

# Current Assets Exercises II

Larry M. Walther; Christopher J. Skousen



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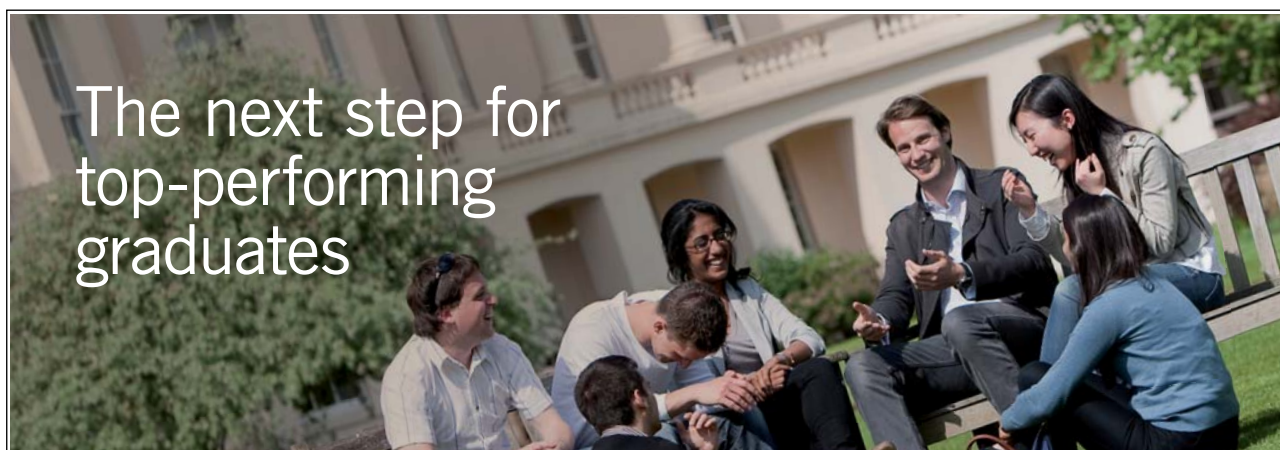
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\* Figures taken from London Business School's Masters in Management 2010 employment report



# 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

|  |    |            |
|--|----|------------|
| <b>Ending balance per bank statement</b> | \$ | 432,671.97 |
| <b>Add:</b>                              |    | -          |
| <b>Deduct:</b>                           |    | -          |
| <b>Correct cash balance</b>              | \$ | -          |

|   |    |            |
|---|----|------------|
| <b>Ending balance per company records</b> | \$ | 217,932.36 |
| <b>Add:</b>                               | \$ | -          |
| <b>Deduct:</b>                            | \$ | -          |
| <b>Correct cash balance</b>               | \$ | -          |

## Solution 1

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

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

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

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

| <b>GENERAL JOURNAL</b> |  |              |               |
|------------------------|--|--------------|---------------|
| <b>Date</b>            | <b>Accounts</b>  | <b>Debit</b> | <b>Credit</b> |
|                        | 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<br/>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> |       |        |



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## 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.

### 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> |  |  |

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## Solution 4

| <b>GENERAL JOURNAL</b> |  |              |               |
|------------------------|--|--------------|---------------|
| <b>Date</b>            | <b>Accounts</b>  | <b>Debit</b> | <b>Credit</b> |
| 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   | 2,000,000    |               |
|                        | Trading Securities   |              | 2,000,000     |
|                        | <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), Alamitos 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.

| <b>Company</b>        | <b>Month</b> | <b>Market Value</b> |
|-----------------------|--------------|---------------------|
| Yongcao Mineral       | August       | \$ 260,000          |
| Yongcao Mineral       | September    | 290,000             |
| Yongcao Mineral       | October      | 284,000             |
| Alamitos Construction | August       | 140,000             |
| Alamitos Construction | September    | 122,000             |
| Alamitos 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          |          |       |        |
|                 |          |       |        |
|                 |          |       |        |

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## Solution 5

| <b>GENERAL JOURNAL</b> |  |              |               |
|------------------------|--|--------------|---------------|
| <b>Date</b>            | <b>Accounts</b>  | <b>Debit</b> | <b>Credit</b> |
| 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>               |              |               |