ACC 304: Intermediate Accounting I

Assignment: Week Four

Cash and Receivables Exercises

Exercise #1

Presented below are a number of independent situations.

Instructions:

For each individual situation, determine the amount that should be reported as cash. If the item(s) is not reported as cash, explain the rationale.

1. Checking account balance $925,000; certificate of deposit $1,400,000; cash advance to subsidiary of $980,000; utility deposit paid to gas company $180.
2. Checking account balance $600,000; an overdraft in special checking account at same bank as normal checking account of $17,000; cash held in a bond sinking fund $200,000; petty cash fund $300; coins and currency on hand $1,350.
3. Checking account balance $590,000; postdated check from customer $11,000; cash restricted due to maintaining compensating balance requirement of $100,000; certified check from customer $9,800; postage stamps on hand $620.
4. Checking account balance at bank $37,000; money market balance at mutual fund (has checking privileges) $48,000; NSF check received from customer $800.
5. Checking account balance $700,000; cash restricted for future plant expansion $500,000; short-term Treasury bills $180,000; cash advance received from customer $900 (not included in checking account balance); cash advance of $7,000 to company executive, payable on demand; refundable deposit of $26,000 paid to federal government to guarantee performance on construction contract.

Exercise #2

Presented below is information related to James Garfield Corp., which sells merchandise with terms 2/10, net 60. Garfield records its sales and receivables net.

July	1	James Garfield Corp. sold to Warren Harding Co. merchandise having a sales price of $8,000.
	5	Accounts receivable of $9,000 (gross) are factored with Andrew Jackson Credit Corp. without recourse at a financing charge of 9%. Cash is received for the proceeds; collections are handled by the finance company. (These accounts were all past the discount period.)
	9	Specific accounts receivable of $9,000 (gross) are pledged to Alf Landon Credit Corp. as security for a loan of $6,000 at a finance charge of 6% of the amount of the loan. The finance company will make the collections. (All the accounts receivable are past the discount period.)
Dec.	29	Warren Harding Co. notifies Garfield that it is bankrupt and will pay only 10% of its account. Give the entry to write off the uncollectible balance using the allowance method. (*Note*: First record the increase in the receivable on July 11 when the discount period passed.)

Instructions:

Prepare all necessary entries in general journal form for Garfield Corp.

Exercise #3

Braddock Inc. had the following long-term receivable account balances at December 31, 2016.

Note receivable from sale of division	$1,500,000
Note receivable from officer	400,000

Transactions during 2017 and other information relating to Braddock's long-term receivables were as follows.

1. The $1,500,000 note receivable is dated May 1, 2016, bears interest at 9%, and represents the balance of the consideration received from the sale of Braddock's electronics division to New York Company. Principal payments of $500,000 plus appropriate interest are due on May 1, 2017, 2018, and 2019. The first principal and interest payment was made on May 1, 2017. Collection of the note installments is reasonably assured.

2. The $400,000 note receivable is dated December 31, 2016, bears interest at 8%, and is due on December 31, 2019. The note is due from Sean May, president of Braddock Inc. and is collateralized by 10,000 shares of Braddock's common stock. Inter- est is payable annually on December 31, and all interest payments were paid on their due dates through December 31, 2017. The quoted market price of Braddock's common stock was $45 per share on December 31, 2017.

3. On April 1, 2017, Braddock sold a patent to Pennsylvania Company in exchange for a $100,000 zero-interest-bearing note due on April 1, 2019. There was no established exchange price for the patent, and the note had no ready market. The prevailing rate of interest for a note of this type at April 1, 2017, was 12%. The present value of $1 for two periods at 12% is 0.797 (use this factor). The patent had a carrying value of $40,000 at January 1, 2017, and the amortization for the year ended December 31, 2017, would have been $8,000. The collection of the note receivable from Pennsylvania is reasonably assured.

4. On July 1, 2017, Braddock sold a parcel of land to Splinter Company for $200,000 under an installment sale contract. Splinter made a $60,000 cash down payment on July 1, 2017, and signed a 4-year 11% note for the $140,000 balance. The equal annual payments of principal and interest on the note will be $45,125 payable on July 1, 2018, through July 1, 2021. The land could have been sold at an established cash price of $200,000. The cost of the land to Braddock was $150,000. Circumstances are such that the collection of the installments on the note is reasonably assured.

Instructions:

(a) Prepare the long-term receivables section of Braddock's balance sheet at December 31, 2017.

(b) Prepare a schedule showing the current portion of the long-term receivables and accrued interest receivable that would appear in Braddock's balance sheet at December 31, 2017.

(c) Prepare a schedule showing interest revenue from the long-term receivables that would appear on Braddock's income statement for the year ended December 31, 2017.

Exercise #4

Clark Pierce conducts a wholesale merchandising business that sells approximately 5,000 items per month with a total monthly average sales value of $250,000. Its annual bad debt rate has been approximately 1 ½% of sales. In recent discussions with his bookkeeper, Mr. Pierce has become confused by all the alternatives apparently available in handling the Allowance for Doubtful Accounts balance. The following information has been presented to Pierce.

1. An allowance can be set up (a) on the basis of a percentage of receivables or (b) on the basis of a valuation of all past due or otherwise questionable accounts receivable. Those considered uncollectible can be charged to such allowance at the close of the accounting period, or specific items can be charged off directly against (1) Gross Sales or to (2) Bad Debt Expense in the year in which they are determined to be uncollectible.
2. Collection agency and legal fees, and so on, incurred in connection with the attempted recovery of bad debts can be charged to (a) Bad Debt Expense, (b) Allowance for Doubtful Accounts, (c) Legal Expense, or (d) Administrative Expense.
3. Debts previously written off in whole or in part but currently recovered can be credited to (a) Other Revenue, (b) Bad Debt Expense, or (c) Allowance for Doubtful Accounts.

Instructions:

Which of the foregoing methods would you recommend to Mr. Pierce in regard to (1) allowances and charge-offs, (2) collection expenses, and (3) recoveries? State briefly and clearly the reasons supporting your recommendations.