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**P6-6** Preparing a Bank Reconciliation and Related Journal Entries LO6-5

The bookkeeper at Jefferson Company has not reconciled the bank statement with the Cash account, saying, “I don't have time.” You have been asked to prepare a reconciliation and review the procedures with the bookkeeper.

The April 30, 2014, bank statement and the April ledger accounts for cash showed the following (summarized):

<b>BANK STATEMENT</b>			
	<b>Checks</b>	<b>Deposits</b>	<b>Balance</b>
Balance, April 1, 2014			\$31,000
Deposits during April		\$37,100	68,100
Interest collected		1,180	69,280
Checks cleared during April	\$43,000		26,280
NSF check—A. B. Wright	160		26,120
Bank service charges	50		26,070
Balance, April 30, 2014			26,070

<b>Cash (A)</b>					
Apr. 1	Balance	23,500	Apr.	Checks written	41,100
Apr.	Deposits	41,500			

A comparison of checks written before and during April with the checks cleared through the bank showed outstanding checks at the end of April of \$5,600. No deposits in transit were carried over from March, but a deposit was in transit at the end of April.

Required:

1. Prepare a detailed bank reconciliation for April.
2. Give any required journal entries as a result of the reconciliation. Why are they necessary?
3. What was the balance in the cash account in the ledger on May 1, 2014?
4. What total amount of cash should be reported on the balance sheet at the end of April?

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**CP6-2** Finding Financial Information LO6-1, 6-3, 6-5 Refer to the financial statements of Urban Outfitters given in Appendix C at the end of this book.

Required:

1. How much cash and cash equivalents does the company report at the end of the current year?



2. What was the change in accounts receivable and how did it affect net cash provided by operating activities for the current year?
3. Which types of customers account for most of the company's accounts receivable? Did bad debts expense increase or decrease between 2010 and 2011? How did you know?
4. Where does the company disclose its revenue recognition policy? When does the company record revenues for the “sale” of gift cards?

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Required:

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1. Compute the total accounts receivable in each age category.
2. Compute the estimated uncollectible amount for each age category and in total.
3. Give the adjusting entry for bad debt expense at December 31, 2014.
4. Show how the amounts related to accounts receivable should be presented on the 2014 income statement and balance sheet.

## P6-5

### Preparing an Income Statement and Computing the Receivables Turnover Ratio with Discounts, Returns, and Bad Debts (AP6-4)

#### LO6-2, 6-3, 6-4



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Tungsten Company, Inc., sells heavy construction equipment. There are 10,000 shares of capital stock outstanding. The annual fiscal period ends on December 31. The following condensed trial balance was taken from the general ledger on December 31, 2014:

Account Titles	Debit	Credit
Cash	\$ 33,600	
Accounts receivable (net)	14,400	
Inventory, ending	52,000	
Operational assets	40,000	
Accumulated depreciation		\$ 16,800
Liabilities		24,000
Capital stock		72,000
Retained earnings, January 1, 2014		9,280
Sales revenue		147,100
Sales returns and allowances	5,600	
Cost of goods sold	78,400	
Selling expense	14,100	
Administrative expense	15,400	
Bad debt expense	1,600	
Sales discounts	6,400	
Income tax expense	7,680	
Totals	<u>\$269,180</u>	<u>\$269,180</u>

Required:

1. Beginning with the amount for net sales, prepare an income statement (showing both gross profit and income from operations). Treat sales discounts and sales returns and allowances as a contra-revenue.
2. The beginning balance in Accounts Receivable (net) was \$16,000. Compute the receivables turnover ratio and explain its meaning.

**P6-6****Preparing a Bank Reconciliation and Related Journal Entries****LO6-5**

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*Required:*

1. Prepare a detailed bank reconciliation for April.
2. Give any required journal entries as a result of the reconciliation. Why are they necessary?
3. What was the balance in the cash account in the ledger on May 1, 2014?
4. What total amount of cash should be reported on the balance sheet at the end of April?

**P6-7**

**Computing Outstanding Checks and Deposits in Transit and Preparing a Bank Reconciliation and Journal Entries (AP6-5)**

**LO6-5**



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The August 2014 bank statement for Allison Company and the August 2014 ledger account for cash follow:

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Which types of customers account for most of the company's accounts receivable? Did bad debts expense increase or decrease between 2010 and 2011? How did you know?

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- Where does the company disclose its revenue recognition policy? When does the company record revenues for the “sale” of gift cards?



### CP6-3

#### Comparing Companies within an Industry

#### LO6-3, 6-5



Refer to the financial statements of American Eagle Outfitters (Appendix B) and Urban Outfitters (Appendix C) and the Industry Ratio Report (Appendix D) at the end of this book.

*Required:*

1. Compute the receivables turnover ratio for both companies for the most recent year.
2. What do you think explains the difference in the ratios? Consider to whom the amounts are owed.
3. Compare the receivables turnover ratio for each company for the most recent reporting year to the industry average. Are these two companies doing better or worse than the industry average?

#### Financial Reporting and Analysis Cases

### CP6-4

#### Making a Decision as a Manager: Choosing among Alternative Recognition Points

#### LO6-1

When companies involved in long-term construction projects can estimate the percentage of work completed and the total expected costs with reasonable accuracy, GAAP allows them to recognize revenues based on the incurred contract costs to date divided by the estimated total contract costs. This is called the **percentage of completion method**. When total costs cannot be accurately estimated, the companies must wait until the contract is completed to recognize all contract revenue in the period of completion. These revenue recognition points correspond to continuous recognition and the end of the earnings process.

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		Cash (A)			
Dec. 1	Balance	64,100	Checks written during December:		
	Deposits		60	5,000	2,650
Dec. 11		28,000	17,000	5,200	1,650
23		36,000	700	1,890	2,200
30		19,000	3,500	EFT 1,600	7,000
31		13,000	1,350	120	300
			180	90	480
			12,000	23,500	EFT 8,000
			70	500	1,900
			900	1,200	

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The November 2014 bank reconciliation showed the following: correct cash balance at November 30, \$64,100; deposits in transit on November 30, \$17,000; and outstanding checks on November 30, \$400 + \$500 = \$900.

*Required:*

1. Compute the deposits in transit December 31, 2014, by comparing the deposits on the bank statement to the deposits listed on the cash ledger account and the list of deposits in transit at the end of November.
2. Compute the outstanding checks at December 31, 2014, by comparing the checks listed on the bank statement with those on the cash ledger account and the list of outstanding checks at the end of November.
3. Prepare a bank reconciliation at December 31, 2014.
4. Give any journal entries that should be made as a result of the bank reconciliation made by the company. Why are they necessary?
5. What total amount of cash should be reported on the December 31, 2014, balance sheet?

## CASES AND PROJECTS

### Annual Report Cases

#### CP6-1

#### Finding Financial Information

#### LO6-3, 6-4, 6-5

AMERICAN EAGLE  
OUTFITTERS, INC.



Refer to the financial statements of American Eagle Outfitters given in Appendix B at the end of this book.

*Required:*

1. What does the company include in its category of cash and cash equivalents? How close do you think the disclosed amount is to actual fair market value? (**Hint:** The notes may be helpful in answering this question.)
2. What expenses does American Eagle Outfitters subtract from net sales in the computation of gross profit? How does this differ from Deckers's practice and how might it affect the manner in which you interpret the gross profit?
3. Compute American Eagle Outfitters's receivables turnover ratio for the current year. What characteristics of its business might cause it to be so high?
4. Does the company report an allowance for doubtful accounts on the balance sheet or in the notes? Explain why it does or does not. (**Hint:** Consider the makeup of its receivables.)

## CP6-2

### Finding Financial Information

#### LO6-1, 6-3, 6-5



Refer to the financial statements of Urban Outfitters given in Appendix C at the end of this book.

*Required:*

1. How much cash and cash equivalents does the company report at the end of the current year?
2. What was the change in accounts receivable and how did it affect net cash provided by operating activities for the current year?