B EXERCISES

(L0 1, 2) **E7-1B (Determining Cash Balance)** The controller for Clair Co. is attempting to determine the amount of cash to be reported on its December 31, 2007, balance sheet. The following information is provided.

1. Commercial savings account of $1,200,000 and a commercial checking account balance of $1,800,000 are held at First National Bank of Yojimbo.
2. A money market fund account of $10,000,000, held at Nguyen Co. (a mutual fund organization) permits Clair Co. to write checks on this balance.
3. Travel advances of $360,000 for executive travel for the first quarter of next year (employee to reimburse through salary reduction).
4. A separate cash fund in the amount of $3,000,000 is restricted for the retirement of long-term debt.
5. Petty cash fund of $2,000.
6. An I.O.U. from Nyamaan, a company customer, in the amount of $380,000.
7. A bank overdraft of $220,000 has occurred at one of the banks the company uses to deposit its cash receipts. At the present time, the company has no deposits at this bank.
8. The company has two certificates of deposit, each totaling $1,000,000. These CDs have a maturity of 120 days.
9. Clair has received a check that is dated January 12, 2008, in the amount of $250,000.
10. Clair has agreed to maintain a cash balance of $1,000,000 at all times at First National Bank of Yojimbo to ensure future credit availability.
11. Clair has purchased $4,200,000 of commercial paper of Sergio Leone Co. which is due in 60 days.
12. Currency and coin on hand amounted to $15,400.

Instructions

(a) Compute the amount of cash to be reported on Clair Co.'s balance sheet at December 31, 2007.

(b) Indicate the proper reporting for items that are not reported as cash on the December 31, 2007, balance sheet.

(L0 4, 5) **E7-2B (Determine Ending Accounts Receivable)** Your accounts receivable clerk, Ms. Oommen, to whom you pay a salary of $6,500 per month, has just purchased a new Cadillac. You decided to test the accuracy of the accounts receivable balance of $87,000 as shown in the ledger.

The following information is available for your *first year* in business.

(1) Collections from customers	$203,000
(2) Merchandise purchased	325,000
(3) Ending merchandise inventory	95,000
(4) Goods are marked to sell at 50% above cost	

Instructions

Compute an estimate of the ending balance of accounts receivable from customers that should appear in the ledger and any apparent shortages. Assume that all sales are made on account.

(L0 4) **E7-3B (Record Sales Gross and Net)** On June 3, Patel Company sold to Pham Inc. merchandise having a sale price of $1,500 with terms of 2/10, n/60, f.o.b. shipping point. An invoice totaling $45, terms n/30, was received by Pham on June 8 from the John Booth Transport Service for the freight cost. On June 12, the company received a check for the balance due from Pham.

Instructions

(a) Prepare journal entries on the Patel Company books to record all the events noted above under each of the following bases.

(1) Sales and receivables are entered at gross selling price.

(2) Sales and receivables are entered at net of cash discounts.

(b) Prepare the journal entry under basis 2, assuming that Pham did not remit payment until July 29.

(L0 4) **E7-4B (Recording Sales Transactions)** Presented below is information from Quezada Computers Incorporated.

July	1	Sold $10,000 of computers to Robertson Company with terms 2/15, n/60. Quezada uses the gross method to record cash discounts.
	10	Quezada received payment from Robertson for the full amount owed from the July 1 transaction.
	17	Sold $100,000 in computers and peripherals to The Clark Store with terms of 2/10, n/30.
	30	The Clark Store paid Quezada for its purchase of July 17.

Instructions

Prepare the necessary journal entries for Quezada Computers.

(LO 5) **E7-5B (Recording Bad Debts)** Rodriguez Company reports the following financial information before adjustments.

	Debits	Credits
Accounts Receivable	$25,000	
Allowance for Doubtful Accounts		$ 500
Sales (all on credit)		225,000
Sales Returns and Allowances	12,500	

Instructions

Prepare the journal entry to record Bad Debt Expense assuming Rodriguez Company estimates bad debts at **(a)** 3% of net sales and **(b)** 8% of accounts receivable.

(LO 5) **E7-6B (Recording Bad Debts)** At the end of 2007 Sanchez Company has accounts receivable of $400,000 and an allowance for doubtful accounts of $20,000. On January 16, 2008, Sanchez Company determined that its receivable from Maximillan Company of $3,000 will not be collected, and management authorized its write-off.

Instructions

(a) Prepare the journal entry for Sanchez Company to write off the Maximillan receivable.
(b) What is the net realizable value of Sanchez Company's accounts receivable before the write-off of the Maximillan receivable?
(c) What is the net realizable value of Sanchez Company's accounts receivable after the write-off of the Maximillan receivable?

(LO 5) **E7-7B (Computing Bad Debts and Preparing Journal Entries)** The trial balance before adjustment of Santillan Inc. shows the following balances.

	Debits	Credits
Accounts Receivable	$180,000	
Allowance for Doubtful Accounts	3,500	
Sales (all on credit)		$1,000,000

Instructions

Give the entry for estimated bad debts assuming that the allowance is to provide for doubtful accounts on the basis of **(a)** 5% of gross accounts receivable and **(b)** 1% of net sales.

(LO 5) **E7-8B (Bad Debts—Aging)** Siddiqui, Inc. includes the following account among its trade receivables.

Singh Co.

1/1	Balance forward	1,400	1/28	Cash (#1710)	2,200
1/20	Invoice #1710	2,200	4/2	Cash (#2116)	2,750
3/14	Invoice #2116	2,750	4/10	Cash (1/1 Balance)	310
4/12	Invoice #2412	3,420	4/30	Cash (#2412)	2,000
9/5	Invoice #3614	980	9/20	Cash (#3614 and	
10/17	Invoice #4912	1,720		part of #2412)	1,580
11/18	Invoice #5681	4,000	10/31	Cash (#4912)	1,720
12/20	Invoice #6347	1,600	12/1	Cash (#5681)	2,500
			12/29	Cash (#6347)	1,600

Instructions

Age the balance and specify any items that apparently require particular attention at year-end.

(LO 8) **E7-9B (Assigning Accounts Receivable)** On April 1, 2007, Somers Company assigns $200,000 of its accounts receivable to Third National Bank as collateral for a $100,000 loan due July 1, 2007. The assignment agreement calls for Somers Company to continue to collect the receivables. Third National Bank assesses a finance charge of 3% of the accounts receivable, and interest on the loan is 8% (a realistic rate of interest for a note of this type).

Instructions

(a) Prepare the April 1, 2007, journal entry for Somers Company.
(b) Prepare the journal entry for Somers's collection of $175,000 of the accounts receivable during the period from April 1, 2007, through June 30, 2007.
(c) On July 1, 2007, Somers paid Third National all that was due from the loan it secured on April 1, 2007.

(L0 8) **E7-10B (Transfer of Receivables with Recourse)** Strassner Corporation factors $262,500 of accounts receivable with Sultanali Financing, Inc. on a with recourse basis. Sultanali Financing will collect the receivables. The receivables records are transferred to Sultanali Financing on August 15, 2007. Sultanali Financing assesses a finance charge of 3% of the amount of accounts receivable and also reserves an amount equal to 5% of accounts receivable to cover probable adjustments.

Instructions

(a) What conditions must be met for a transfer of receivables with recourse to be accounted for as a sale?

(b) Assume the conditions from part (a) are met. Prepare the journal entry on August 15, 2007, for Strassner to record the sale of receivables, assuming the recourse obligation has a fair value of $3,000.

(L0 8) **E7-11B (Transfer of Receivables without Recourse)** SYKES Corp. factors $100,000 of accounts receivable with KTT Finance Corporation on a without recourse basis on July 1, 2007. The receivables records are transferred to KTT Finance, which will receive the collections. KTT Finance assesses a finance charge of 2% of the amount of accounts receivable and retains an amount equal to 5% of accounts receivable to cover sales discounts, returns, and allowances. The transaction is to be recorded as a sale.

Instructions

(a) Prepare the journal entry on July 1, 2007, for SYKES Corp. to record the sale of receivables without recourse.

(b) Prepare the journal entry on July 1, 2007, for KTT Finance Corporation to record the purchase of receivables without recourse.

(L0 6, 7) **E7-12B (Note Transactions at Unrealistic Interest Rates)** On July 1, 2007, Taylor Inc. made two sales.

1. It sold land having a fair market value of $500,000 in exchange for a 4-year, zero-interest-bearing promissory note in the face amount of $732,053.70. The land is carried on Taylor's books at a cost of $375,000.
2. It rendered services in exchange for a 4%, 8-year promissory note having a face value of $400,000 (interest payable annually).

Taylor Inc. recently had to pay 7% interest for money that it borrowed from British National Bank. The customers in these two transactions have credit ratings that require them to borrow money at 10% interest.

Instructions

Record the two journal entries that should be recorded by Taylor Inc. for the sales transactions above that took place on July 1, 2007.

(L0 6, 7) **E7-13B (Notes Receivable with Unrealistic Interest Rate)** On December 31, 2005, Tran Co. performed environmental consulting services for Hayden Co. Hayden was short of cash, and Tran Co. agreed to accept a $100,000 zero-interest-bearing note due December 31, 2007, as payment in full. Hayden is somewhat of a credit risk and typically borrows funds at a rate of 15%. Tran is much more creditworthy and has various lines of credit at 8%.

Instructions

(a) Prepare the journal entry to record the transaction of December 31, 2005, for Tran Co.

(b) Assuming Tran Co.'s fiscal year-end is December 31, prepare the journal entry for December 31, 2006.

(c) Assuming Tran Co.'s fiscal year-end is December 31, prepare the journal entry for December 31, 2007.

(L0 1, 2) ***E7-14B (Petty Cash)** Velez, Inc. decided to establish a petty cash fund to help ensure internal control over its small cash expenditures. The following information is available for the month of April.

1. On April 1, it established a petty cash fund in the amount of $1,000.
2. A summary of the petty cash expenditures made by the petty cash custodian as of April 10 is as follows.

Delivery charges paid on merchandise purchased	$300.00
Supplies purchased and used	125.00
Postage expense	165.00
I.O.U. from employees	85.00
Miscellaneous expense	180.00

The petty cash fund was replenished on April 10. The balance in the fund was $135.

3. The petty cash fund balance was increased $500 to $1,500 on April 20.

Instructions

Prepare the journal entries to record transactions related to petty cash for the month of April.

(LO 1, 2) ***E7-15B** **(Bank Reconciliation and Adjusting Entries)** Wang Company deposits all receipts and makes all payments by check. The following information is available from the cash records.

June 30 Bank Reconciliation

Balance per bank	$14,000
Add: Deposits in transit	3,080
Deduct: Outstanding checks	(4,000)
Balance per books	$13,080

Month of July Results

	Per Bank	Per Books
Balance July 31	$17,300	$18,500
July deposits	10,000	11,620
July checks	8,000	6,200
July note collected (not included in July deposits)	2,000	—
July bank service charge	30	—
July NSF check from a customer, returned by the bank (recorded by bank as a charge)	670	—

Instructions

(a) Prepare a bank reconciliation going from balance per bank and balance per book to correct cash balance.

(b) Prepare the general journal entry or entries to correct the Cash account.

(LO 1, 2) **E7-16B** **(Cash and Cash Equivalents)** Consider the following items.

1. Postage stamps.
2. Legally restricted compensating balance on long-term debt.
3. Investments with maturity of less than 3 months.
4. Travel advances to employees.
5. Petty cash balances.
6. Overdrawn balance in a checking account. (No other accounts are at that bank.)
7. Overdrawn balance in a checking account. The company has a positive balance in another accounting at the same bank that is larger than the overdrawn amount.
8. Investments with maturity greater than 3 months.

Instructions

For each item, identify whether it is cash or a cash equivalent. For those items not considered cash equivalents, state where they would typically be classified.

(LO 8) **E7-17B** **(Factoring Accounts Receivable)** On April 1, 2007, Norton Company factored receivables with a carrying amount of $100,000 to Zheng Company. Zheng Company assesses a finance charge of 3% of the receivables and retains 5% of the receivables.

Instructions

(a) Prepare the journal entry for Norton, assuming that Norton factors the receivables on a **with recourse** basis. The recourse obligation has a fair value of $1,000.

(b) Prepare the journal entry for Norton, assuming that Norton factors the receivables on a **without recourse** basis.

(LO 5) **E7-18B** **(Allowance for Bad Debts)** On January 1, 2007, Rodriguez Corporation had an allowance of $92,000 for bad debts.

Instructions

Record the necessary journal entries for the following events that occurred during 2007.

(a) Specific bad debts of $87,000 were identified and written off during the year.

(b) A total of $8,000 of bad debts previously written off was subsequently collected.

(c) Based on an aging of accounts receivable on December 31, it was determined that an allowance of $70,000 should appear on the December 31 year-end balance sheet.

(LO 6) **E7-19B** **(Notes Receivable)** On January 1, 2007, Oliver Wendell Douglas accepted a 10%, 3-year $200,000 note from Mr. Haney in exchange for cash. Interest on the note is paid annually on December 31. Mr. Haney must borrow money at an interest rate of 12%. Mr. Douglas must borrow money at an interest rate of 8%.

Instructions

(a) Prepare the journal entry to record the January 1, 2007, transaction on Douglas's books.

(b) Prepare the appropriate journal entry on Douglas's books for December 31, 2007, using the effective-interest method.

(c) Prepare the appropriate journal entry on Douglas's books for December 31, 2008, using the effective-interest method.

(d) Prepare the appropriate journal entries on Douglas's books for December 31, 2009, using the effective-interest method.

(L0 5) **E7-20B (Notes Receivable)** Alba Incorporated entered into the following two transactions during October 2007. Alba typically pays 6% interest on outstanding debt.

1. On October 1, 2007, Alba accepted a zero-interest bearing, 3-year $400,000 note from Storm Corporation in exchange for a parcel of land. The land had originally cost Alba $250,000, and the estimated fair market value of the land on the date of the transaction was $335,000.
2. On October 6, 2007, Alba accepted a $300,000, 2-year, 10% note from Lee Company in exchange for a large inventory purchase. Interest is payable annually on October 5. The inventory had originally cost Alba $125,000. Lee typically pays 12% interest on similar transactions. Alba uses the perpetual inventory system.

Instructions

Record the journal entry for each transaction.