

Current Assets Exercises II

Larry M. Walther; Christopher J. Skousen



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1st edition

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ISBN 978-87-7681-648-3

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Problem 1

Little-Bug Corp International publishes children’s books. Following are facts you need to prepare Little-Bug Corp’s August bank reconciliation:

Balance per company records at end of month	\$217,932.36
Bank service charge for the month	132.00
NSF check returned with bank statement	4,321.98
Note collected by the bank during the month	135,000.00
Outstanding checks at month end	94,660.71
Interest on note collected during the month	13,500.00
Balance per bank at end of month	432,671.97
Deposit in transit at month end	23,967.12

Worksheet 1

Ending balance per bank statement	\$	432,671.97
Add:		-
Deduct:		-
Correct cash balance	\$	-

Ending balance per company records	\$	217,932.36
Add:	\$	-
	-	-
Deduct:	\$	-
	-	-
Correct cash balance	\$	-

Solution 1

Ending balance per bank statement		\$	432,671.97
Add:			
Deposits in transit			23,967.12
Deduct:			
Outstanding checks			(94,660.71)
Correct cash balance		\$	<u>361,978.38</u>

Ending balance per company records		\$	217,932.36
Add:			
Customer note collection	\$	135,000.00	
Interest earnings		13,500.00	148,500.00
Deduct:			
NSF check returned	\$	4,321.98	
Service charges		132.00	(4,453.98)
Correct cash balance		\$	<u>361,978.38</u>

Problem 2

Allen Clinton is an audit manager with the accounting firm of Bingham & Bingham, CPAs. As part of the routine audit procedures for one of their clients, Allen instructed Myron Altidore, a newly hired staff auditor, to obtain a bank statement directly from the client's bank and prepare an independent reconciliation of the Cash account. Myron did a great job and presented Allen with the following reconciliation. Allen has now forwarded this document directly to you, with a request that you prepare proposed adjusting entries that need to be recorded by the client.

Ending balance per bank statement		\$	203,102.64
Add: Deposits in transit			40,332.36
Deduct: Outstanding checks			
#12221	\$	50,662.02	
#12327		25,651.50	
#12329		398.22	(76,711.74)
Correct cash balance		\$	<u>166,723.56</u>

Ending balance per company records		\$	156,445.65
Add:			
Payment from customer via ETF*	\$	10,337.97	
Interest earnings		1,700.64	12,038.61
Deduct:			
Reject customer credit card/charge back	\$	1,400.70	
Service charges		360.00	(1,760.70)
Correct cash balance		\$	<u>166,723.56</u>

* This payment has yet to be recorded as revenue by the company.

Worksheet 2

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
	<i>To record adjustments necessitated by bank reconciliation</i>		

Solution 2

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
	Cash	10,277.91	
	Accounts Receivable	1,400.70	
	Miscellaneous Expense	360.00	
	Revenues		10,337.97
	Interest Income		1,700.64
	<i>To record adjustments necessitated by bank reconciliation</i>		

Problem 3

Everglades Expeditions established a petty cash fund for minor day-to-day expenses. Following are activities related to this fund. Prepare the necessary journal entries for petty cash.

- 1) Established a \$1,000 petty cash fund by writing a check to “cash,” cashing the check, and placing the proceeds in a petty cash box entrusted to Herman Jones as custodian.
- 2) At the end of the month, the petty cash fund contained remaining cash of \$254, and receipts for \$130 postage, \$246 office supplies, and \$360 gasoline for company vehicles. Herman is not sure why the fund is short \$10. A check payable to cash in the amount of \$746 was prepared, and the funds were placed into the box.
- 3) At the end of the next month, the petty cash fund contained remaining cash of \$70, and receipts for \$530 postage, \$320 office supplies, and \$80 gasoline for company vehicles. A check payable to cash in the amount of \$1,430 was prepared, and the funds were placed into the box. This amount reimburses the fund and increases its balance to \$1,500.

Worksheet 3

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
#1			
	<i>To establish a \$500 petty cash fund</i>		
#2			
	<i>To record expenses and replenishment of petty cash</i>		
#3			
	<i>To record expenses and replenishment/ increase to petty cash</i>		

Solution 3

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
#1	Petty Cash	1,000	
	Postage Expense		1,000
	<i>To establish a \$500 petty cash fund</i>		
#2	Cash	130	
	Office Supplies Expense	246	
	Fuel Expense	360	
	Cash Short	10	
	Cash		746
	<i>To record expenses and replenishment of petty cash</i>		
#3	Petty Cash	500	
	Postage Expense	530	
	Office Supplies Expense	320	
	Fuel Expense	80	
	Cash		1,430
	<i>To record expenses and replenishment/increase to petty cash</i>		

Problem 4

Wyoming Mining Corporation holds significant stone deposits. One of its key customers, North Sea Oil, produces crude oil from shale deposits. This production process requires limestone, and Wyoming is seeing a large increase in order flow from North Sea and other shale companies. Wyoming's management believes North Sea's stock is undervalued, and has decided to invest excess cash in the stock of North Sea Oil. The intent of this investment is for "trading" purposes only. Following are detailed facts about the North Sea investment. You should prepare journal entries to record the investment, and necessary end-of-month adjusting entries to reflect changes for each month.

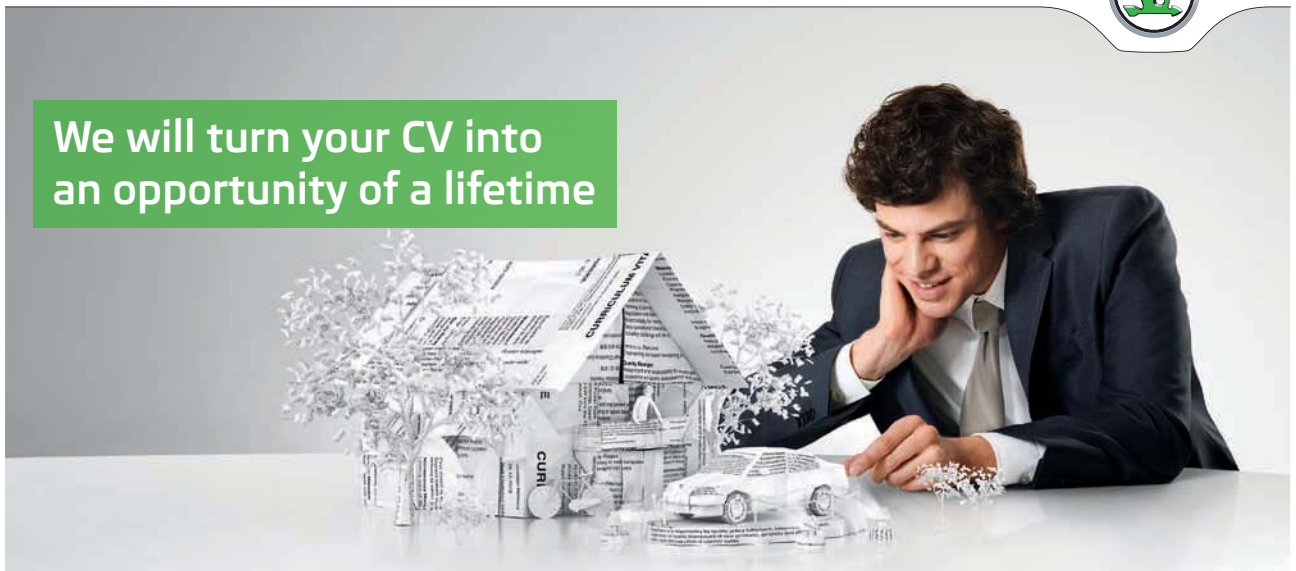
April 7	Purchased 1,500,000 shares of North Sea Oil at \$21 per share.
April 30	The fair value of North Sea's stock was \$27 per share.
May 31	The fair value of North Sea's stock was \$15 per share.
June 15	Received a dividend from North Sea of \$0.30 per share.
June 30	The fair value of North Sea's stock was \$24 per share.

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Worksheet 4

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
7-Apr			
	<i>To record the purchase of 1,500,000 shares of North Sea stock at \$21 per share</i>		
30-Apr			
	<i>To record a \$6 per share increase in the value of 1,500,000 shares of North Sea stock</i>		
31-May			
	<i>To record a \$12 per share decrease in the value of 1,500,000 shares of North Sea stock</i>		
15-Jun			
	<i>To record a \$0.30 per share cash dividend on the investment in North Sea stock</i>		
30-Jun			
	<i>To record a \$9 per share increase in the value of 1,500,000 shares of North Sea stock</i>		

Solution 4

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
7-Apr	Trading Securities	31,500,000	
	Cash		31,500,000
	<i>To record the purchase of 1,500,000 shares of North Sea stock at \$21 per share</i>		
30-Apr	Trading Securities	9,000,000	
	Unrealized Gain on Investments		9,000,000
	<i>To record a \$6 per share increase in the value of 1,500,000 shares of North Sea stock</i>		
31-May	Unrealized Loss on Investments	18,000,000	
	Trading Securities		18,000,000
	<i>To record a \$12 per share decrease in the value of 1,500,000 shares of North Sea stock</i>		
15-Jun	Cash	450,000	
	Dividend Income		450,000
	<i>To record a \$0.30 per share cash dividend on the investment in North Sea stock</i>		
30-Jun	Trading Securities	13,500,000	
	Unrealized Gain on Investments		13,500,000
	<i>To record a \$9 per share increase in the value of 1,500,000 shares of North Sea stock</i>		

Problem 5

Endo Mining Corporation occasionally acquires short-term investments for trading purposes. On August 1, 20X7, Endo acquired stock investments in four different companies: Yongcao Mineral (cost of \$250,000), Alamos Construction (cost of \$150,000), Deep Water Drilling (cost of \$160,000), and Dynamic Space Systems (cost of \$40,000).

The company’s stock broker emailed the following listing of investment values at the end of August, September, and October. These data were imported into a spreadsheet as follows. You are to prepare the journal entries needed to record the initial investment in this portfolio, as well as end of month adjusting entries for August, September, and October.

Company	Month	Market Value
Yongcao Mineral	August	\$ 260,000
Yongcao Mineral	September	290,000
Yongcao Mineral	October	284,000
Alamos Construction	August	140,000
Alamos Construction	September	122,000
Alamos Construction	October	116,000
Deep Water Drilling	August	178,000
Deep Water Drilling	September	218,000
Deep Water Drilling	October	202,000
Dynamic Space Systems	August	40,000
Dynamic Space Systems	September	44,000
Dynamic Space Systems	October	32,000

Worksheet 5

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
1-Aug			
31-Aug			
30-Sep			
31-Oct			

Solution 5

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
1-Aug	Trading Securities	600,000	
	Cash		600,000
	<i>To record the purchase of trading securities (\$250,000 + \$150,000 + \$160,000 + \$40,000)</i>		
31-Aug	Trading Securities	18,000	
	Unrealized Gain on Investments		18,000
	<i>To record increase in the value of trading securities (\$618,000 – \$600,000)</i>		
30-Sep	Trading Securities	56,000	
	Unrealized Gain on Investments		56,000
	<i>To record increase in the value of trading securities (\$674,000 – \$618,000)</i>		
31-Oct	Unrealized Loss on Investments	40,000	
	Trading Securities		40,000
	<i>To record decrease in the value of trading securities (\$674,000 – \$634,000)</i>		

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