

Balance of sheet:

It is the statement of financial position; it reports the assets, liabilities, and Stockholders, equity of business enterprise at a specific date.

Liquidity: Describes "The amount of time that is expected to elapse until an asset is realized or otherwise converted into cash or until liability has to be paid.

Solvency: Refers to the liability of an enterprise to pay its debts as they mature

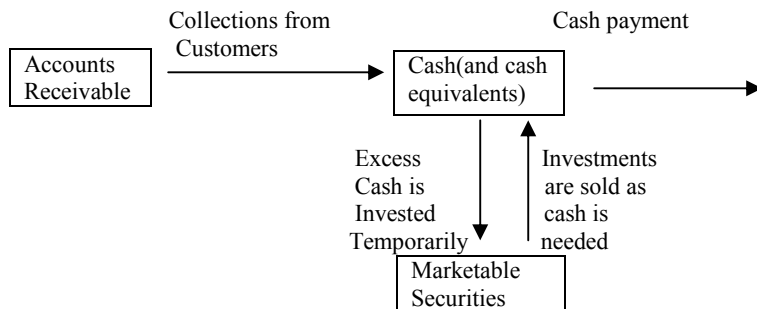
The general format of balance sheet presentation

Assets	Liabilities and owners equity
Current assets	Current liabilities
Long-term investments	Long-term debt
Property, plant, and equipment / intangible assets	Owners equity
Other liabilities	Capital stock
	Additional paid-in capital Retained earnings

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 Equipments:** Are defined as short-term investments are so liquid such as money market funds U.S. Treasury bills and high-grade commercial paper.

Money "flows" earning
The financial assets



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. Trading : Debit and equity securities bought and held primary for sale in the near term to generate income
3. Available-for-sale: Debit and equity securities bought and held-to-maturity.

**Balance Sheet
Presentation of
Investment in Securities**

(in thousands)	
<u>Assets</u>	
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**

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

- . **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**

<u>Property,Plant,and equipment</u>	
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
	164,865,000
Property, Plant, and equipment, net	

- . **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 such 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 amount payable such as service or product warranties and other contingencies.

**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:**

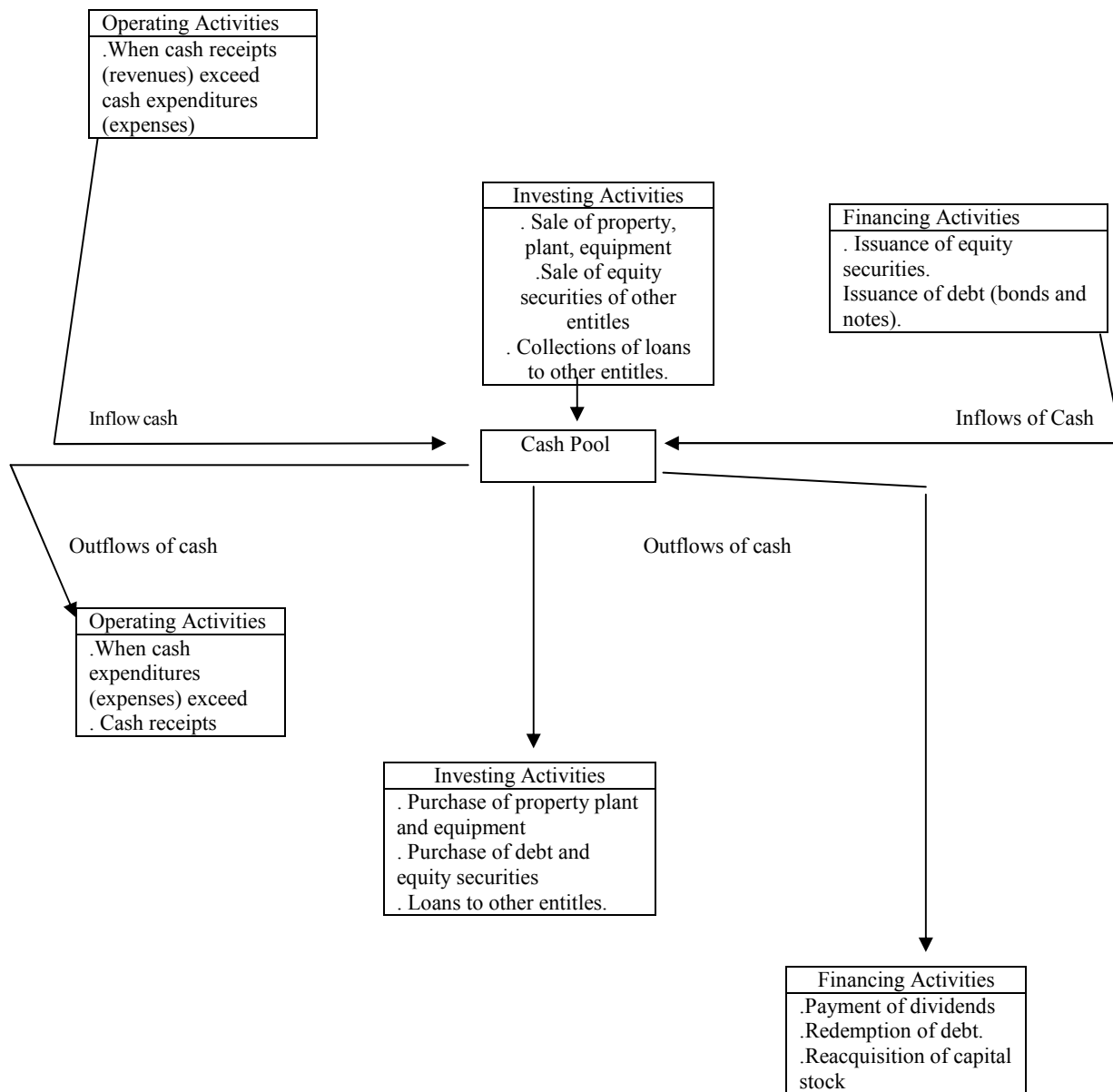
. **Statement of cash Flows:** The primary purpose of statement cash flows is to provide relevant information about the cash receipts and cash payments of an enterprise during period.

. **Content and format of the statement of cash flows:**

- 1- Operating activities.
- 2- Investing activities.
- 3- Financing activities.

Basic Format of Cash Flow Statement

Statement of Cash Flows	
Cash flows from operating activities	\$ XXX
Cash flows from investing activities	XXX
Cash flows from financing activities	XXX
	XXX
Net increase (decrease) in cash	XXX
Cash at beginning of year	XXX
	XXX
Cash at end of year	XXX



Preparation of the statement of cash flows:

- 1-Determine the cash provided by operations.
- 2-Determine the cash provided by or used in investing and financing activities.
- 3-Determine the change (increase or decrease) in cash during the period.
- 4-Reconcile the change in cash with the beginning and ending cash balances.

. The following illustration demonstrates how these steps are applied in the preparation of a statement of cash flows:

Telemarketing Inc. in its first year of operations issued on January 1, 2002, 50,000 shares of \$ 1.00 par value Common stock for 50,000 cash.

The companies rented its office space, furniture, and telecommunications equipment and performed surveys throughout the first year. In June 2002 the company purchased Land for \$ 15,000. The comparative balance sheets at the beginning and end of the year 2002 are shown in illustration.

Comparative Balance sheet

TELEMARKETING INC.			
Balance sheets			
Assets	Dec. 31,2002	Jan.1,2002	Increase/Decrease
Cash	\$31,000	\$-0-	\$31,000 Increase
Account receivable	41,000	-0-	41,000 Increase
Land	15,000	-0-	15,000 Increase
Total	\$87,000	\$-0-	
Liabilities and Stockholders' Equity			
Accounts payable	\$12,000	\$-0-	12,000 Increase
Common stock	50,000	-0-	50,000 Increase
Retained earnings	25,000	-0-	25,000 Increase
Total	\$87,000	\$-0-	

. The income statement and additional information for Telemarketing Inc. is as following:

Income Statement Data

TELEMARKETING INC.	
Income Statement	
For the year Ended Dec. 31,2002	
Revenues	\$ 172,000
Operating expenses	120,000
	<hr/>
Income before income taxes	52,000
Income tax expense	13,000
	<hr/>
Net income	\$ 39,000
Additional information:	
Dividends of \$ 14,000 were paid during the year.	

. Analysis of Telemarketing's comparative balances sheets reveals tow items that give rise to non cash credit or changes to the income statement:

- 1- The increase in accounts receivable reflects a noncash charge of credit of \$ 41,000 to revenues.
- 2- The increase in accounts payable reflects a noncash charge of \$ 12,000 to expense.

. As a result of the accounts receivable and accounts payable adjustments, cash provided by operations is determined to be \$ 10,000, computed as follows

Net income		\$ 39,000
Adjustments to reconcile net income		
To net cash provided by operating activities :		
Increase in accounts receivable	\$ (41,000)	
Increase in accounts payable	12,000	(29,000)
	<hr/>	<hr/>
Net cash provided by operating activities		\$10,000

The increase of \$ 50,000 in common stock resulting from the issuance of 50,000 shares for cash is classified as a financing activity.

Likewise, the payment of \$14,000 cash in dividends is a financing activity.

Telemarketing Inc.'s only investing activity was the land purchase.

The statement of cash flows for Telemarketing Inc. for 2002 is as follows:

TELEMARKETING INC. Statement of Cash Flows For the Year Ended Dec. 31,2001		
Cash flows from operating activities		
Net income		\$39,000
Adjustments to reconcile net income to		
Net cash provided by operating activities:		
Increase in accounts receivable	\$ (41,000)	
Increase in accounts payable	12,000	(29,000)
		10,000
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of land	(15,000)	
		(15,000)
Net cash used by investing activities		
Cash flows from financing activities:		
Issuance of common stock	50,000	
Payment of cash dividends	(14,000)	
		36,000
Net cash provided by financing activities		
Net increase in cash		31,000
Cash at beginning of year		-0-
Cash at end of year		\$ 31,000

. 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.
Dec. 5 Sold 2,000 shares of AT&T capital stock at \$53 per share, less a brokerage commission of \$200. These marketable securities had been acquired nine month earlier at a total cost of \$112,000

- Dec. 8 an account receivable from S. Willis in the amount of \$700 is determined to be uncollectible and is written off against the allowance for doubtful Accounts.
- Dec.15 unexpectedly received \$200 from F. Hill in full payment of her account. The \$200 account receivable from Hill had previously been written of as 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
- Dec.31 Wrote a check for \$76 replenish the petty cash fund. Petty cash vouchers indicated office supplies expense, \$44 miscellaneous expense, \$32
- Dec.31 The month –end bank reconciliation includes the following items: outstanding checks, \$12,320, deposit in transit, \$3,150; check from customer T. Jones returned "NSF" \$358; bank service charges, \$10; bank collected \$20,000 in maturing U.S. Treasury bills (a cash equivalent) on the company's behalf. (These Treasury bills had cost \$19,760, so the amount collected includes \$330 interest revenue).

DATA FOR ADJUSTING ENTRIES

- 1- An aging of account receivable indicates probable uncollectible accounts totaling \$90,000. Prior to the month-end adjustment, the allowance for Doubtful Accounts has a credit balance of \$5,210.
- 2- Prior to any year-end adjustment, the balance in the Marketable Securities account was \$213,800. At a year-end, marketable securities owned had a cost of \$198,000 and a market value of \$210,000.

INSTRUCTION

- a- Prepare entries in general journal entry form for the Dec. transaction. In adjusting the accounting records from the bank reconciliation, make one entry to record any increases the Cash account and separate entry to record 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 does this account appear?

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- Tow 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 collection 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.....	\$4,693.32
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.....	\$ 5.00
NSF check of J.B. Ball.....	50.25
Service charge.....	12.00
Error on check stub no. 875.....	<u>27.00</u>
	<u>94.25</u>
Adjusted cash balance (as above).....	\$ 4,693.32

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, \$5), to reclassify NSF check from customer J.B. Ball as an account receivable, and to correct understatement of cash payment for telephone expense.		