

HOMEWORK PROBLEM 3-1

Springfield Medical Center operates a nearby parking garage. Anyone is permitted to park in the parking garage. Parking charges are \$2.00 for the first two hours or part, \$1.00 for each additional hour or part to a maximum charge of \$5.00 for each 24 hour time period. For patients and visitors, the hospital will “validate” their parking tickets, permitting them to park for free. All a patient or visitor need do is bring the parking ticket to the information desk and have it stamped (with the name of the medical center).

Fred has been the parking lot attendant for 7 years. He has been having some financial difficulties lately, so he decided to make a little extra money -- illegally. He had a rubber stamp produced with the name of the medical center -- virtually identical to the stamp used by the medical center to validate the parking tickets. When some of the paying customers would leave the parking deck, Fred would pocket the cash they paid and then he would stamp the ticket with the name of the medical center. Thus when the parking tickets were examined later, these tickets would be validated, and Fred would not be expected to have any money for them.

Requirements:

1. Explain how Fred might be caught
2. Indicate reasonable, cost-effective procedures that could be established to prevent such theft

HOMEWORK PROBLEM 3-2

Robert Winslow, the bookkeeper for The Jones Corporation, told you, the owner, that he just received the bank statement and the cash accounting is in order because the book balance was the same as the balance shown on the bank statement. You have noticed, however, that he seems to be living a bit beyond his means lately, so you decide to investigate the company's cash transactions. Using the following data pertaining to the cash transactions and bank account of The Jones Corporation for September, 20x1, prepare a bank reconciliation as of September 30, 20x1.

1. Cash balance per bank statement on September 30, 20x1, \$55,000.
2. The bank statement contained a deposit of \$1,050 in September which was not recorded in the company's books. The amount represented a deposit made in the company's behalf by the bank for the collection of a \$1,000 note and interest.
3. A check from Harry Stoneham, a customer of The Jones Corp., was returned by the bank marked NSF, indicating that the customer's balance was not adequate to cover the check; no entry has previously been made on The Jones Corp. books to record the return of the check. The check, in the amount of \$7,600, was originally received from Stoneham in payment of his account. The bank charged an additional \$25 for handling the NSF check.
4. Checks No. 485 for \$1,150 and No. 493 for \$6,200 were outstanding on the August 31 bank reconciliation. Check No. 493 cleared the bank during September but Check No. 485 still had not cleared the bank by the end of September.
5. A check issued by The Jonas Company for \$400 was charged to The Jones Corporation in error. The Jones Corporation will notify the bank tomorrow.
6. In comparing the checks clearing the bank according to the September bank statement with the entries in the company's books it was found that Check No. 512 for the purchase of machinery was correctly written for \$3,200 but was entered in the company's books as though it was for \$2,300.
7. Checks No. 542 for \$2,250 and No. 544 for \$1,300, both drawn on September 29, had not cleared the bank according to the September bank statement.
8. On August 31 the company deposited \$7,400 by mail. This deposit appeared on the bank statement on September 1. A mail deposit of \$8,350 was made on September 30 after banking hours.

Required:

- a. Based on the bank reconciliation you prepared, do you agree with Mr. Winslow that the cash accounting was in order? Explain.
- b. Record the necessary journal entries, if any, to adjust the ledger balance of Cash to the correct balance.

HOMEWORK PROBLEMS 3-3 AND 3-4

Problem 3-3

The balance sheet for the Petsmart, Inc as shown in it's February 3, 2002 10-K Report reveals the following information about the current assets:

Assets	(in thousands)	
	February 3, 2002	January 28 2001
Assets:		
Cash and cash equivalents	\$ 137,111	\$ 43,827
Receivables, net	23,263	36,940
Merchandise inventories	272,572	322,462
Prepaid expenses and other current assets	<u>43,870</u>	<u>27,098</u>
Total Current Assets	476,816	<u>430,327</u>

The following footnote also appeared in the 10-K Report:

Cash and Cash Equivalents . . . As of February 3, 2002, and January 28, 2001, bank overdrafts of approximately \$36,564,000 and \$40,370,000, respectively, were included in accounts payable and bank overdraft in the accompanying consolidated balance sheets. . . .

Required:

- a. Describe cash equivalents.
- b. How was the company able to overdraw its bank accounts by \$36,564,000 at February 3, 2002 without encountering difficulties with its banks?

Problem 3-4

The Becker Co. uses the allowance method of accounting for uncollectible accounts receivable. Record the following transactions of the Becker Co. in general journal form.

- (a) The company has estimated that 2% of their 20x3 sales of \$850,000 are of doubtful collectibility. The balance in the Allowance for Doubtful Accounts is a debit balance of \$2,000. Record the necessary year-end adjusting entry.
- (b) The account of Robert Johnson for \$800 is found to be uncollectible in March 20x4 and the account is written off.

HOMEWORK PROBLEMS 3-5 TO 3-6

Problem 3-5

Use the internet to access the December 31, 2001 10-K405 for Trump Hotels & Casino Resorts, Inc. After reviewing the financial statements, including the footnotes and supporting schedules, answer the following questions:

- a. There are basically two methods of recognizing bad debt expense: (1) the direct write-off method, and (2) the allowance method. What are the deficiencies of the direct write-off method?
- b. If, during 2002, \$30,000 of Trump Hotels & Casino Resorts' accounts receivable were to be written off, what would be the effect on
 - Net income in the year of writeoff (ignore income tax effect)
_____ (increase, decrease, no effect)
 - Total assets _____ (increase, decrease, no effect)
 - Total current assets _____ (increase, decrease, no effect)
- c. Based solely on the information presented in the Trump Hotels & Casino Resorts, Inc. 10-K 405, show the journal entries, including amounts, that were most likely recorded during 2001, that affected the Allowance for Doubtful Accounts account for accounts receivable. You may assume that no accounts previously written off were subsequently collected.

Problem 3-6

The Hardy Company shows the following information relating to Commodity A which it handles:

Inventory, January 1	50 units @ \$5 each
Purchases, January 15	100 units @ \$6 each
Purchases, January 28	200 units @ \$7 each

The ending inventory consists of 100 units. What is the value of the inventory at the end of January for Commodity A assuming cost is determined using the:

- a. first-in, first-out method
- b. last-in, first-out method
- c. weighted average method

HOMEWORK PROBLEM 3-7

- (a) Use the internet to access the April 30, 2002 10-K report for John Wiley & Sons, Inc. After reviewing the financial statements, including the footnotes, answer the following questions:
1. What is a LIFO reserve? How much was the LIFO reserve as of April 30, 2002?
 2. If replacement cost, rather than LIFO, was used to value the inventory, what would the inventories value be for John Wiley & Sons, Inc. on April 30, 2002?
 3. How much higher would pre-tax income in the fiscal year ended April 30, 2002 have been had the inventory been valued at replacement cost rather than LIFO?
- (b) Use the internet to access the December 29, 2001 10-K report for Sears Roebuck and Co. After reviewing the financial statements, including the footnotes, answer the following questions:
1. What is the amount of the LIFO reserve in fiscal year 2001?
 2. How much higher would pre-tax income in 2001 have been had the inventory been valued at current cost rather than LIFO?
 3. What are LIFO “liquidation of inventories”?
 4. Why did such a liquidation produce an increase in net income?
 5. Did the company deliberately liquidate inventories to increase profits?
- (c) Use the internet to access the December 31, 2001 10-K405 report for Hershey Foods Corp. After reviewing the financial statements, including the footnotes, answer the following questions:
1. What is the amount of the LIFO reserve in 2001?
 2. How much higher would pre-tax income in 2001 have been had the inventory been valued at current cost rather than LIFO?
 3. A primary ingredient for Hershey’s chocolate is cocoa beans. Given that Hershey uses the LIFO inventory method, how old are the cocoa beans in their ending inventory?