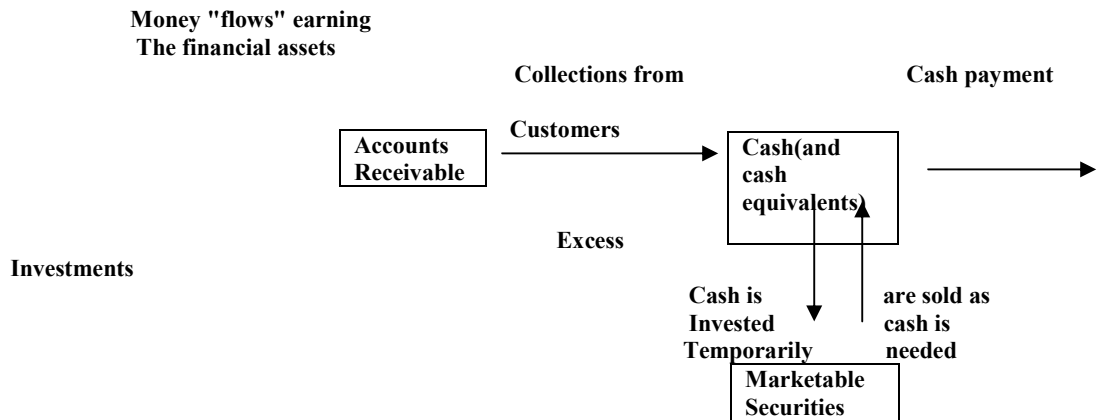


ASSETS

Current Assets: Are cash and other Assets expected to be converted into cash, sold, or consumed either in One Year or in the operating cycle, which ever is longer.

- . **Cash:** It is the money on deposit in banks and any items that banks will accept for deposit such as, checks, money orders, and travelers' checks.
- . **Cash Equivalent:** Are defined as short-term investments are so liquid such as money market funds U.S. Treasury bills and high-grade commercial paper.



Banks reconciliation: It is schedule explaining any differences between the balance shown in bank statement and the balance shown in the depositors accounting records.

. The most common examples of certain transactions recorded by a depositor may not have recorded by the bank such as:

- | | |
|-------------------------------|-------------------------------|
| 1. Outstanding checks | 2. Deposits in transit |
| 3. Service charges | 4. Charges for NSF checks |
| 5. Credit for interest earned | 6. Miscellaneous bank charges |

Steps in preparing a bank reconciliation:

1. Compare deposits listed on the bank statement with the deposits shown in the accounting records.
2. Arrange paid checks in sequence by serial numbers and compare each check with the corresponding entry in the accounting records.
3. Add to the balance per the depositor's accounting records any credit memoranda issued by the bank.
4. Deduct from the balance per the depositor's records any debit memoranda issued by the bank.
5. Make appropriate adjustments to correct any errors.
6. Determine that the adjusted balance of the bank statement is equal the adjusted balance in the depositor's Records.
7. Prepare journal entries.

Illustration of bank reconciliation: The statement shows a balance of cash on deposit at July 31 of

\$5,000.17. Assume that on July 31, Parkview's ledger shows a bank balance of \$4,262.83.

The employee preparing the bank reconciliation has identified the following reconciling items.

. **Short Term Investment:** Investment in Debt and equity securities are grouped into three portfolios for

Valuation and reporting proposes:

1. Held to maturity: Debt securities that the enterprise has the positive intent and ability to hold to maturity.
2. : Debt and equity securities bought and held primary for sale in the near term to generate income Trading
3. Available-for-sale: Debt and equity securities bought and held-to-maturity.

**Balance Sheet
Presentation of
Investment in Securities**

(in thousands)	
Assets	
Cash and cash equivalents	\$ 45,784
Securities available for sale	
Investment securities	10,284
Mortgage-related securities	51,814
Securities held to maturity	
Mortgage- related securities (fair value of\$134.2 million)	135,896
Loans receivable, net	
Held for sale	16,542
Held for investment	1,066,945
Foreclosed properties and repossessed assets, net	5,294

Long-Term Investment: Referred to it as Investments, normally consist of one of four types:

- 1- **Investments in Securities:** such as bonds, common stock, or Long-Term notes
- 2- **Investments in Tangible fixed assets:** Those are currently used in operation, such as
 - Land held for speculation.
- 3- **Investments set aside in special funds:** Such as sinking fund, pension fund, or plant
 - Expansion fund.
- 4- **Investments:** In non consolidated subsidiaries or affiliated companies.

**Balance Sheet
Presentation of Long-Term
Investment**

Investments	
Investment in Alco Health Services corporation	\$ 62,255,000
Other investments	37,533,000
Long-term receivable	22,191,000
Total investments	121,979,000

. Property, Plant, and Equipment: Are properties of durable nature used in regular operations of the

Business, these assets consists of physical property such as land, buildings, machinery, Furniture, Tools, with exception of land, most assets are depreciable.

**Balance Sheet
Presentation of Property, Plant, and
Equipment**

Property,Plant,and equipment	
Land	\$ 5,812,000
Buildings	46,490,000
Machinery and equipment	72,513,000
Capitalized leases	39,425,000
Leasehold improvements	19,068,000
	183,308,000
Less: Accumulated depreciation	55,496,000
	127,812,000
Tools, dies and molds, less amortization	
37,035,000	164,847,000
164,865,000	164,865,000

. Intangible Assets: It is characterize by:

A- Lack o physical.

B- Usually have high degree of uncertainty concerning their future benefits.

. They include patents, copy rights, franchises, good will, trade marks, and trade names.

. Current liabilities: Are the obligations that are reasonably expected to be liquidated either through the use

Of current assets or the creation of other current liabilities, this concept include :

- 1- Payables resulting from the acquisition of goods and services: accounts payable, wages payable, taxes payable and so on.
- 2- Collections received in advance for delivery of goods or performance of services such as unearned rent revenue or unearned subscriptions revenue.
- 3- Other liabilities whose liquidation will take place within the operating cycle as short-term obligations arising from purchase.

***Balance Sheet
Presentation of Current
Liabilities***

<u>Current liabilities</u>	
Short-term debt	\$ 22,500,000
Accounts payable-public	240,400,000
Accounts payable to unconsolidated titillates	18,200,000
Advances from customers on contracts	161,100,000
Accrued compensation and benefits	169,400,000
Accrued warranty costs	34,100,000
Accrued taxes other than income taxes	21,900,000
Accrued interest	28,300,000
Other accrued liabilities	151,000,000
Income taxes payable	112,200,000
Current portion of long term debt	<u>12,400,000</u>
Total current liabilities	971,500,000

. Long – Term liabilities: Are obligations that are not reasonably expected to be liquidated within the

Normal operating cycle.

. Long – term liabilities are of three types:

- 1- Obligation arising from specific financing situations such as the issuance of bonds.
- 2- Obligations arising from the ordinary operations of the enterprise, such as pension obligation and deferred income tax liabilities.
- 3- Obligation that are dependent upon the occurrence of one or more future events to confirm the contingencies. amount payable such as service or product warranties and other

***Balance Sheet
Presentation of
Long-Term Debt***

Total current liabilities	\$ 978,109,000
Long-term debt (See note)	254,312,000
Obligations under capital leases	252,618,000
Deferred income taxes	57,167,000
Other non-current liabilities	127,321,000
Note: Indebtedness. Debt consists of:	
9.5% Senior notes, due in annual installments of \$10,000,000	\$ 40,000,000
Mortgages and other notes due through 2011 (average interest rate Of 9.9%)	107,604,000
Bank borrowings at 9.7%	67,225,000
Commercial paper at 9.4%	<u>100,102,000</u>
	314,931,000
Less: Current portion	<u>(60,619,000)</u>
Total long-term debt	\$ 254,312,000

. Account receivables:

. Uncollectible Accounts:

.To illustrate, assume that World Famous Toy Company Co. begins business on January 1,1997, and makes most of its sales on account. At January 31, accounts receivable amount to \$ 250,000.

. On this date, the credit manager reviews the accounts receivable and estimates that approximately \$ 10,000 of these accounts will prove to be uncollectible. The following adjusting entry should be made at January31:

Uncollectible accounts Expense	10,000
Allowance for doubtful accounts	
10,000	

To record the portion of total accounts receivable estimated to be uncollectible.

Writing off an uncollectible account Receivable:

To illustrate, assume that early in February World Famous Toy Co. learns that Discount Stores has gone out of business and that the \$4,000 account receivable from this customer is now worthless. The entry to write off this uncollectible account receivable is:

Accounts for doubtful Accounts	4,000
Accounts Receivable (Discount Stores)	4,000

To write off receivable from Discount stores as uncollectible.

.Hint: If the amounts written off as uncollectible turn out to be less than the estimated amount, the allowance for Doubtful accounts will continue to show a credit balance. If the amounts written off as uncollectible are greater than the estimated amount, the allowance For Doubtful Accounts will acquire a temporary debit balance , which will be eliminated by the adjustment at the end of the period.

. Direct write-off Method: Uncollectible accounts expense is recorded in the period in which individual accounts receivable are determined to be worthless rather than in the period in which the sales were made.

When a particular customer's account is determined to be uncollectible, it is written off directly to uncollectible accounts expense, as follows:

Uncollectible Accounts Expense	250
Accounts Receivable	250

DEMONSTRATION PROBLEM

	Shown below are selected transactions of Gulf corp. during the month of Dec.
brokerage	Dec. 5 Sold 2,000 shares of AT&T capital stock at \$53 per share, less a
acquired nine	commission of \$200. These marketable securities had been
	month earlier at a total cost of \$112,000
determined	Dec. 8 an account receivable from S. Willis in the amount of \$700 is
for doubtful	to be uncollectible and is written off against the allowance
	Accounts.
account.	Dec.15 unexpectedly received \$200 from F. Hill in full payment of her
written of as	The \$200 account receivable from Hill had previously been
	uncollectible.
	Dec.20 Sold 1,000 shares of IBM capital stock at price of \$60 per share, less a
	brokerage commission of \$150. These investment shares had been
	acquired at a total cost of \$52,000
vouchers	Dec.31 Wrote a check for \$76 replenish the petty cash fund. Petty cash
expense, \$32	indicated office supplies expense, \$44 miscellaneous
	Dec.31 The month –end bank reconciliation includes the following items:
\$10; bank	outstanding checks, \$12,320, deposit in transit, \$3,150; check from
equivalent) on	customer T. Jones returned "NSF" \$358; bank service charges,
\$19,760, so the	collected \$20,000 in maturing U.S. Treasury bills (a cash
	the company's behalf. (These Treasury bills had cost
	amount collected includes \$330 interest revenue).

DATA FOR ADJUSTING

accounts
allowance for

ENTRIES

1- An aging of account receivable indicates probable uncollectible totaling \$90,000. Prior to the month-end adjustment, the Doubtful Accounts has a credit balance of \$5,210.

securities
of \$210,000.

2- Prior to any year-end adjustment, the balance in the Marketable Securities account was \$213,800. At a year-end, marketable owned had a cost of \$198,000 and a market value

INSTRUCTION

transaction. In reconciliation, make one account and separate entry to record

- a- Prepare entries in general journal entry from for the Dec. adjusting the accounting records from the bank entry to record any increases the Cash any decreases.
- b- Prepare the month-end adjustments indicated by the tow numbered paragraphs.
- c- What is the adjusted balance in the Unrealized Gain (or loss) on Investments account at Dec. 31? Where in the financial statement this account appear?

does

Sowtion to Demonstration Problem

a- GENERAL JOURNAL

Dec. 5	Cash Loss on sale of investments Marketing Securities Sold 2,000 shares of AT&T capital stock at a price below cost.	105,800 6,200	112,000
Dec. 8	Allowance for Doubtful Accounts Accounts Receivable (s. Willis) To write off receivable from S. Willis as uncollectible.	700	700
Dec. 15	Accounts Receivable (F. Willis) Allowance for Doubtful Accounts To reinstate account receivable previously written off as uncollectible.	200	200
Dec. 15	Cash Accounts Receivable(F. Hill) To record collection of account receivable.	200	200
Dec. 20	Cash Marketable Securities Gain on sale of investments Sold 1,000 shares of IBM at a price above cost.	59,850	52,000 7,850
Dec. 31	Office Supplies Expense Miscellaneous Expense Cash To replenish petty cash fund	44 32	76
Dec. 31	Cash Cash Equivalents Interest Revenue To record collection of maturing T-Bills by bank	20,000	19,670 330
Dec. 31	Accounts Receivable (T-Jones) Bank Service Charges Cash To record bank service charge and to reclassify NSF checks from T-Jones as an account receivable.	358 10	368

b- Adjusting Entries

Dec. 31	Uncollectible Accounts Expense Allowance for Doubtful Accounts To increase Allowance for Doubtful Accounts to \$9,000 (\$9,000 - \$5,210 = \$3,790).	3,790	3,790
Dec. 31	Unrealized Gain (or loss) on investments Marketable Securities To reduce the balance in the Marketable Securities account to a market value of \$210,000	3,800	3,800

C- The Unrealized Gain (or loss) on Investments account will have a \$12,000 credit balance, representing the unrealized gain on securities owned as of Dec. 31. (The unrealized gain is equal to the \$210,000 market value of these securities, less their \$198,000 cost.) The account appears in the stockholder's equity section of Gulf Corp.'s balance sheet.

1- A deposit of \$410.90 made after banking hours on July 31 does not appear in the bank statement.

2- Four checks issued in July have not yet been paid by the bank. These checks are:

Check no	Date	Amount
801	July 15	\$100, 00
888	July 24	10, 00
890	July 27	402, 50
891	July 30	205, 00

3- Two credit memoranda were included in the bank statement:

Date	Amount	Explanation
July 22	\$ 500, 00	Proceeds from collection of a non-interest bearing note receivable from J. David. Parkview Company had left their note with the bank's department.
July 31	24, 74	Interest earned on average account balance during July.

4- Three debit memoranda accompanied the bank statement:

Date	Amount	Explanation
July 22	\$ 5.00	free charged by bank for handling collection of note receivable.
July 30	50.25	Check from customer J.B. Ball deposited by Parkview Company charged back as NSF.
July 31	12.00	Service charge by bank for the month of July.

5- Check no. 875 was issued July 20 in the amount of \$85 but was erroneously recorded in the cash payments journal as \$58. The check, in payment of telephone expense, was paid by the bank and correctly listed at \$85 in the bank statement. In Parkview's ledger, the cash account is overstated by \$27 because of this error ($\$85 - \$58 = \$27$).

PARKVIEW COMPANY		
Bank Reconciliation		
July 31, 1997		
Balance per bank statement, July 31, 1996.....		\$5,000.17
Add: Deposit of July 31 not recorded by bank.....		<u>410.90</u>
		\$ 5,411.07
Deduct: Outstanding checks:		
No. 801.....	\$100.00	
No. 888.....	10.25	
No. 890.....	402.50	
No. 891.....	<u>205.00</u>	<u>717.75</u>
Adjusted cash balance.....		<u>\$4,693.32</u>
Balance per depositor's records, July 31, 1997.....		\$4,262.83
Add: Note receivable collected for us by bank.....	\$500.00	
Interest earned during July.....	<u>24.74</u>	<u>524.74</u>
		\$4,787.57
Deduct: collection fee.....		
NSF check of J.B. Ball.....	\$ 5.00	
Service charge.....	50.25	
Error on check stub no. 875.....	<u>12.00</u>	<u>94.25</u>
Adjusted cash balance (as above).....		<u>\$ 4,693.32</u>

In this illustration and in our assignment material, we will follow a policy of making one journal entry to record the unrecorded cash receipts, and another to record the unrecorded cash reductions. (Acceptable alternatives would be to make separate journal entries for each item or to make one compound entry for all items.) Based on our recording policy, the entries to update the accounting records of Parkview Company are:

Per bank credit memoranda...	Cash.....	524.74
	Notes Receivable.....	500.00
	Interest Revenue.....	24.74
	To record collection of note receivable from J. David collected by bank and interest earned on bank account in July.	
Per bank debit	Bank Service Charges.....	17.00
Memoranda (and	Accounts Receivable (J.B. Ball)...	50.25
Correction of an error)	Telephone Expense.....	27.00
	Cash.....	94.25
	To record bank charges (service charge, \$12; collection fee, an \$5), to reclassify NSF check from customer J.B. Ball as of cash account receivable, and to correct understatement payment for telephone expense.	