in achieving objectives of *efficient cash management.*
  - **Segregate authorization, custody and recording of cash**
  - **Prepare a cash ______________ (or forecast)**
  - **Prepare a control listing of cash receipts**
  - **Require daily __________________**
  - **Make all payments by ______________**
  - **Verify every expenditure before payment**
  - **Promptly _________________ bank statements**
- Related transaction—**Cash Over & Short**

  <u>Errors will inevitably occur when handling over-the-counter cash receipts</u>

  Ex: On May 5, XBAR, Inc.'s cash drawer was counted and found to be $10 over.

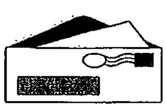
  ____________ **$10**

      _____________________ **$10**

  (To record a $10 overage in cash receipts for the day)

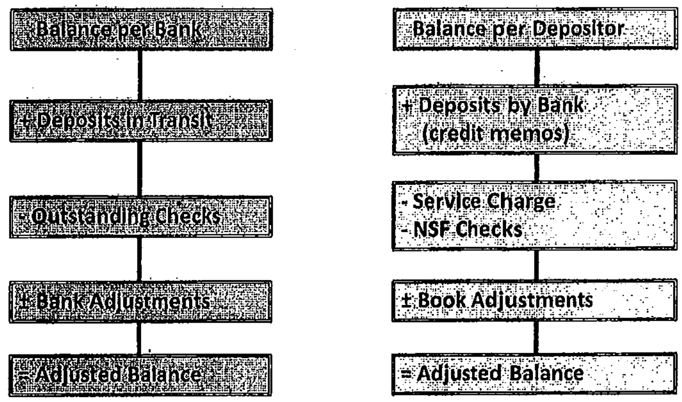
  What if the cash drawer was short $10. What would you debit? credit?

1. Bank Statements



- A bank statement shows **the beginning bank balance, deposits made, checks paid, other debits and credits in the month, and the ending bank balance.**
- Reconciling the **bank statement** *explains any differences* **between cash reported on bank statement and cash balance in the ______________ accounting records.**
- **It also provides information for reconciling ______________ entries.**

Reconciling the Bank Statement



Normal Differences between Bank Records and Accounting Records

- **Deposits in transit**—*Cash recorded by the depositor that reached the bank too late to be included in the bank statement for the current month*
- **Outstanding checks**—*issued and recorded by the company but not yet presented to the bank for payment*
- **Service charges**—*bank fee for handing small accounts*
- **NSF charges**—*"Non sufficient funds" result from bad checks; the maker of the check does not have sufficient funds in his or her account to cover the check*
- **Interest Revenue**—*some business accounts earn interest; this interest is credited to the depositor's account and reported in the bank statement.*
- **Miscellaneous bank charges & credits**—fees for printing checks & maintaining the checking account.

Preparing a Bank Reconciliation: Demo Problem

Prepare a July 31 bank reconciliation statement and the resulting journal entries for the Simmons Company. The July 31 bank statement indicated a cash balance of $9,610, while the cash ledger account on that date shows a balance of $7,430. Addition information is below:

- **Outstanding checks totaled $2,417.**
- **A $500 check mailed to the bank for deposit had not reached the bank at the statement date.**
- **The bank returned a customer's NSF check for $225 received as payment of an account receivable.**
- **The bank statement showed $30 interest earned on the bank balance for the month of July.**
- **Check 781 for supplies cleared the bank for $268 but was erroneously recorded in our books as $240.**
- **A $486 deposit by Acme Company was erroneously credited to our account by the bank.**

Balance per bank statement, July 31		
Additions:		
Deposit in transit		
Deductions:		
Bank error		
Outstanding checks		
Adjusted cash balance		
Balance per depositor's records, July 31		
Additions:		
Interest		
Deductions:		
Recording error		
NSF check		
Adjusted cash balance		

Updating the Accounting Records

The last step in reconciling a bank statement is to *update* the depositor's accounting records for any unrecorded transactions.

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
Jul	31			
	31			

Petty Cash Funds

Every business finds it convenient to have a small amount of cash on hand with which to make some ***minor*** _____________________. A ***custodian*** handles the account, and it is ______________________ ***periodically***.
Examples are: *small purchases of office supplies, postage, doughnuts for meetings, small delivery charges.*

To create a **petty cash fund**, a check is made payable to *"Petty Cash"* for an amount that would cover expenditures for a period of approximately two weeks. The cash is checked and the money is kept on hand in a petty cash box.

Journal Entry to establish a $200 petty cash fund:

____________________	200	
________________		200

The custodian of the account makes all payments from this fund and prepares a *petty cash voucher*. At the end of the period (or when the fund runs low), a check is drawn payable to Petty Cash to ***replenish*** the fund for the expenditures made during the period. (Assume that $50 is left at the end of the period)

Journal Transactions to replenish the fund:

Miscellaneous Expense	**120**	
Office Supplies	**20**	
Delivery Expense	**10**	
Cash		**150**

2. Short-Term Investments

Companies with large amounts of liquid resources often hold most of these resources in the form of **marketable securities** rather than cash.

Marketable securities consist primarily of ***bond*** investments and ***capital stock*** investments that are ***readily*** ________________. Because of their ***liquidity,*** these investments are listed on the balance sheet immediately after cash as a ***current*** _______________.

- **Mark-to-Market: A Principle of Asset Valuation**

  In 1993, the FASB changed the ways companies account for short-term investments: **they now appear in the balance sheet at their *current* market value as of the balance sheet date.** (Reporting short-term investments at market value substantially enhances the usefulness of the balance sheet in evaluating the *solvency* of a business)

- **Accounting for Marketable Securities**

  There are four basic *accountable events* relating to investments in marketable securities:

  1. Purchase of investment
  2. Receipt of dividend revenue and interest revenue
  3. Sales of securities owned
  4. End-of-period mark-to-market adjustments

- **Purchase of investment**—record at ***cost***

  Foster Corporation purchases 4,000 shares of Coca-Cola Company on Dec.1. Foster paid $43.98 per share, plus a brokerage commission of $80.

  ________________ **176,000**
  ________________ **176,000**

- **Recognition of Dividends received from stock**

  On December 15, Foster Corporation receives a $0.30 per share dividend on its 4,000 shares of Coca-Cola.

  ________________ **1,200**
  ________________ **1,200**

- **Sale of Investment**

  When an investment is sold, a *gain* or *loss* often results. A sales price in excess of cost produces a **gain**, whereas a sales price below cost results in **loss.**

  On December 18, Foster Corporation sells 500 shares of its Coca-Cola stock for $46.04 per share, *less* a $20 brokerage commission.

  Sales Proceeds: (500 × $46.04) - $20 = $23,000
  Cost Basis: 500 × $44* = $22,000
  *** 43.98, original price + .02, commission**

  ________________ **23,000**
  ________________ **22,000**
  ________________ **1,000**

  Now suppose Foster Corporation sold those 500 shares for $43 per share, less brokerage commission of $20—resulting in a ***loss***

  ________________ **21,480**
  ________________ **520**
  ________________ ... **22,000**

- **Mark-to-Market Adjustment**

  On December 31, Foster Corporation's remaining shares of Coca-Cola capital stock have a current market value of $42,000. Prior to any adjustment, the company's Marketable Securities account has a balance of $44,000 (1,000 × $44 per share).

  This is an unrealized loss on the investment. According to Mark-to-Market, the Marketable Securities account should be adjusted to show the current value.

  The account used to record a loss or gain is called Unrealized Holding Loss (Gain) on Investment. Marketable Securities is debited if there is a gain or credited if there is a loss.

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
			2,000	
				2,000

$ Financial Analysis: Accounts Receivable

Collecting accounts receivable *on time* is important; it spells the success or failure of a company's credit and collection policies. *A past-due receivable is a candidate for write-off as a credit loss. The older the account becomes, the higher likelihood it will go bad.*

To help judge how good a job a company is doing in granting credit and collecting its receivables, management computes the *ratio* of net sales to average receivables. This **accounts receivable turnover rate** tells businesses how many times the company's average receivables were converted into cash during the year. The ratio is computed by dividing annual ________________________ by average ____________________________.

Ex: Financial statements of **3M** show net sales of $9.4 billion. Receivables were $1.6 billion at the beginning of year and $1.4 billion at the end of the year.

Accounts Receivable Turnover:

$$\frac{\textbf{Net Sales}}{\textbf{Average AR}} = \frac{\underline{\hspace{3cm}}}{(\qquad + \qquad)/2} = \underline{\hspace{1.5cm}} = \quad \textbf{times}$$

Average Number of Days to Collect Accounts Receivable:

$$\frac{\textbf{Days in Year}}{\textbf{AR Turnover}} = \underline{\hspace{1.5cm}} = \quad \textbf{days}$$

Management closely monitors these ratios in evaluating the company's policies for extending credit to customers and the effectiveness of its collection procedures.

ACCOUNTING **Name** ______________________

Quiz: Allowance for Doubtful Accounts

- Runyon Tools has Accounts Receivable valued at $260,000 on Feb. 28. It is estimated that $10,000 of the receivables will be uncollectible.

Record the entry that would be made for this adjusting entry:

GENERAL JOURNAL			

Label the T-accounts (b) and (c) showing the balances in each account after the above entry is posted.

a) **Accounts Receivable**

260,000

b)

c)

What is the net realization value of Accounts Receivable? $______________

- Tool Time Rentals owes Runyon Tools $3,000. The company had severe financial difficulties, and it has been determined that the account is now uncollectible.

Record the entry to write off Tool Time Rentals, AR using the allowance method:

GENERAL JOURNAL			

Label T-account (b) and show balances in each of the accounts after the above entry is posted.

a) **Tool Time Rentals, AR**

3,000

b)

10,000

ACCOUNTING
Aging Accounts Receivable & Account Write-Offs

Public Image, a firm specializing in marketing and publicity services, uses a balance sheet approach to estimate uncollectible accounts expense. At year –end an analysis of the account receivables produced the following classifications:

Not due yet	$333,000
1-30 days past due	$135,000
31-60 days past due	$58,500
61-90 days past due	$13,500
Over 90 days past due	$22,500
TOTAL	$562,000

On the basis of past experience, the company estimated the percentages probably uncollectible for the above five groups to be as follows:

Group 1—1%
Group 2—3%
Group 3—10%
Group 4—20%
Group 5—50%

The Allowance for Doubtful Accounts before the adjustment at December 31 showed a credit balance of $8,100.

a. Compute the estimated amount of uncollectible accounts based on the above classification by age groups.
   $______________

b. Record the adjusting entry needed to bring the Allowance for Doubtful Accounts to the proper amount in the general journal below.

c. Assume that on Jan 10 of the following year, Public Image learns that an account receivable which had originated on October 2 in the amount of $8,550 was worthless because of the bankruptcy of the customer, Cranston Manufacturing . Prepare the journal entry on March 12 to write off this account.

GENERAL JOURNAL			

ACCOUNTING
Aging Accounts Receivable & Account Write-Offs

Image Works, a firm specializing in marketing and publicity services, uses a balance sheet approach to estimate uncollectible accounts expense. At year –end an analysis of the account receivables produced the following classifications:

Not due yet	**$400,000**
1-30 days past due	$120,000
31-60 days past due	$50,000
61-90 days past due	$25,000
Over 90 days past due	$12,000
TOTAL	$607,000

On the basis of past experience, the company estimated the percentages probably uncollectible for the above five groups to be as follows:

Group 1—1%
Group 2—3%
Group 3—10%
Group 4—20%
Group 5—50%

The Allowance for Doubtful Accounts before the adjustment at December 31 showed a credit balance of $9,500.

a. Compute the estimated amount of uncollectible accounts based on the above classification by age groups.
   $________________

b. Record the adjusting entry needed to bring the Allowance for Doubtful Accounts to the proper amount in the general journal below.

c. Assume that on March 12 of the following year, Image Works learns that an account receivable which had originated on October 2 in the amount of $10,400 was worthless because of the bankruptcy of the customer, Donovan Consulting. Prepare the journal entry on March 12 to write off this account.

GENERAL JOURNAL			

ACCOUNTING

Aging Accounts Receivable & Account Write-Offs

Executive Image, a firm specializing in marketing and publicity services, uses a balance sheet approach to estimate uncollectible accounts expense. At year –end an analysis of the account receivables produced the following classifications:

Not due yet	$433,000
1-30 days past due	$130,000
31-60 days past due	$54,000
61-90 days past due	$10,500
Over 90 days past due	$23,500
TOTAL	$651,000

On the basis of past experience, the company estimated the percentages probably uncollectible for the above five groups to be as follows:

Group 1—1%
Group 2—3%
Group 3—10%
Group 4—20%
Group 5—50%

The Allowance for Doubtful Accounts before the adjustment at December 31 showed a credit balance of $10,000.

a. Compute the estimated amount of uncollectible accounts based on the above classification by age groups.
$______________

b. Record the adjusting entry needed to bring the Allowance for Doubtful Accounts to the proper amount in the general journal below.

c. Assume that on Jan 10 of the following year, Executive Image learns that an account receivable which had originated on October 2 in the amount of $8,550 was worthless because of the bankruptcy of the customer, April Showers . Prepare the journal entry on March 12 to write off this account.

GENERAL JOURNAL			

ACCOUNTING: Financial Assets
Allowance for Uncollectible Accounts

Directions: Record the following transactions on the general journal page provided.

The Cookie Cutter Culinary is a wholesale company that sells to bakeries around the country. Its Accounts Receivables have grown by 150% in the last 5 years. The credit manager decides it is time to use the Allowance Method for writing off uncollectible accounts and decides to estimate the expense at 2% of net credit sales.

- $ On January 31 The Cookie Cutter Culinary estimates uncollectible accounts expense at 2% of net credit sales. Net credit sales for the fiscal period were $950,000.
- $ On February 14 an accounts receivable (Sticky Buns Bakery for $1,750) is written off.
- $ On March 5, an account receivable, Decadent Delicacies for $900 is unexpectedly collected. (It was previously written off)
- $ On December 31 the balance in the Allowance for Doubtful Accounts is $4,000. The required balance should be $20,000.

Name: ______________________
Accounting
Ch. 7 Financial Assets

Quiz: Using the General Journal provided, record the following transactions.

a) On January 2 Lasser Products estimates uncollectible accounts expense at 3% of net credit sales. Net credit sales for the fiscal period were $3,900,000.

b) On March 15 a $3,200 accounts receivable, Dohring Donuts is written off.

c) On April 10, an accounts receivable, Smith Smores, for $1,125 is unexpectedly collected.

d) On December 31 the balance in the Allowance for Doubtful Accounts is $3,900. The required balance is $6,100. Make the adjusting entry.

Name: ______________________
Accounting
Ch. 7 Financial Assets

Quiz: Using the General Journal provided, record the following transactions.

a) On January 2 Eggleston Products estimates uncollectible accounts expense at 1% of net credit sales. Net credit sales for the fiscal period were $3,400,000.

b) On March 15 a $1,200 accounts receivable, Murphy Mover's is written off.

c) On April 10, an accounts receivable, Prichard Paintings, for $925 is unexpectedly collected.

d) On December 31 the balance in the Allowance for Doubtful Accounts is $3,500. The required balance is $9,000. Make the adjusting entry.

ACCOUNTS RECEIVABLE TURNOVER Name ______________________
Quiz

Financial statements of TXR Industries show net sales of $7.2 million. Receivables were 1.8 at the beginning of the year and $1.2 million at the end of the year.

- Determine the Account Receivable Turnover rate

Formula

______________ =

Accounts receivable of TXR Industries turn over _________ times in a year.

- Determine the Average Number of Days to Collect Accounts Receivable:

Formula

______________ =

The average number of days to collect accounts receivable of TXR Industries is ________________days.

ACCOUNTS RECEIVABLE TURNOVER
Quiz

Financial statements of TSX Corp. show net sales of $12.4 million. Receivables were 1.4 at the beginning of the year and $1.6 million at the end of the year.

- Determine the Account Receivable Turnover rate

Formula

_______________ =

Accounts receivable of TSX Corp. turn over _________ times in a year.

- Determine the Average Number of Days to Collect Accounts Receivable:

Formula

_______________ =

The average number of days to collect accounts receivable of TSX Corp. is _________________days.

ACCOUNTS RECEIVABLE TURNOVER

Financial statements of Purity Products show net sales of $8.2 million. Receivables were 1.3 at the beginning of the year and $1.1 million at the end of the year.

- Determine the Account Receivable Turnover rate

Formula

_______________ =

Accounts receivable of Purity Products turn over _________ times in a year.

- Determine the Average Number of Days to Collect Accounts Receivable:

Formula

_______________ =

The average number of days to collect accounts receivable of Purity Products is _________________days.

Bank Reconciliation Problem:
ACCOUNTING

The cash transactions and cash balances of Gray, Inc., for July were as follows:

1. The ledger account for Cash showed a balance at July 31 of $125,568.
2. The July bank statement showed a closing balance of $114,828.
3. The cash received on July 31 amounted to $16,000. It was left at the bank in the night depository chute after banking hours on July 31 and therefore was not received by the bank on the July statement.
4. Also included with the July bank statement was a debit memorandum from the bank for $50 representing service charge for July.
5. A credit memorandum enclosed with the July bank statement indicated that anon-interest-bearing note receivable for $4,000 from Rene Manes, left with the bank for collection, had been collected and the proceeds credited to the account of Gray, Inc.
6. Comparison of the paid checks returned by the bank with the entries in the accounting records revealed that check no. 821 for $519, issued July 15 in payment for office equipment, had been erroneously entered in Gray's records as $915.
7. Examination of the paid checks also revealed that three checks, all issued in July, had not yet been paid by the bank: no. 811 for $314; no. 814 for $625; no. 823 for $175.
8. Included with the July bank statement was a $200 check drawn by Howard Williams, a customer of Gray, Inc. This check was marked "NSF." It had been included in the deposit of July 27 but has been charged back against the company's account on July 31.

Directions:

A. Prepare a bank reconciliation for Gray, Inc., at July 31
B. Prepare journal entries to adjust the accounts at July 31. Assume that the accounts have not been closed.

Bank Reconciliation

Cash balance per bank statement		
Cash balance per books		

EXERCISE 7-18
Doomsday ratio
Objective 8

The financial statements for **Home Depot** are presented in Appendix E at the end of the text.

a. Compute the doomsday ratio for Home Depot for 2003 and 2002.
b. What conclusions can be drawn from comparing the ratios for 2003 and 2002?

Problems Series A

PROBLEM 7-1A
Evaluate internal control of cash
Objectives 1, 2, 3

The following procedures were recently installed by The Geodesic Company:

a. All sales are rung up on the cash register, and a receipt is given to the customer. All sales are recorded on a record locked inside the cash register.
b. Vouchers and all supporting documents are perforated with a PAID designation after being paid by the treasurer.
c. Checks received through the mail are given daily to the accounts receivable clerk for recording collections on account and for depositing in the bank.
d. At the end of a shift, each cashier counts the cash in his or her cash register, unlocks the cash register record, and compares the amount of cash with the amount on the record to determine cash shortages and overages.
e. Each cashier is assigned a separate cash register drawer to which no other cashier has access.
f. The bank reconciliation is prepared by the accountant.
g. Disbursements are made from the petty cash fund only after a petty cash receipt has been completed and signed by the payee.

Instructions

Indicate whether each of the procedures of internal control over cash represents (1) a strength or (2) a weakness. For each weakness, indicate why it exists.

PROBLEM 7-2A
Transactions for petty cash, cash short and over
Objectives 2, 6

SPREADSHEET

The Orchid Company completed the following selected transactions during June 2006:

June 1. Established a petty cash fund of $600.
6. The cash sales for the day, according to the cash register records, totaled $7,998.50. The actual cash received from cash sales was $8,008.15.
30. Petty cash on hand was $50.75. Replenished the petty cash fund for the following disbursements, each evidenced by a petty cash receipt:
  June 3. Store supplies, $30.75.
  8. Express charges on merchandise purchased, $100.75 (Merchandise Inventory).
  12. Office supplies, $74.30.
  15. Office supplies, $35.20.
  19. Postage stamps, $52.00 (Office Supplies).
  20. Repair to fax, $110.00 (Miscellaneous Administrative Expense).
  21. Repair to printer, $51.50 (Miscellaneous Administrative Expense).
  22. Postage due on special delivery letter, $18.00 (Miscellaneous Administrative Expense).
  27. Express charges on merchandise purchased, $65.50 (Merchandise Inventory).
30. The cash sales for the day, according to the cash register records, totaled $9,009.50. The actual cash received from cash sales was $8,988.35.
30. Decreased the petty cash fund by $150.

Instructions

Journalize the transactions.

PROBLEM 7-3A
Bank reconciliation and entries
Objective 5

SPREADSHEET
P.A.S.S.

✓ *1. Adjusted balance: $26,315.40*

The cash account for Showtime Systems at February 28, 2006, indicated a balance of $19,144.15. The bank statement indicated a balance of $31,391.40 on February 28, 2006. Comparing the bank statement and the accompanying canceled checks and memorandums with the records reveals the following reconciling items:

a. Checks outstanding totaled $11,021.50.
b. A deposit of $6,215.50, representing receipts of February 28, had been made too late to appear on the bank statement.
c. The bank had collected $6,300 on a note left for collection. The face of the note was $6,000.
d. A check for $1,275 returned with the statement had been incorrectly recorded by Showtime Systems as $2,175. The check was for the payment of an obligation to Wilson Co. for the purchase of office supplies on account.
e. A check drawn for $855 had been incorrectly charged by the bank as $585.
f. Bank service charges for February amounted to $28.75.

Instructions

1. Prepare a bank reconciliation.
2. Journalize the necessary entries. The accounts have not been closed.

PROBLEM 7-4A
Bank reconciliation and entries
Objective 5

SPREADSHEET
P.A.S.S.

✓ *1. Adjusted balance: $16,821.88*

The cash account for Alpine Sports Co. on April 1, 2006, indicated a balance of $16,911.95. During April, the total cash deposited was $65,500.40, and checks written totaled $68,127.47. The bank statement indicated a balance of $18,880.45 on April 30, 2006. Comparing the bank statement, the canceled checks, and the accompanying memorandums with the records revealed the following reconciling items:

a. Checks outstanding totaled $5,180.27.
b. A deposit of $3,481.70, representing receipts of April 30, had been made too late to appear on the bank statement.
c. A check for $620 had been incorrectly charged by the bank as $260.
d. A check for $479.30 returned with the statement had been recorded by Alpine Sports Co. as $497.30. The check was for the payment of an obligation to Bray & Son on account.
e. The bank had collected for Alpine Sports Co. $3,424 on a note left for collection. The face of the note was $3,200.
f. Bank service charges for April amounted to $25.
g. A check for $880 from Shuler Co. was returned by the bank because of insufficient funds.

Instructions

1. Prepare a bank reconciliation as of April 30.
2. Journalize the necessary entries. The accounts have not been closed.

PROBLEM 7-5A
Bank reconciliation and entries
Objective 5

SPREADSHEET

✓ *1. Adjusted balance: $14,244.09*

Rocky Mountain Interiors deposits all cash receipts each Wednesday and Friday in a night depository, after banking hours. The data required to reconcile the bank statement as of May 31 have been taken from various documents and records and are reproduced as follows. The sources of the data are printed in capital letters. All checks were written for payments on account.

BANK RECONCILIATION FOR PRECEDING MONTH (DATED APRIL 30):

Cash balance according to bank statement		$10,422.80
Add deposit of April 30, not recorded by bank		780.80
		$11,203.60
Deduct outstanding checks:		
No. 580	$310.10	
No. 602	85.50	
No. 612	92.50	
No. 613	137.50	625.60
Adjusted balance		$10,578.00
Cash balance according to depositor's records		$10,605.70
Deduct service charges		27.70
Adjusted balance		$10,578.00

SPREADSHEET

Mar. 31. Petty cash on hand was $20.18. Replenished the petty cash fund for the following disbursements, each evidenced by a petty cash receipt:
- Mar. 3. Store supplies, $198.10.
- 6. Express charges on merchandise sold, $120 (Transportation Out)
- 9. Office supplies, $13.75.
- 18. Office supplies, $49.30.
- 20. Postage stamps, $74 (Office Supplies).
- 21. Repair to office printer, $150.00 (Miscellaneous Administrative Expense).
- 22. Postage due on special delivery letter, $40.00 (Miscellaneous Administrative Expense).
- 24. Express charges on merchandise sold, $125 (Transportation Out)
- 27. Office supplies, $41.15.

31. The cash sales for the day, according to the cash register records, totaled $9,055.50. The actual cash received from cash sales was $9,010.25.

31. Increased the petty cash fund by $100.

Instructions

Journalize the transactions.

PROBLEM 7-3B
Bank reconciliation and entries
Objective 5

SPREADSHEET
P.A.S.S.

✓ *1. Adjusted balance: $16,215.95*

The cash account for Pickron Co. at April 30, 2006, indicated a balance of $13,290.95 The bank statement indicated a balance of $18,016.30 on April 30, 2006. Compar ing the bank statement and the accompanying canceled checks and memorandum with the records revealed the following reconciling items:

a. Checks outstanding totaled $7,169.75.
b. A deposit of $5,189.40, representing receipts of April 30, had been made too late to appear on the bank statement.
c. The bank had collected $3,240 on a note left for collection. The face of the note was $3,000.
d. A check for $1,960 returned with the statement had been incorrectly recorded by Pickron Co. as $1,690. The check was for the payment of an obligation to Jones Co. for the purchase of office equipment on account.
e. A check drawn for $1,680 had been erroneously charged by the bank as $1,860.
f. Bank service charges for April amounted to $45.00.

Instructions

1. Prepare a bank reconciliation.
2. Journalize the necessary entries. The accounts have not been closed.

PROBLEM 7-4B
Bank reconciliation and entries
Objective 5

SPREADSHEET
P.A.S.S.

✓ *1. Adjusted balance: $5,689.87*

The cash account for Seal-Tek Co. at December 1, 2006, indicated a balance of $3,945.90. During December, the total cash deposited was $31,077.75, and checks written totaled $30,395.78. The bank statement indicated a balance of $5,465.50 on December 31. Comparing the bank statement, the canceled checks, and the accompanying memorandums with the records revealed the following reconciling items:

a. Checks outstanding totaled $3,003.84.
b. A deposit of $2,148.21, representing receipts of December 31, had been made too late to appear on the bank statement.
c. The bank had collected for Seal-Tek Co. $1,908 on a note left for collection. The face of the note was $1,800.
d. A check for $120 returned with the statement had been incorrectly charged by the bank as $1,200.
e. A check for $318 returned with the statement had been recorded by Seal-Tek Co. as $138. The check was for the payment of an obligation to Kenyon Co. on account.
f. Bank service charges for December amounted to $30.
g. A check for $636 from Fontana Co. was returned by the bank because of insufficient funds.

Instructions

1. Prepare a bank reconciliation as of December 31.
2. Journalize the necessary entries. The accounts have not been closed.

PROBLEM 7-5B
Bank reconciliation and entries
Objective 5

SPREADSHEET

✓ *1. Adjusted balance: $10,322.02*

Heritage Furniture Company deposits all cash receipts each Wednesday and Friday in a night depository, after banking hours. The data required to reconcile the bank statement as of November 30 have been taken from various documents and records and are reproduced as follows. The sources of the data are printed in capital letters. All checks were written for payments on account.

NOVEMBER BANK STATEMENT:

ANB
AMERICAN NATIONAL BANK
OF DETROIT
DETROIT, MI 48201-2500 (313)933-8547

MEMBER FDIC

PAGE 1

ACCOUNT NUMBER
FROM 11/01/20– TO 11/30/20–

	BALANCE	7,447.20
9	DEPOSITS	8,691.77
20	WITHDRAWALS	7,345.91
4	OTHER DEBITS AND CREDITS	2,298.70CR
	NEW BALANCE	11,091.76

HERITAGE FURNITURE COMPANY

CHECKS AND OTHER DEBITS				DEPOSITS	DATE	BALANCE
No.731	162.15	No.738	251.40	690.25	11/01	7,723.90
No.739	60.55	No.740	237.50	1,080.50	11/02	8,506.35
No.741	495.15	No.742	501.90	854.17	11/04	8,363.47
No.743	671.30	No.744	506.88	840.50	11/09	8,025.79
No.745	117.25	No.746	298.66	MS 2,500.00	11/09	10,109.88
No.748	450.90	No.749	640.13	MS 125.00	11/09	9,143.85
No.750	276.77	No.751	299.37	896.61	11/11	9,464.32
No.752	537.01	No.753	380.95	882.95	11/16	9,429.31
No.754	449.75	No.756	113.95	1,606.74	11/18	10,472.35
No.757	407.95	No.760	486.39	897.34	11/23	10,475.35
				942.71	11/26	11,418.06
		NSF	291.90		11/28	11,126.16
		SC	34.40		11/30	11,091.76

EC — ERROR CORRECTION
MS — MISCELLANEOUS
NSF — NOT SUFFICIENT FUNDS

OD — OVERDRAFT
PS — PAYMENT STOPPED
SC — SERVICE CHARGE

* * *

THE RECONCILEMENT OF THIS STATEMENT WITH YOUR RECORDS IS ESSENTIAL.
ANY ERROR OR EXCEPTION SHOULD BE REPORTED IMMEDIATELY.

CASH ACCOUNT:
Balance as of November 1 $7,317.40

CASH RECEIPTS FOR MONTH OF NOVEMBER $8,651.58

DUPLICATE DEPOSIT TICKETS:
Date and amount of each deposit in November:

Date	Amount	Date	Amount	Date	Amount
Nov. 1	$1,080.50	Nov. 10	$ 896.61	Nov. 22	$ 537.34
3	854.17	15	882.95	24	942.71
8	840.50	17	1,606.74	29	1,010.06

31

7-3A

Bank Reconciliation		
Cash balance per bank statement		
Cash balance per books		

7-4A

Bank Reconciliation		
Cash balance per bank statement		
Cash balance per books		

7-3B

Bank Reconciliation		
Cash balance per bank statement		
Cash balance per books		

Bank Reconciliation		
Cash balance per bank statement		
Cash balance per books		

PROBLEM 7.1
Cash Management

St. **Jude Medical, Inc.**, is a publicly owned corporation engaged in the manufacture of heart valves and other medical products. In recent years, the company has accumulated large amounts ...h and cash equivalents as a result of profitable operations. A recent annual report showed ...and cash equivalents amounting to more than 50% of the company's total assets. During the period that these large holdings of cash and cash equivalents have accumulated, the company has paid no cash dividends.

Some financial analysts thought St. Jude was holding too much cash.

Instructions

a. Why would anyone think that a company was holding "too much cash"?
b. What can a corporation do to efficiently utilize cash balances in excess of the amounts needed for current operations?
c. Evaluate St. Jude's policies of accumulating liquid resources instead of paying dividends from the perspectives of:
   1. The company's creditors.
   2. The company's stockholders.

PROBLEM 7.2
Reporting Financial Assets

Explain how each of the following items is reported in a complete set of financial statements, including the accompanying notes. (In one or more cases, the item may not appear in the financial statements.) The answer to the first item is provided below as an example.

a. Cash equivalents.
b. Cash in a special fund being accumulated for the purpose of retiring a specific long-term liability.
c. Compensating balances.
d. The amount by which the current market value of securities classified as available for sale exceeds their cost.
e. The allowance for doubtful accounts receivable.
f. The accounts receivable turnover rate.
g. Realized gains and losses on investments sold during the period.
h. Proceeds from converting cash equivalents into cash.
i. Proceeds from converting investments in marketable securities into cash.

Example: **a.** Cash equivalents normally are *not* shown separately in financial statements. Rather, they are combined with other types of cash and reported under the caption "Cash and Cash Equivalents." A note to the statements often shows the "breakdown" of this asset category.

PROBLEM 7.3
Bank Reconciliation

The cash transactions and cash balances of Norfleet Farm for July were as follows:

1. The ledger account for Cash showed a balance at July 31 of $16,766.95.
2. The July bank statement showed a closing balance of $18,928.12.
3. The cash received on July 31 amounted to $4,017.15. It was left at the bank in the night depository chute after banking hours on July 31 and therefore was not recorded by the bank on the July statement.
4. Also included with the July bank statement was a debit memorandum from the bank for $7.65 representing service charges for July.
5. A credit memorandum enclosed with the July bank statement indicated that a non-interest-bearing note receivable for $4,545 from Rene Manes, left with the bank for collection, had been collected and the proceeds credited to the account of Norfleet Farm.
6. Comparison of the paid checks returned by the bank with the entries in the accounting records revealed that check no. 821 for *$835.02*, issued July 15 in payment for office equipment, had been erroneously entered in Norfleet's records as *$853.02*.
7. Examination of the paid checks also revealed that three checks, all issued in July, had not yet been paid by the bank: no. 811 for $861.12; no. 814 for $640.80; no. 823 for $301.05.
8. Included with the July bank statement was a $180 check drawn by Howard Williams, a customer of Norfleet Farm. This check was marked "NSF." It had been included in the deposit of July 27 but had been charged back against the company's account on July 31.

Norfleet farms

Bank Reconciliation

Cash balance per bank statement		
Cash balance per books		

Journal Entries

8-5 Recording petty cash transactions.

Lamar Brand, Inc. is a newly established travel agency. Lamar has realized he needs to establish a petty cash fund for small cash expenditures around the office. During the first two months Lamar had the following petty cash transactions.

June 1	Established a petty cash fund with a $150 balance.
June 30	Reviewed the following receipts in the petty cash fund. Replenished the fund and recorded the disbursements.

Postage expense	$25
Advertising expense	70
Parking fees expense	15
Miscellaneous expense	10

July 15	Increased the petty cash fund to $200 by writing a check for $50.

a) Journalize the petty cash transactions listed above.

General Journal

Date		Account Titles	Ref.	Debit		Credit	

b) How much cash (currency) was there in the petty cash fund on June 30 prior to the replenishment?

$ ____________

c) How much cash (currency) is there in the fund after the replenishment?

$ ____________

d) Refer to the June 30 transaction to replenish the fund. If the petty cash fund had $28 cash, record the journal entry to replenish the fund.

General Journal

Date		Account Titles	Ref.	Debit		Credit	

Petty Cash
Establishing & Replenishing the fund

Max Tees is a new t-shirt retail store that needs to establish a petty cash fund for small cash disbursements. They determine that they should have $100 on hand to take care of these payments.

Record the general journal entry to establish the fund on March 1.

General Journal			

On March 31 it is time to replenish the fund. The following petty cash vouchers show the expenditures made during the month:

- **Business luncheon $30** (Entertainment Expense)
- **Office Supplies $25**
- **UPS Shipping $20**
- **Miscellaneous Exp. $15**

Record the general journal entry to replenish the funds on March 31.

General Journal			

E8-7 James Hughes Company established a petty cash fund on May 1, cashing a check for $100. The company reimbursed the fund on June 1 and July 1 with the following results.

Prepare journal entries for a petty cash fund.

(SO 5)

June 1: Cash in fund $2.75. Receipts: delivery expense $31.25; postage expense $39.00; and miscellaneous expense $25.00.

July 1: Cash in fund $3.25. Receipts: delivery expense $21.00; entertainment expense $51.00; and miscellaneous expense $24.75.

On July 10, James Hughes increased the fund from $100 to $150.

Instructions

Prepare journal entries for James Hughes Company for May 1, June 1, July 1, and July 10.

General Journal

Date		Account Titles	Ref.	Debit		Credit	

E8-8 Lincolnville Company uses an imprest petty cash system. The fund was established on March 1 with a balance of $100. During March the following petty cash receipts were found in the petty cash box.

Prepare journal entries for a petty cash fund.

(SO 5)

Date	Receipt No.	For	Amount
3/5	1	Stamp Inventory	$39
7	2	Freight-out	21
9	3	Miscellaneous Expense	6
11	4	Travel Expense	24
14	5	Miscellaneous Expense	5

The fund was replenished on March 15 when the fund contained $3 in cash. On March 20, the amount in the fund was increased to $150.

Instructions

Journalize the entries in March that pertain to the operation of the petty cash fund.

General Journal

Date		Account Titles	Ref.	Debit	Credit

Name: ____________________

Mr. Lasser

Accounting

Petty Cash

Prepare Journal Entries for the Romas Corporation for March 1, March 31 and April 10.

March 1 Romas Corporation established a petty cash fund by cashing a check for $110.

March 31st Cash in fund is $10. Receipts: Shipping: $22, Office Supplies: $20, Advertising Expense: $15, Miscellaneous Expense: $38.

April 10th Romas Corporation increases the fund from $110 to $150.

General Journal

Date		Account Titles	Ref.	Debit		Credit	

Accounting for Marketable Securities – Ch. 7 WS 1

At December 31, Rumrill Manufacturing owned the following investments in the capital stock of publicly owned companies:

Matt's Motorcycles	**2,000 shares: cost $25 per share;** **Market value $23 per share**
Tish's Trucks	**4,000 shares: cost $34 per share;** **Market value $36 per share**

In 2010, Rumrill Manufacturing engaged in the following transactions. Journalize the transactions in the general journal provided.

$ **Purchased 3,000 shares of Pound Stock at a cost of $12 per share, plus a brokerage fee of $350.**

$ **Sold 1,000 shares of Matt's Motorcycles for $23 a share, less a brokerage commission of $150.**

$ **Tish's Trucks issued a $ .15 dividend per share**

$ **Sold 500 shares of Tish's Trucks for $40 a share, less a brokerage commission of $300.**

$ **Prior to making any adjusting entries, Rumrill Marketable Securities account had a balance of $174,000. If the current market value is $177,500, make the adjusting entry required at year end.**

General Journal

Date		Account Titles	Ref.	Debit		Credit	

Accounting for Marketable Securities – Ch. 7 WS 2

At December 31, Stark Manufacturing owned the following investments in the capital stock of publicly owned companies:

Chris' Cars	**2,000 shares: cost $20 per share; Market value $25 per share**
Fisher Fuel	**4,000 shares: cost $30 per share; Market value $36 per share**

In 2010, Stark Manufacturing engaged in the following transactions. Journalize the transactions in the general journal provided.

- **Purchased 3,000 shares of Hutchinson Stock at a cost of $15 per share, plus a brokerage fee of $500.**
- **Sold 1,000 shares of Chris' Cars for $15 a share, less a brokerage commission of $150.**
- **Fisher Fuel issued a $ .05 dividend per share**
- **Sold 500 shares of Fisher Fuel for $45 a share, less a brokerage commission of $300.**
- **Prior to making any adjusting entries, Stark's Marketable Securities account had a balance of $174,300. If the current market value is $160,000, make the adjusting entry required at year end.**

General Journal

Date		Account Titles	Ref.	Debit		Credit	

Accounting for Marketable Securities—Ch. 7 WS 3 Graded Problem

At December 31, 2001 Houston Manufacturing owned the following investments in the capital stock of publicly owned companies:

JANUS COMPANY	**4,000 shares: cost $50 per share; market value $55 per share**
ALLIED OPTICAL	**2,000 shares: cost $60 per share; market value $62 share**

In 2002, Houston Manufacturing engaged in the following transaction. Journalize these transactions in the general journal provided.

- **Purchased 2500 shares of X Y & Z stock at a cost of $20 per share, plus a brokerage fee of $200**
- **Sold 2000 shares of Janus Co. for $40 a share, less a brokerage commission of $400**
- Allied issues a $.10 Dividend
- **Sold 1000 shares of Allied Optical for $65 a share, less a brokerage commission of $300**
- **Prior to making any adjusting entries, Houston's Marketable Securities account had a balance of $210,200. If the current market value is $200,000, make the adjusting entry required at year end.**

General Journal

Date		Account Titles	Ref.	Debit		Credit	

Ch. 7—Accounting for Marketable Securities WS 4
Practice Problem

At December 31, 2003 Nexel Inc. owned the following investments in the capital stock of publicly owned companies:

WESTFALL CORP.	**3000 shares: cost $60 per share; market value $65 per share**
MYSTIC MANUFACTURING	**2,000 shares: cost $60 per share; market value $70 share**

In 2002, Nexel Inc. engaged in the following transactiosn. Journalize these transactions in the general journal provided.

- $ **March 10** **Purchased 4000 shares of ABC stock at a cost of $30 per share, plus a brokerage fee of $300**
- $ **April 21** **Sold 1000 shares of Westfall Corp. for $70 a share, less a brokerage commission of $400**
- $ May 1 Mystic issued a .30¢ dividend
- $ **June 15** **Sold 1500 shares of Mystic Manufacturing for $55 a share, less a brokerage commission of $200**
- $ **Dec. 31** **Prior to making any adjusting entries, Nexel's Marketable Securities account had a balance of $78,200. If the current market value is $88,400, make the adjusting entry required at year end.**

General Journal

Date		Account Titles	Ref.	Debit		Credit	

Accounting for Marketable Securities – Ch. 7 WS 5

At December 31, Lasser Manufacturing owned the following investments in the capital stock of publicly owned companies:

Pecor Paper	**2,000 shares: cost \$65 per share; Market value \$52 per share**
Sanderson Sandwiches	**4,000 shares: cost \$75 per share; Market value \$81 per share**

In 2010, Lasser Manufacturing engaged in the following transactions. Journalize the transactions in the general journal provided.

- **Purchased 3,000 shares of Nike Inc. at a cost of \$25 per share, plus a brokerage fee of \$200.**
- **Sold 1,000 shares of Pecor Paper for \$70 a share, less a brokerage commission of \$150.**
- **Sanderson Sandwiches issued a \$.20 dividend per share.**
- **Sold 2,000 shares of Sanderson Sandwiches for \$72 a share, less a brokerage commission of \$300.**
- **Prior to making any adjusting entries, Lasser's Marketable Securities account had a balance of \$172,000. If the current market value is \$166,400, make the adjusting entry required at year end.**

General Journal

Date		Account Titles	Ref.	Debit		Credit	

Accounting for Marketable Securities – Ch. 7 WS 6

At December 31, Romas Manufacturing owned the following investments in the capital stock of publicly owned companies:

Barb Broadcasting	**2,000 shares: cost $35 per share; Market value $27 per share**
Taryn Tunes	**4,000 shares: cost $50 per share; Market value $56 per share**

In 2010, Romas Manufacturing engaged in the following transactions. Journalize the transactions in the general journal provided.

$ **Purchased 3,500 shares of Rachel Flix at a cost of $18 per share, plus a brokerage fee of $200.**

$ **Sold 1,000 shares of Barb Broadcasting for $32 a share, less a brokerage commission of $150.**

$ **Taryn Tunes issued a $ .25 dividend per share**

$ **Sold 800 shares of Taryn Tunes for $55 a share, less a brokerage commission of $300.**

$ **Prior to making any adjusting entries, Romas Marketable Securities account had a balance of $174,000. If the current market value is $184,250, make the adjusting entry required at year end.**

General Journal

Date		Account Titles	Ref.	Debit		Credit	

Ch 7 Review

Problem Set B

LO1 **LO3** **PROBLEM 7.1B**
Bank Reconciliation

The cash transactions and cash balances of Dodge, Inc., for November were as follows:

1. The ledger account for Cash showed a balance at November 30 of $6,750.
2. The November bank statement showed a closing balance of $4,710.
3. The cash received on November 30 amounted to $3,850. It was left at the bank in the night depository chute after banking hours on November 30 and therefore was not recorded by the bank on the November statement.
4. Also included with the November bank statement was a debit memorandum from the bank for $15 representing service charges for November.
5. A credit memorandum enclosed with the November bank statement indicated that a non-interest-bearing note receivable for $4,000 from Wright Sisters, left with the bank for collection, had been collected and the proceeds credited to the account of Dodge, Inc.
6. Comparison of the paid checks returned by the bank with the entries in the accounting records revealed that check no. 810 for $430, issued November 15 in payment for computer equipment, had been erroneously entered in Dodge's records as $340.
7. Examination of the paid checks also revealed that three checks, all issued in November, had not yet been paid by the bank: no. 814 for $115; no. 816 for $170; no. 830 for $530.
8. Included with the November bank statement was a $2,900 check drawn by Steve Dial, a customer of Dodge, Inc. This check was marked "NSF." It had been included in the deposit of November 27 but had been charged back against the company's account on November 30.

Instructions

a. Prepare a bank reconciliation for Dodge, Inc., at November 30.

b. Prepare journal entries (in general journal form) to adjust the accounts at November 30. Assume that the accounts have not been closed.

c. State the amount of cash that should be included in the balance sheet at November 30.

LO2 **LO3** **PROBLEM 7.2B**
Protecting Cash

Jason Chain Saws, Inc., had poor internal control over its cash transactions. Facts about the company's cash position at April 30 are described below.

The accounting records showed a cash balance of $20,325, which included a deposit in transit of $5,000. The balance indicated in the bank statement was $14,300. Included in the bank statement were the following debit and credit memoranda:

Debit Memoranda:	
Check from customer, deposited but charged back as NSF	$ 125
Bank service charges for April	50
Credit Memorandum:	
Proceeds from collection of a note receivable on company's behalf	$6,200

Outstanding checks as of April 30 were as follows:

Check No.	**Amount**
836	$ 500
842	440
855	330
859	1,300

Bank Reconciliation		
Cash balance per bank statement		
Cash balance per books		

Name: ____________________

Mr. Lasser

Accounting

Petty Cash - Review

Prepare Journal Entries for the Burch Corporation for March 1, March 31 and April 10.

March 1 Burch Corporation established a petty cash fund by cashing a check for $125.

March 31st Cash in fund is $26. Receipts: Shipping: $22, Office Supplies: $20, Advertising Expense: $15, Miscellaneous Expense: $38.

April 10th Burch Corporation increases the fund from $125 to $160.

Name: ________________________
Accounting
Ch. 7 Financial Assets
Graded Problem

Quiz: Using the General Journal provided, record the following transactions.

a) On January 2 First Period Associates estimates uncollectible accounts expense at 2% of net credit sales. Net credit sales for the fiscal period were $3,700,000.

b) On March 15 a $1,625 accounts receivable, Luke's Law Enforcers is written off.

c) On April 10, an accounts receivable that was previously written off, Tony and Things, for $405 is unexpectedly collected.

d) On December 31 the balance in the Allowance for Doubtful Accounts is $2,955. The required balance is $4,800. Make the adjusting entry.

REVIEW Accounting for Marketable Securities – Ch. 7

At December 31, Adam Manufacturing owned the following investments in the capital stock of publicly owned companies:

Katie's Cakes	**2,000 shares: cost $18 per share; Market value $23 per share**
Amanda's Alpaca's	**4,000 shares: cost $40 per share; Market value $36 per share**

In 2010, Adam Manufacturing engaged in the following transactions. Journalize the transactions in the general journal provided.

- **Purchased 2,000 shares of Miranda Stock at a cost of $16 per share, plus a brokerage fee of $250.**
- **Sold 1,000 shares of Katie's Cakes for $23 a share, less a brokerage commission of $150.**
- **Amanda's Alpaca's issued a $ .15 dividend per share**
- **Sold 500 shares of Amanda's Alpaca's for $37a share, less a brokerage commission of $300.**
- **Prior to making any adjusting entries, Adam Marketable Securities account had a balance of $172,000. If the current market value is $177,500, make the adjusting entry required at year end.**

General Journal

Date		Account Titles	Ref.	Debit		Credit	