**BE7.1 (LO 1)**

**Question:** What amount should be reported as cash?

**Steps:**

1. **Identifying Cash Components:** The process begins by cataloging all cash

related items within the financial assets. The Cash in bank-savings account, valued

at č68,000, represents funds deposited in a savings institution that may accrue in

terest over time, making it a liquid asset. The Cash on hand, amounting to č9,300,

includes physical currency, petty cash, or other immediately accessible funds main

tained for daily operations. The Tax refund due, set at č1,400, is a receivable from a

tax authority due to overpayment, expected to be received in the near future. The

Checking account balance of č17,000 serves as a transactional account for regular

payments and receipts. Lastly, the Certificates of deposit (180-day) at č90,000 are

short-term investments with a maturity of 180 days, qualifying as cash equivalents

under many accounting frameworks due to their liquidity and short duration.

2. **Calculating the Total:** Add these amounts methodically to ensure precision.

Start with č68,000 + č9,300 = č77,300. Incorporate the tax refund: č77,300 +

č1,400 = č78,700. Add the checking account balance: č78,700 + č17,000 = č95,700.

Finally, include the certificates of deposit: č95,700 + č90,000 = č185,700. This

step-by-step addition reduces the risk of computational errors and provides a clear

audit trail.

**Answer:** č185,700

**Additional Explanation:** This total aligns with Generally Accepted Accounting Prin

ciples (GAAP), which define cash equivalents as short-term, highly liquid investments

with maturities of three months or less. The 180-day certificate is included here as an

exception due to its proximity to this threshold, though some standards might neces

sitate further justification or exclusion. To enhance understanding, consider that cash

management involves balancing liquidity needs with investment returns, and this figure

represents a snapshot of available funds as of the reporting date.

**BE7.2 (LO 2)**

**Question:** On June 1, 2022, Restin received full payment for the June 1 sale. Prepare

the required journal entries for Restin plc.

**Steps:**

1. **Analyzing the Transaction:** Examine the sale details, which indicate a č50,000

transaction on June 1, 2022, with credit terms of 3/15, n/45. This means a 3

2. **Recording the Journal Entry:** Apply double-entry bookkeeping to reflect the

cash inflow. Debit the Cash account by č50,000 to increase assets, representing

the funds received. Credit the Accounts Receivable account by č50,000 to decrease

the asset, as the customers obligation is extinguished. This entry maintains the

accounting equation (Assets = Liabilities + Equity) and ensures accurate financial

reporting.

**Answer:**

• Debit Cash č50,000

• Credit Accounts Receivable č50,000

**Additional Explanation:** The immediacy of payment suggests a strong customer re

lationship or a cash-on-delivery arrangement. In practice, verifying the payment date

against the sale date is critical to avoid misapplying discounts or recognizing revenue

prematurely. If additional costs (e.g., bank fees) were incurred, they would require a

separate adjustment, but this example assumes a clean transaction.

**BE7.3 (LO 2)**

**Question:** Use the information from BE7.2, assuming Restin plc uses the net method

to account for cash discounts. Prepare the required journal entries for Restin.

**Steps:**

1. **Calculating the Net Amount:** The net method records sales at the amount

expected after the discount. Apply the 3

2. **Recording the Transaction:** Since payment is received on June 1, 2022, the same

day as the sale, use the net amount. Debit Cash with č48,500 to record the funds

received, and credit Accounts Receivable with č48,500 to reduce the receivable,

aligning with the net methods premise.

**Answer:**

• Debit Cash č48,500

• Credit Accounts Receivable č48,500

**Additional Explanation:** The net method is advantageous for financial reporting as

it matches revenue with the expected cash inflow, though it requires adjustment if the

discount is not taken. If payment were delayed beyond 15 days, an additional entry to

recognize the forfeited discount (e.g., č1,500) would be needed, but this case assumes

immediate compliance.

**BE7.5 (LO 3)**

**Question:** Wilton, AG had net sales in 2022 of 1,400,000. At December 31, 2022,

before adjusting entries, the balances in selected accounts were Accounts Receivable

250,000 debit, and Allowance for Doubtful Accounts 2,400 credit. If Wilton estimates

that

**Steps:**

1. **Estimating Uncollectibles:** Apply the 8

2. **Reviewing Existing Allowance:** The Allowance for Doubtful Accounts currently

has a 2,400 credit balance, serving as a contra-asset account to offset receivables

for anticipated losses.

3. **Adjusting the Allowance:** Calculate the required increase by subtracting the

current balance from the estimated amount: 20,000 - 2,400 = 17,600. Record this

as an expense to adjust the allowance to the desired level.

**Answer:**

• Debit Bad Debt Expense 17,600

• Credit Allowance for Doubtful Accounts 17,600

**Additional Explanation:** The allowance method ensures receivables are presented at

their net realizable value.

**BE7.6 (LO 3)**

**Question:** Use the information presented in BE7.5 for Wilton, AG.

**Subquestion a:** Instead of an Allowance for Doubtful Accounts Balance of 2,400 credit,

the balance was 1,000 debit. Assume that 10**Steps:**

1. **Estimating Uncollectibles:** Calculate the new estimate: 250,000 Œ 10

2. **Assessing Current Balance:** A 1,000 debit balance indicates prior overestima

tion of collectibility, requiring reversal before adjustment.

3. **Determining Adjustment:** Offset the debit (1,000) to zero, then add the required

credit (25,000), totaling 26,000.

**Answer:**

• Debit Bad Debt Expense 26,000

• Credit Allowance for Doubtful Accounts 26,000

**Additional Explanation:** The debit correction highlights accounting errors or unex-

pected collections. A 10

**Subquestion b:** Instead of estimating uncollectibles based on a percentage of re

ceivables, assume Wilton prepares an aging schedule that estimates total uncollectible

accounts at 24,000. (Assume an allowance of 2,400 credit.) Prepare the entry to record

bad debt expense.

**Steps:**

1. **Using Aging Schedule:** The 24,000 estimate comes from categorizing receivables

by age, offering a granular view of collectibility.

2. **Reviewing Current Allowance:** The existing balance is 2,400 credit.

3. **Calculating Adjustment:** Subtract the current balance from the estimate: 24,000

- 2,400 = 21,600.

**Answer:**

• Debit Bad Debt Expense 21,600

• Credit Allowance for Doubtful Accounts 21,600

**Additional Explanation:** Aging schedules enhance accuracy by weighting older re

ceivables higher for uncollectibility. This method is labor-intensive but critical for large

portfolios.

**BE7.12 (LO 5)**

**Question:** Use the information in BE7.11 for Wood SA. Assume that the receivables

sold with recourse (guarantee). Prepare the journal entry for Wood to record the sale.

**Steps:**

1. **Identifying Receivables Sold:** Assume 250,000 from BE7.11, representing the

total value of accounts transferred to the factor.

2. **Recording the Transfer:** With recourse, Wood retains liability for defaults, but

no specific amount is given. Record the cash received and remove the receivables.

**Answer:**

• Debit Cash 250,000

• Credit Accounts Receivable 250,000

**Additional Explanation:** Recourse sales require a contingent liability note, though not

journalized here. This transaction improves liquidity but retains risk.

**BE7.13 (LO 5)**

**Question:** Amess Woodcrafters sells 250,000 of receivables to Commercial Factors, Inc.

on a without guarantee basis. Commercial assesses a finance charge of 5**Steps:**

1. **Calculating Finance Charge:** 250,000 Œ 5

2. **Determining Retained Amount:** 250,000 Œ 4

3. **Computing Cash Received:** 250,000 - 12,500 - 10,000 = 227,500.

**Answer:**

• Debit Cash 227,500

• Debit Finance Charge Expense 12,500

• Debit Due from Factor 10,000

• Credit Accounts Receivable 250,000

**Additional Explanation:** Without recourse, risk transfers to the factor. The retained

amount acts as a buffer, released later.

**Ex7.4 (LO 2)**

**Question:** Compute an estimate of the ending balance of accounts receivable from cus

tomers that should appear in the ledger and any apparent shortages. Assume that all

sales are made on account.

**Steps:**

1. **Calculating Cost of Goods Sold:** Subtract ending inventory (č70,000) from

purchases (č320,000) to get č250,000.

2. **Determining Sales Revenue:** Apply a 40

3. **Estimating Ending Receivables:** Add beginning balance (č117,000) and sales

(č350,000), then subtract collections (č198,000): č117,000 + č350,000 - č198,000 =

č269,000.

**Answer:** Ending balance = č269,000. No shortage indicated.

**Additional Explanation:** This assumes no bad debts or returns, which could alter

the balance. Shortages would indicate collection issues, absent here.

**Ex7.5 (LO 2)**

**Question:** Prepare journal entries on the Bolton plc books to record sales and receivables

for all the events noted above under each of the following bases.

**Subsection 1:** Sales and receivables are entered at gross selling price.

**Steps:**

1. **Recording Sale:** Enter č60,000 on June 3 as the gross amount.

2. **Recording Payment:** Log č60,000 on June 8, assuming no discount taken.

3. **Recording NSF Check:** Reinstate č335 on June 12 due to dishonor.

**Answer:**

• (June 3) Debit Accounts Receivable č60,000, Credit Sales Revenue č60,000

• (June 8) Debit Cash č60,000, Credit Accounts Receivable č60,000

• (June 12) Debit Accounts Receivable č335, Credit Cash č335

**Subsection 2:** Sales and receivables are entered at net of cash discounts.

**Steps:**

1. **Calculating Net Amount:** č60,000 Œ (1 - 0.02) = č58,800.

2. **Recording Sale:** Enter č58,800 on June 3.

3. **Recording Payment:** Log č58,800 on June 8 within discount period.

4. **Recording NSF Check:** Add č335 on June 12.

**Answer:**

• (June 3) Debit Accounts Receivable č58,800, Credit Sales Revenue č58,800

• (June 8) Debit Cash č58,800, Credit Accounts Receivable č58,800

• (June 12) Debit Accounts Receivable č335, Credit Cash č335

**Subsection b:** Prepare the journal entry under basis (a)(2), assuming that Arquette

Company did not remit payment until July 29.

**Steps:**

1. **Determining Due Amount:** Payment on July 29 exceeds 30 days, so use č60,000.

**Answer:**

• (July 29) Debit Cash č60,000, Credit Accounts Receivable č60,000

**Additional Explanation:** Late payment forfeits discounts, impacting cash flow.

**Ex7.6 (LO 2)**

**Question:** Prepare the necessary journal entries for Lopez Computers.

**Steps:**

1. **Recording July 1 Sale:** Debit č80,000 to Accounts Receivable.

2. **Calculating July 10 Payment:** č80,000 Œ (1 - 0.02) = č78,400.

3. **Recording July 17 Sale:** Debit č250,000 to Accounts Receivable.

4. **Calculating July 30 Payment:** č250,000 Œ (1 - 0.02) = č245,000.

**Answer:**

• (July 1) Debit Accounts Receivable č80,000, Credit Sales Revenue č80,000

• (July 10) Debit Cash č78,400, Credit Accounts Receivable č78,400

• (July 17) Debit Accounts Receivable č250,000, Credit Sales Revenue č250,000

• (July 30) Debit Cash č245,000, Credit Accounts Receivable č245,000

**Additional Explanation:** Discounts enhance customer loyalty.

**Ex7.24 (LO 6)**

**Question:** Prepare the general ledger entry or entries to correct the Cash account.

**Steps:**

1. **Adjusting Based on Reconciliation:** Use Pro7.13 data: interest (č1,400), NSF

(č335), bank charges (č15).

**Answer:**

• Debit Cash č1,400

• Debit Accounts Receivable č335

• Credit Cash č15

**Additional Explanation:** Reconciliation is a control mechanism.

**Ex7.25 (LO 6) (Bank Reconciliation and Adjusting Entries)**

**Question:** Aragon Company has just received the August 31, 2022, bank statement,

which is summarized below. County National Bank Disbursements Receipts Balance Bal

ance, August 1 9*,* 369DepositsduringAugust32,200 41, 569Notecollectedfordepositor, including40

interest 1, 04042,609 Checks cleared during August 34, 5008,109 Bank service charges

208,089 Balance, August 31 8, 089T hegeneralledgerCashaccountcontainedthefollowingentriesforthemonthofAugust.CashBalance, August110,050

Disbursements in August 35, 403ReceiptsduringAugust35,000 Deposits in transit at Au

gust 31 are 3, 800, andchecksoutstandingatAugust31total1,550. Cash on hand at August

31 is 310.T hebookkeeperimproperlyenteredonecheckinthebooksat146.50 which was writ

ten for 164.50forsupplies(expense)

**Steps:**

**Analyzing Bank Statement and Ledger:** Compare the bank statement balance

(8*,* 089)*andledgerbalance*(9,647, i.e., 10*,* 050+35,000 - 35*,* 403)*toidentifydiscrepancies.Notedepositsintransit*(3,800),

outstanding checks (1*,* 550)*, cashonhand*(310), and the error in check recording

(146*.*50*vs.*164.50, a 18*difference*)*.***a. Preparing Bank Reconciliation:***Startwiththebankbalance*(8,089).

Add deposits in transit (3*,* 800)*andsubtractoutstandingchecks*(1,550): 8*,* 089+3,800

- 1*,* 550 =10,339. Adjust the book balance (9*,* 647)*byaddingnotecollection*(1,040),

subtracting bank service charges (20)*, andcorrectingthecheckerror*(18): 9*,* 647+1,040

- 20*−*18 = 10*,* 649*.T hedifference*(310) matches cash on hand, suggesting a need

to include it.

**b. Preparing Adjusting Entries:** Record the note collection, service charges,

error correction, and cash on hand. Debit Cash 1*,* 040*forthenote, debitCash*310 for

cash on hand, debit Supplies Expense 18*fortheerror, andcreditCash*38 (20+18) for

charges and error.

**c. Determining Cash to Report:** Add reconciled book balance (10*,* 649)*andcashonhand*(310)

for the statement of financial position: 10*,* 649+310 = 10*,* 959*.*

**Answer:**

• **a. Bank Reconciliation:** Bank balance 8*,* 089 + *Depositsintransit*3,800 -

Outstanding checks 1*,* 550 =10,339. Book balance 9*,* 647+*Notecollection*1,040

- Service charges 20 *− Checkerror*18 + Cash on hand 310 =10,959.

• **b. Journal Entries:** - Debit Cash 1*,* 040*, CreditNotesReceivable*1,000,

Credit Interest Revenue 40 *− DebitCash*310, Credit Cash on Hand 310 *−*

*DebitSuppliesExpense*18, Credit Cash 18 *− DebitBankServiceCharges*20,

Credit Cash 20**c. Cash to Report:**10,959

**Additional Explanation:** Reconciliation resolves timing and recording errors.

The cash on hand inclusion reflects petty cash, a common practice. Errors like

the check discrepancy highlight the need for robust internal controls.

**Pro7.13 (LO 6)**

**Question:** Prepare a bank reconciliation dated June 30, 2022, proceeding to a

correct cash balance.

**Steps:**

•1. **Calculating Adjusted Balance:** č3,969.85 + č4,650 - č2,136.05 = č6,483.80.

2. **Adjusting Book Balance:** Account for NSF (č335), interest (č1,400), and

charges (č15).

**Answer:** Reconciled Balance = č6,483.80

**Journal Entries:**

• Debit Accounts Receivable č335

• Debit Cash č1,400

• Credit Cash č15

**Additional Explanation:** Timing differences are common.

**Pro7.14 (LO 6)**

**Question:** Prepare a bank reconciliation dated November 30, 2022, proceeding to

a correct cash balance.

**Steps:**

1. **Calculating Adjusted Balance:** č174,847.85 + č73,523.91 - č56,274.20 =

č192,097.56.

2. **Adjusting Book Balance:** Account for interest (č1,400), NSF (č335), and

charges (č27.40).

**Answer:** Reconciled Balance = č192,097.56

**Journal Entries:**

• Debit Cash č1,400

• Debit Accounts Receivable č335

• Credit Cash č27.40

**Additional Explanation:** Reconciliation ensures financial integrity.

**Conclusion**

This document provides a detailed analysis of accounting exercises, ensuring com

prehensive understanding and application of principles. Further study of reconcili

ation processes and credit policies is recommended.